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Indonesia as a Poorly Performing State?

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In the years since the historic upheavals of 1998, Indonesia has struggled with the twin challenges of rebuilding its economy and constructing a viable framework for democratic governance. This has been a turbulent period, with prolonged economic difficulties, weak and frequently changing political leadership, and widespread problems of sectarian violence that have called the very territorial integrity of the republic into question. These recent travails have brought greater international attention to the country than did the three decades of rapid economic growth and strict but stable authoritarian rule under former president General Suharto. Understandably, there has been much worried discussion in policy circles within the United States and elsewhere about whether Indonesia, rather than embarking on a new and optimistic democratic era, is in fact in danger of becoming caught in a stagnant or even downward developmental trajectory. Is Indonesia, the fourth most populous country in the world, at risk of developing that combustible mix of economic stagnation and systematically weak governance that characterizes the phenomenon of poorly performing states?

The aim of this chapter is to assess Indonesia's developmental trajectory, giving particular emphasis to outlining the economic and political challenges the country is wrestling with, and to reflect upon the implications of Indonesia's trajectory for U.S. policy. I begin with an overview of Indonesia's past

record of economic and political development and then focus on the contemporary situation and whether Indonesia is appropriately considered a poorly performing state. For this purpose, I outline the key economic and political problems Indonesia has been experiencing and analyze the underlying reasons for these problems. The chapter concludes with a review of the terms of U.S. engagement with Indonesia today.

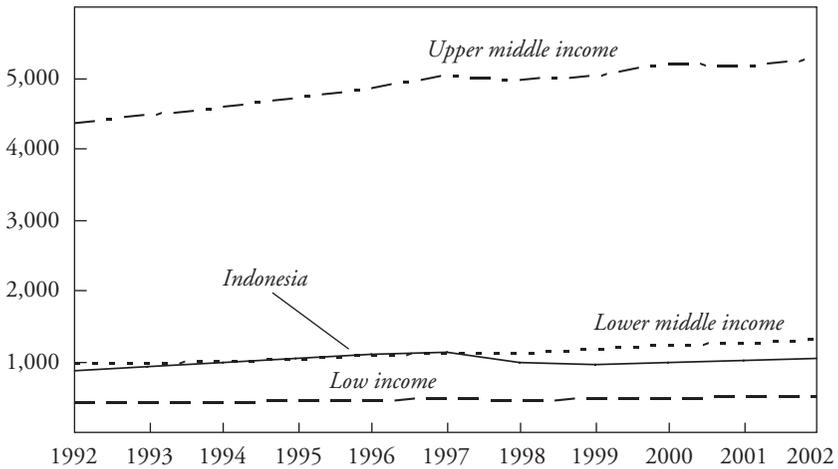
Indonesia's Developmental Record

Indonesia has always been a hard country to govern. It has a large population (currently 220 million), as an archipelago it is geographically disparate, and as a society made up of multiple ethnic, religious, and linguistic groups it is also culturally disparate. (For example, Indonesia has the unlikely distinction of having both the world's largest Muslim population and the world's largest Melanesian population.) These basic physical and demographic characteristics help to explain episodes of sharp conflict and violence that have periodically erupted in various parts of the country over its approximately half-century history as an independent state. As well, Indonesia is a poor country, with per capita income of US\$690.¹ Notwithstanding these difficulties, Indonesians have generally thought of themselves as a loosely cohesive and inclusive society, with great economic potential deriving from their rich and diverse natural resource endowments. Figure 4-1 charts gross domestic product (GDP) per capita for Indonesia and for low-income, lower-middle-income, and upper-middle-income countries, as classified by the World Bank. It shows that while Indonesia's absolute level of income per capita is higher than the average for the poorest grouping of countries, since the upheavals of 1998 Indonesia has no longer kept pace with the average for lower-middle-income countries.

Indonesia's overall developmental trajectory since independence in 1945 has been starkly episodic, with marked swings over time in its progress on either (or both) the economic and political dimensions of development. Following independence and the eventual departure of the Dutch, Indonesia struggled with the need both to bind the nation together within a framework of democratic governance and to stimulate economic development. Notwithstanding the early mood of optimism deriving from the success of the country's long nationalist struggle for independence, developmental progress was slow. The constitutional framework in place through much of the 1950s compounded the difficulties by fragmenting authority and blurring political accountability. With over twenty parties in the parliament,

Figure 4-1. *Comparative per capita GDP Trends, 1992–2002*

Constant 1995 US\$



Source: International Economic Databank, Australian National University (calculated from World Bank and IMF raw data).

coalition governments were inherently unstable, forming and dissolving in rapid succession.² This was scarcely an environment conducive to effective economic policymaking. Not surprisingly, economic progress during these early years was modest. Unfortunately for Indonesia, worse was to follow.

By the latter 1950s Indonesia's political system was coming under increasingly severe strain. With the national government functioning very weakly and economic gains only limited, geographic and social divisions became sharper and finally triggered armed rebellion in several regions. As the situation deteriorated, the country's president and preeminent nationalist leader, Sukarno, moved to take control of the government. Backed by the army, he pushed to suppress the rebellions and overturn the constitution. This marked the onset of authoritarian rule in Indonesia. In 1959 Sukarno proclaimed the inauguration of what he termed "guided democracy" and "guided economy."

For the next half decade Indonesia bore all the hallmarks of a poorly performing state that was trending dangerously downward. Sukarno presided over an increasingly erratic dictatorship, kept afloat by an unlikely (and inherently unstable) coalition of the army and the Communist Party. Policy management was a largely haphazard amalgam of socialist-style economic policies, couched within a wider context of an anti-Western diplomatic crusade and

military harassment of neighboring Malaysia. Inflation grew alarmingly on the back of uncontrolled government spending. Private investors, both local and foreign, began to abandon Indonesia, causing the economy to stagnate. Throughout most of the first half of the 1960s, per capita income actually declined, and by 1965 both per capita income and daily per capita caloric intake were among the very lowest in the entire world.³ Reviewing the period, a leading international development economist concluded: "Indonesia must surely be accounted the number one failure among the major underdeveloped countries."⁴ These pressures came to a head following an abortive coup attempt (allegedly linked to the Communist Party) in late 1965 and mass violence, which paved the way for the rise of General Suharto to the presidency on the back of military support.

Suharto's assumption of the presidency in 1966 marked the onset of a third and no less distinctive episode in Indonesia's development. Having gone through a relatively brief period of messy democratic government and poor economic performance, followed by a period of chaotic dictatorship and even worse economic performance, Indonesia now embarked on what would prove to be a long period of stable but strict authoritarian government and remarkably strong sustained economic growth. The defining characteristics of the Suharto era—the New Order, as the regime styled itself—were controlled political stability and rapid aggregate economic advancement. In both respects then, this was a very sharp contrast with what had immediately preceded it. Quite quickly, Indonesia pulled back from exhibiting all the symptoms of a poor performer.

Politically, the foundation of Suharto's regime was the control of and support from the military. In the early years this enabled him to crush the Communist Party and then to achieve a much firmer grip on the bureaucracy. The former was achieved through violence and repression, the latter through a systemic move to place military officers in all key state institutions, all the way down to the village level.⁵ Once the Communist Party had been eliminated and the bureaucracy increasingly refashioned as an effective policy instrument in the hands of the presidency, Suharto and his key security planners were able to set about a wider restructuring of Indonesia's political landscape.

For an authoritarian regime, the New Order was surprisingly constitutional in the sense of sticking to the letter of the law, even if not its spirit. Through a series of subsidiary political laws, Suharto was able to work within the country's constitutional framework to bring about a radical centralization of power. A key element in this were strict legal controls on political parties

and the press. These gave the government formal power to restrict and co-opt all political parties and to set the parameters for public debate. Elections were regular events but were always carefully managed so that the ruling party, Golkar, won by a large majority. The parties (including Golkar) had little independent life of their own and yielded a rubber-stamp parliament. A similar strategy of co-optation and control was extended into civil society via a corporatist network of interest groups. Overall, the net effect of these institutionalized controls was a radical and systemic centralization of power within the executive branch, and around the presidency in particular.⁶

For the first time in the country's history, the writ of the national government ran clearly and reasonably effectively into most parts of the republic. This had important consequences for the extension of basic transport and communications infrastructure as well as health and education systems into outlying areas of the archipelago. What it did not do, however, was promote or protect political freedoms. The extreme manifestation of this was the outright military suppression of secessionist movements in East Timor, West Papua, and Aceh. The political controls of the Suharto era were much more thoroughgoing and systematic than they had been under Sukarno. Also in stark contrast with the Sukarno period were the extraordinary economic gains during the Suharto period.

The economic transformation during the three decades of Suharto's rule was truly remarkable. Indonesia's transformation from its status as an archetypical developmental basket case in the mid-1960s began with a dramatic macroeconomic stabilization program in conjunction with the International Monetary Fund, a program that is frequently cited as one of the most successful in the twentieth century.⁷ With the introduction of responsible fiscal management, a stable exchange rate, an open capital account, and more broadly the support of the United States and other key Western countries, Indonesia was once again able to attract investors. In a remarkably short period of time economic growth picked up strongly, on the back of natural resource exports, major productivity gains in the agricultural sector, and foreign investment in the manufacturing sector (mostly from Japan). Through the 1970s and early 1980s industrial development was largely on the basis of import substitution, rather than manufacturing for export markets.

The boom in oil prices from 1973 meant that the government found itself in an increasingly comfortable fiscal position. As might be expected, the oil boom generated substantial waste and profligacy, with a significant portion of the windfall gains being pumped into inefficient state industrial enterprises or, worse, contributing to deepening corruption problems in the

regime. And yet even more remarkable than the graft and sometimes spectacular mismanagement, Indonesia also used a large portion of the oil revenue to invest heavily in key public goods: roads and infrastructure, education and health. As is now well understood, resource booms can often be economic and political curses. By the standards of the developing world, Indonesia used its oil resources to remarkably good effect.⁸ Along with patronage networks and pervasive corruption, a defining feature of economic policy management was a strong and enduring commitment to what might be described as growth-promoting economic policies.

In the mid-1980s, following nearly two decades of sustained rapid growth, Indonesia was forced to restructure its economic model. The catalyst for change was a looming balance-of-payments crisis stemming from the collapse in global commodity prices (especially oil) and a realignment of the major international currencies. Indonesia's falling export earnings were mostly denominated in U.S. dollars—and the dollar itself was falling—but its foreign debt obligations were largely denominated in yen and in European currencies, which were rising. Driven by this crisis, Indonesia unleashed a burst of liberalizing economic reforms in the late 1980s. The manufacturing and financial sectors were substantially deregulated, and many disincentives to foreign investment were removed. These were major and highly contentious policy adjustments, but with control over policy highly centralized around the presidency and the scope for organized political opposition limited, rapid policy change was possible. The result was a boom in manufactured exports as labor-intensive products such as textiles and footwear took off, soon surpassing many of the country's traditional commodity exports. On the basis of these far-reaching changes, Indonesia was able to enjoy yet another decade of very strong economic growth and a broadening and deepening of its industrial capabilities.

By the mid-1990s Indonesia had notched up extraordinary economic progress. Real per capita GDP had more than trebled from its level in the late 1960s, and the country was well under way in transforming itself from an agriculture- and commodity-based economy to an increasingly industrial economy.⁹ Between 1965 and 1995, the share of agriculture in the Indonesian economy dropped from 56 percent to 17 percent. Manufacturing, on the other hand, rose from 8 percent to 24 percent. The service industry also rose, although more marginally: from 31 percent to 41 percent.¹⁰ While not matching the spectacular economic trajectories of such East Asian economies as Korea and Singapore, by comparison with both its own past and the aggregate record for low-income developing countries, Indonesia's economic and

Table 4-1. *Comparative Development Indicators, Indonesia and Low-Income Country Average, 1991–96*

	1990	1991	1992	1993	1994	1995	1996
<i>GDP growth rate</i>							
Indonesia	9.0	8.9	7.2	7.3	7.5	8.4	7.6
Low-income country average	3.1	0.8	1.1	1.6	2.5	5.5	5.6
<i>Illiteracy rate^a</i>							
Indonesia	20.4	19.6	18.8	18.0	17.2	16.4	15.7
Low-income country average	45.4	44.7	43.9	43.1	42.3	41.5	40.7
<i>Life expectancy^b</i>							
Indonesia	61.7	n.a.	62.7	n.a.	n.a.	64.1	n.a.
Low-income country average	57.2	n.a.	57.7	n.a.	n.a.	58.4	n.a.
<i>Vehicles per capita^c</i>							
Indonesia	15.7	17.0	17.6	18.3	19.9	21.3	22.5
Low-income country average	8.9	11.1	11.4	11.5	11.3	11.8	12.6

Source: World Bank, *World Development Indicators*, 2002.

a. Illiteracy rate; adult total (percent of people aged 15 and above).

b. Life expectancy: life expectancy at birth, total (years).

c. Vehicles per capita: vehicles per 1,000 people.

welfare gains were remarkable indeed. A comparison between Indonesia's performance and the average for low-income countries through the 1990s—up until the financial crisis—tells the story (see table 4-1).

Inevitably, economic progress under Suharto was not all that the regime claimed it to be. To mention some of the more conspicuous shortcomings beyond deep-seated corruption, the institutions of economic governance remained very weak and there were widely perceived problems of inequity, with a growing income gap between a small superelite and the middle class—to say nothing of the poor.¹¹ And without doubt there were major human rights abuses inflicted by the military, particularly in the regions of East Timor, West Papua, and Aceh. Serious flaws notwithstanding, extraordinary economic advances—with job creation, poverty reduction, and improved living standards—were in fact made under the Suharto regime, as was brought into stark relief by the very developmental setback resulting from the financial crisis of 1997–98. The Asian financial crisis marked a dramatic interruption of Indonesia's developmental trajectory, triggering a radical economic reversal and the collapse of the military-based regime of Suharto. In effect, 1998 marked the end of the third major episode in Indonesia's postindependence developmental history.

In considering Indonesia's own developmental history—and certainly when comparing Indonesia's developmental history to that of most Latin American, Middle Eastern, and African countries—one of the great questions is how this extraordinary result of sustained high economic growth over three decades was achieved. Economists rightly point to the policy framework of the Suharto regime: generally sound and stable macroeconomic management, significant investment in human capital and infrastructure (education, health, transportation, and so on), sectoral trade and investment policies that facilitated huge productivity gains in agriculture, and subsequently the rapid growth of labor-intensive export industries.¹² (Allowing for variation in natural resource endowments, a roughly comparable story can be told for the other Asian developing economies that experienced sustained rapid economic growth through the latter part of the twentieth century.)¹³ But lying behind an answer that emphasizes policy settings is another more basic question: *Why* did Indonesia under Suharto adopt and sustain a policy mix that was, in broad terms, strongly conducive to growth?

This is not the place for a full discussion of the question, but a brief answer would point to a range of domestic political factors as well as international variables, most of which pertained in one form or another in the other high-growth Asian economies. In Indonesia, the central elements of this can be summarized as follows: leadership that defined its own political survival in terms of delivering improved economic outcomes (in essence, a conservative regime responding to an earlier challenge from the Left by the Communist Party); an institutional framework of government that heavily centralized power in the executive branch, thereby facilitating relatively coherent and decisive and policy action regardless of opposition; and an international environment (initially shaped by cold war calculations) that yielded U.S. and Japanese support and, in particular, access to U.S. and Japanese capital and consumer markets.¹⁴

Indonesia Today: A Poorly Performing State?

The primary concern of this chapter is to assess current developments in Indonesia in light of the wider concern about poorly performing states. What we learn from a review of Indonesia's developmental record is that there have been very marked swings in its performance. Through much of the 1950s Indonesia muddled along before deteriorating markedly under Sukarno's erratic dictatorship. In retrospect, Indonesia can be thought of as a glaring example of a poorly performing state through the first half of the 1960s.

Subsequently, under the institutionalized authoritarianism of the Suharto regime, it became more stable, secured effective territorial control of the archipelago, and experienced extraordinary economic progress. The developmental deficit of the Suharto period lay in the absence of any significant progress in building meaningful channels for public participation and political accountability.

What of Indonesia today? In the years since the fall of Suharto in 1998, Indonesia has been in a state of flux as it struggled with an array of daunting economic and political problems. Were these problems to continue unchecked, the country would unambiguously be on a worrying developmental trajectory once again. The key analytical issue here is how we should assess the nature of Indonesia's recent difficulties and the extent of progress in overcoming them. In addressing this, I begin by outlining Indonesia's developmental performance during the post-1998 years and highlighting key economic and political problems, before turning in a more analytic direction to examine the underlying reasons for these problems and offer some thoughts on their likely trajectory.

In economic terms, having enjoyed an average rate of real GDP growth of 7 percent over thirty years, in the post-Suharto period Indonesia has been able to manage only about 3 percent growth. (If we include the catastrophically bad years of 1998 and to a lesser extent 1999, the average is much lower.) Indonesia no longer looks like a high-performing developing economy. It is the only one of the Asian crisis economies yet to regain precrisis GDP levels.¹⁵

One way of capturing the practical significance of this dramatically lowered economic performance is to recall that, during the long period of high growth, the work of careful labor market economists suggested that Indonesia could not afford to grow any slower than about 5 percent annually if there were to be enough jobs to absorb the many new, young entrants to the job market each year.¹⁶ In other words, continued strong economic growth was necessary just to cope with population growth and the approximately two million new entrants to the workforce each year. With economic growth having been very much lower for half a decade, it takes little imagination to anticipate the accumulating social and political problems associated with young people unable to find work, despite having completed their schooling.

If we draw back from aggregate economic indicators and look at three specific variables that have come to be viewed as bellwether issues—corruption, foreign investment, and bank restructuring—there is much to be worried about. On corruption, whether one looks at the large independent surveys of

corruption across countries or anecdotal accounts from seasoned observers of Indonesia over many years, the consistent picture to emerge is one of problems being as bad or worse than they were under the Suharto regime.¹⁷ This is not to say that the governments of Megawati Sukarnoputri and her two predecessors have been more venal than that of Suharto (though, certainly, none have been pure), but that corruption has become so unpredictable that investors can no longer understand the rules of the game.¹⁸

This connects directly to a second alarming trend: the collapse of investment in Indonesia. In 1997 total investment as a percentage of GDP stood at 33 percent. Subsequently it has fallen steadily and stood at just 14 percent in 2003.¹⁹ And within overall investment, foreign investment has virtually collapsed. Although most developing countries have seen foreign direct investment decline from the peak of 2000, the share of the shrinking pie that Indonesia commands has fallen very sharply. And in Indonesia, alone among the main Asian crisis economies, aggregate indicators of investment risk have deteriorated markedly.²⁰

Bank restructuring and reform is widely seen as essential to any sustained economic recovery in Indonesia. The financial crisis plainly revealed the fundamental institutional weaknesses of the Indonesian banking sector, but progress in addressing these problems has been intermittent at best. The greatest headway has been achieved under Megawati's administration, but much remains to be done. Reduction in nonperforming loans has ground to a halt, with the central bank postponing the scheduled introduction of a 5 percent prudential requirement on nonperforming loans.²¹ And with bank balance sheets in poor condition, very little in the way of new investment lending has been initiated. If Indonesia's economic recovery is to be closer to the reasonably quick turnarounds of Thailand, Malaysia, and South Korea than the desperately disappointing record of Japan, then renewed strong progress with banking reform is essential.

Protracted economic problems over the half decade following Suharto's demise are one source of serious concern about Indonesia's developmental trajectory; another is the extended political turbulence of this time period. In the immediate post-Suharto years, the country's social and political problems seemed to grow, not decline, and the initial euphoria surrounding the idea of a new democratic dawn proved short-lived.

The most dramatic manifestation of this was the upsurge in a variety of forms of deadly political violence. One of these has been ethnic and religious violence between neighboring communities, such as the bloody battles between Christian and Muslim communities in Maluku, Kalimantan, and

Lombok. In some instances, as was made clear in the wake of the October 12, 2002, bombing of two tourist nightclubs in Bali, Indonesian militants have been working in tandem with international Islamic terrorists.²² Another variant has been bombings—particularly in Jakarta—as a result of intra-elite political battles. Yet another form of serious political violence have been the smaller scale, though frequent, ad hoc attacks against members of the local Chinese communities in towns across Java. Finally, there have also been renewed armed regional uprisings by groups rebelling against a history of military oppression and seeking independence for the provinces of Aceh and Papua. The genesis of these different forms of violence ranges from previously repressed ethnic and religious sensitivities arising from the country's diverse social makeup, the legacy of earlier enforced population resettlement programs, to internecine conflict among security agencies and the shadowy maneuverings and provocations of downwardly mobile members of the old political elite.²³ Although the causes are still not well understood, the violence in all its forms has been as shocking to external observers as it has been to Indonesians and has led to a questioning of what it means to be Indonesian: whether the notion of Indonesia as a coherent nation still makes sense.

A distinct but kindred set of political problems relates to civil or criminal violence and lawlessness. One dimension of this is growing concern about criminal violence and organized crime, with police being unable or unwilling to do anything effective about it.²⁴ The impunity with which such criminal groups operate was dramatically underlined in 2003 when, following investigative reports about a particular group by a leading news magazine, the magazine's headquarters were stormed and management assaulted by thugs while the police stood by. An even more problematic variant on criminal violence is extortion by individual police and army units desperate to raise money to fund themselves. Informal or off-budget funding of the security forces—as distinct from sheer personal graft—has always operated in Indonesia. But again, in the years since the collapse of the old regime, the problem seems to have become rampant and increasingly pernicious. (It is commonly estimated that 40–60 percent of the military's operating expenses are met by off-budget sources.) The problem was thrown into sharp relief by an incident involving the giant U.S. mining company Freeport, in which two Americans and an Indonesian were killed in an ambush, apparently by a local military unit unhappy with the level of payment it was receiving from the company.²⁵

A final key area in which the country has been experiencing serious and systemic political problems is the erosion of the authority of the national

government in provincial areas. Under Suharto the writ of the national government was in force through nearly all of the archipelago. Indeed, in fiscal terms, Indonesia was one of the most centralized large states in existence, much more so than, say, China. As pent-up political pressures exploded post-Suharto, the national political elite moved reluctantly to devolve significant authority to the local level. (Political leaders chose not to empower provincial-level governments, for fear that this might encourage secession, particularly in the provinces rich in natural resources.) There are many serious questions about how this process of devolution will work out, with concerns that there will be even less transparency and accountability at the local level and that overall service delivery will suffer as a result. But beyond these problems, there have been the increasingly frequent incidents of local authorities disregarding the rules and directives of Jakarta, that is to say, the wilful neglect of legally valid decisions by the central government (for instance, local authorities in Kalimantan deciding to impose additional unauthorized taxes on mining companies or to restrict the operation of mining companies in particular ways despite explicit and legally valid instructions to the contrary from the central government). Or the national government deciding to privatize a state-owned cement factory by selling a controlling share to the large Mexican firm CEMEX, only to see a local government in Sumatra (where a large production facility of the state-owned firm was located) deciding to resist the central government's decision and (quite unlawfully) assert control of the factory itself.²⁶

To summarize, while Indonesia has certainly made important progress over the past seven or eight years in promoting individual political freedoms, there have also been clear setbacks. The country's economic trajectory has declined and national government has become weak and incoherent. This record is a source of concern to both Indonesians themselves and policymakers elsewhere, given the country's pivotal status in Southeast Asia and its wider significance in the Muslim world, both as a model of an inclusive and tolerant Muslim society and, more pointedly, as a focal point for Islamic terrorists.

Explaining Poor Performance

How should Indonesia's developmental record since the fall of Suharto be assessed? What are the key causal factors that explain the disappointing economic performance and the even more worrying signs of weak governance? Although, inevitably, a multiplicity of factors have been at work to generate these outcomes, three basic drivers stand out: the radical dislocation associated

with the twin shocks of the Asian financial crisis and the breakdown of the Suharto regime, an inhospitable external economic environment, and severely dysfunctional national political institutions. The interaction of these three factors accounts for much of the difficulty the country has experienced. I address each in turn.

Having suffered two huge and simultaneous shocks (a truly radical economic reversal and the sudden unravelling of a long-standing authoritarian regime), it was inevitable that Indonesia should be substantially set back and need at least a few years to recover. Recall that the effects of the Asian financial crisis were much more devastating in Indonesia than anywhere else in the region. In 1996, the year before the crisis broke, GDP growth in Indonesia stood at 7.6 percent; in 1998 it stood at -13.1 percent.²⁷ This was a catastrophic reversal, reputedly the most dramatic recorded anywhere in the twentieth century.²⁸ In addition to producing massive destruction of wealth and social dislocation, the ensuing tangle of unpaid debt and insolvent banks was bound to freeze the financial and corporate sectors of the economy for some time. While the number of people thrown into poverty was not as great as initially feared (with rural villages serving as something of a social safety net for the urban disposed), overall income per capita levels have still not returned to precrisis levels.

And while less easily calibrated, the political dislocation was also extreme. From the rubble of the Suharto regime, Indonesia needed to construct a new and democratic framework for politics, with student and other mass protest groups demanding dramatic change.²⁹ But beyond an almost universal recognition that a way had to be found to make democracy work, there was uncertainty on many fronts. Controls were lifted on political parties (causing over a hundred new parties to mushroom almost overnight), the press was set free, the student movement had found a powerful voice, the military drew back from its support for Golkar, and Indonesia shocked the world by suddenly announcing that it would allow the people of East Timor to determine their future in a UN-supervised referendum. In short, on the political front too, it was inevitable that Indonesia would need several years to grapple with the enormous challenge of building a new and democratic system of government. Furthermore, the twin challenges of economic and political reconstruction fed back upon and complicated each other. Deep political uncertainty compounded the problems of economic recovery, and a stalled economy compounded the problems of political recovery.

The second basic problem adding to Indonesia's woes at this time was an unfavorable international environment. With economic growth rates down

across much of Asia relative to precrisis conditions, the Japanese economy still in recession, and the U.S. economy moving slowly as well, Indonesia faced a much less hospitable international environment for economic recovery. Demand for a range of Indonesian exports was reduced in a number of key markets. Similarly, the supply of external capital from traditional sources was diminished, and China was soaking up a very large proportion of the investment that was still flowing in Asia.³⁰ I do not mean to suggest that Indonesia suffered uniquely because of inclement international economic conditions, only that the external environment made Indonesia's challenges significantly harder. We have only to refer to China's continued strong economic growth amid less favorable international conditions and, even more tellingly, South Korea's extraordinarily rapid economic turnaround after being hit hard by the financial crisis to realize external conditions alone were not a determining factor. To understand why Indonesia made such slow progress in tackling its problems we must turn to the third of the three broad causal factors: weak national governance.

Slow progress on much-needed policy reforms has been a key factor in Indonesia's weak economic rehabilitation and festering social and political problems. On countless issues, ranging from reforming the banking sector to tackling extremist religious violence, the country's national political leadership has made inadequate progress. To be sure, some of the major policy problems Jakarta has faced are truly very difficult. For example, coordinating financial settlements on corporate debt among thousands of Indonesian corporations and international creditors is, by its very nature, extremely complex. However, even the more organizationally tractable tasks, such as selling off corporations whose debt had been formally assumed by the state, have proved to be arduous. The special high-powered agency created to handle this task (the Indonesian Bank Restructuring Agency) was subject to countless delays, blockages, and leadership changes. Similarly, the challenge of forcing those banks that remained viable after the crisis to accept their losses and clean up their balance sheets has proved difficult. Reform tasks of this type and magnitude are always inherently difficult politically. Nevertheless, Indonesia has made very slow progress, whereas countries such as Korea and Malaysia have moved much more effectively to deal with these problems and to move on.³¹

Why has Indonesia had such difficulty with making progress on policy reform? Popular explanations lay the blame on the weakness or incompetence of successive presidents. But this is superficial. Whatever the personal limitations of individual incumbents of the presidency, larger forces have been at

work, in particular the debilitating effects of rapid turnover of leadership positions in the executive branch, lack of coordination among relevant ministers in developing policy positions, and problems of disagreement within the executive branch and, even more, between the executive branch and the legislature. These have all had deeply corrosive effects on the quality of national governance. In terms of turnover, neither the first nor second incumbent to succeed Suharto (Habibie and Wahid) lasted even twenty-four months in office, and in some ministerial posts turnover has been more rapid still. The Megawati administration was the first that ran its full course. Similarly, in varying degrees all three administrations have suffered from weak coordination among relevant cabinet ministries, reflecting in part differing party affiliations among ministries and in part an inability of presidents to impose their will. And even where the executive branch has reached a conclusion on a preferred way ahead, all too frequently this has been stalled or sidetracked as a result of an inability to reach agreement with the legislature.

Lying behind this multiplicity of governance problems has been an acutely dysfunctional institutional framework for national politics. For much of the transitional period the way national politics was structured by the constitution and the party system was so unhelpful as to render the always difficult task of national policy leadership all but impossible. To be sure, all three incumbents of the presidency since Suharto have suffered from major weaknesses and foibles, but the deeper and more powerful problem has been the severely problematic political institutions.

It is widely recognized and understood that transitions to democracy are bumpy and messy processes, particularly where there has been a long history of authoritarian rule. Equally, it is well understood that the dynamics of democratic government are necessarily slower and more cumbersome than autocracies precisely because they are designed to ensure executive accountability to the public. Yet we also know from comparative studies that democracies vary greatly in the ways in which they are configured and operate.³² Regrettably, the particular configuration of Indonesia's political architecture during the transitional years following Suharto has been one of the most unfortunate imaginable. The essence of the problem has been a severe fragmentation of decisionmaking authority and confused lines of accountability. Under Suharto authority was radically centralized; after Suharto it swung to the opposite extreme, with authority highly diffused.³³

We do not need to detour here into the arcane details of constitutional design to appreciate the essential elements of the problem. Americans understand well that the processes of bargaining and compromise between the

executive branch and legislature can be awkward and take time. In Indonesia, this process was compounded by a multiplicity of parties. As Brazilians understand well, this makes the business of government much more complicated. In Indonesia, the situation was compounded even further by the fact that the president was directly dependent upon the parties in the legislature for his or her appointment and continued survival in office. That is, the president was appointed by the parliament (rather than being directly elected) and, furthermore, could be readily removed by the parliament. Under Suharto this was not an issue, as he controlled all the parties and other appointed members of the parliament through various direct and indirect means. However, with the rescinding of formal controls on the parties after Suharto's fall, they suddenly sprang to life and multiplied. This fundamentally changed the dynamics of national governance. Given the reality of a multiparty system, to win the presidency it was necessary to construct a multiparty coalition to secure a majority and then to reward members of this coalition with cabinet posts. But because the parliament could also readily remove the president from office, the president's ability to impose discipline on the cabinet or to bargain effectively with legislators over bills was very limited. Quite simply, the president could not afford to isolate the parties that put him or her into office. With such a multiplicity of actors and such ambiguity about accountability lines, all too often the net effect was deadlock and confusion. Further, with the president rendered so weak, the political actor with primary responsibility for tackling big national problems was in no position to do so.

This extraordinarily dysfunctional political framework made weak national governance a certainty. No matter whether the issue was bank restructuring or responding to religious and ethnic tensions, the essential task of national decisionmaking became excruciatingly difficult. It was all too easy for anyone inside or outside government to veto or derail coherent action. If a minister or the president sought to take specific measures to tackle a glaring problem—say, deliberate efforts by extremist elements to inflame religious tensions in the strife-ridden Maluku islands—supporters of the extremists, or groups that might stand to benefit indirectly from the ramifications of the extremists' actions, could derail the possibility of government action by playing upon either the partisan divisions with the cabinet or, if necessary, the president's vulnerability to removal from office.

To summarize, the argument here is that once we take account of these underlying factors (truly radical shocks, inclement international economic conditions, and a profoundly unhelpful political framework), then Indonesia's

weak performance since 1998 becomes much more understandable. This argument has important analytic and policy implications, for it points in a very different direction from the popular and alarmist interpretations of Indonesia's future in the immediate post-Suharto years. The argument here is that Indonesia is not doomed to follow a Yugoslavia-like path of inescapable ethnic and religious conflict leading to an eventual national breakup. Nor is it necessarily the case that Indonesia has now been abandoned by investors indefinitely. To be sure—and as we have seen—there is no shortage of evidence to encourage such interpretations. This is particularly the case for the first three years following Suharto's fall. Nevertheless, the argument presented here is that these two radical shocks—the inclement international economic conditions and an acutely dysfunctional national political structure—account for a large part of Indonesia's diminished developmental performance over this period.

There is a further important step to this argument. Amid all the gloom about Indonesia, there has been crucial—if little heralded—progress in reforming the very institutional problems that were generating such weak national policy leadership. During 2002–03 formal agreement was reached on further streamlining some of the key institutions in the country's political architecture: the establishment of direct presidential elections and the independence of presidential tenure from the legislature; and consolidation of the party system and the electoral system.³⁴ This is important progress, for it opens up the possibility of tolerably effective governance. Indeed, we have already seen these institutional changes begin to exert some effect; with Megawati safe from removal from office, for example, a more coherent and coordinated approach has been facilitated in at least some policy areas.³⁵ For example, substantial progress is being made on the macroeconomic front with a major reduction in the overall public debt burden and reforming the legislative framework for public finance. The new politics of economic policymaking—indeed, of policymaking generally—that is now emerging is markedly more hopeful than it has been in the recent past. There is now significantly greater scope for forging agreement and legislative action on key issues.³⁶ Constitutional adjustment is by no means the panacea for all of Indonesia's problems, but it does at least make it more possible for the country's elected representatives at the national level to come together in a moderately coherent and effective manner for the purposes of hammering out policy compromises on the big issues of the day.

Plainly, Indonesia still faces large challenges. The familiar pessimistic assessments of contemporary Indonesia are not without foundation: I do not

wish to minimize the scale of the challenges still before Indonesia nor pretend that there is no risk of political or economic progress being derailed. For all the historic progress with reform of the country's national political institutions, a widespread sense of cynicism and resignation now infuses public attitudes toward national politics. Partly this reflects normal processes of deflated expectations about democracy in transitional settings, and partly it reflects dashed hopes after the serial failure of successive administrations and the policy immobilism associated with this. More broadly, it also reflects near-universal dismay that corruption seems an even more cancerous problem now than under the old regime. It is important to be clear, then, that democracy in Indonesia remains fragile. Public commitment to sustaining democracy will not endure indefinitely in the face of governmental incapacity, all the more so given the enduring political strength of the military. Even as the military withdraws from the center of the formal political stage, its informal influence is once more on the rise as a result of its active combat role in Aceh and its expanding off-budget business operations and illicit rackets. And if we add to this list the many complex problems of implementing the devolution of power from the national government to provincial and district governments as well as the even more challenging problem of the systemic weakness of the country's legal system, the challenges do indeed appear daunting. But this brings us back to the fundamental importance of a tolerably effective national government, since in the absence of this none of these problems can be addressed coherently. Public skepticism notwithstanding, the recent reforms directed at restructuring the country's national political architecture mean that there is now some basis for expecting more effective policy leadership than has been the norm for most of the post-Suharto period.

Indonesia and Instruments for U.S. Engagement

During the three decades of the Suharto regime U.S. policy toward Indonesia was friendly, supportive, and remarkably low profile. Particularly during the early years, Washington welcomed the political stability and rapid economic growth that the regime brought, along with its staunch anticommunist credentials. The United States thus sought to support economic development in Indonesia through bilateral aid activities as well as through multilateral initiatives via the Inter-Governmental Group on Indonesia, the World Bank, and the International Monetary Fund. Politically, the emphasis was on nurturing relations with the armed forces. But with the regime settling in and with core U.S. policy interests seemingly in hand, Indonesia came to attract less and

less attention. So low profile did the relationship become over time that informed observers began to worry that Washington had forgotten about Indonesia.³⁷

This changed as the 1990s progressed. In part this reflected shifting U.S. policy priorities in the post-cold war period, with key developing countries coming to attract greater attention either in economic terms as “big emerging markets” or in politico-security terms as “pivotal states.”³⁸ U.S. policymakers came increasingly to see Indonesia as both of these. In addition, however, there were also Indonesia-specific factors that caused the country to become a source of growing worry for Washington. Bilateral irritants (such as human rights and trade concerns) were emerging as issues of contention toward the end of the Suharto regime, but the big forces for change were the financial crisis that erupted in 1997, the separation of East Timor from the rest of the republic in 1999, and the challenge of global terrorism in the wake of the September 11, 2001, attacks in the United States. Individually and collectively these three developments have pushed Indonesia into a position of much greater prominence on the U.S. policy radar screen. Each demonstrated powerfully how developments in Indonesia had the potential to seriously impact U.S. interests. Particularly important today is Washington’s concern (shared by Indonesia’s neighbors) that Jakarta take effective steps to tackle extremist Islamic groups operating boarding schools (*pesantren*) that are suspected of being regional training grounds for new cohorts of terrorists to follow in the footsteps of a number of individuals now known to have been involved in the September 11 and Bali attacks.³⁹ In this new environment, it is no longer imaginable that a major summary statement to Congress by an assistant secretary of state for East Asian and Pacific affairs would make no mention of Indonesia or that a major Defense Department report on Asia would make no mention of Indonesia—as was occurring as late as the mid-1990s.⁴⁰

In the half decade following Suharto’s fall Indonesia has once again experienced serious developmental difficulties that are suggestive of some of the characteristics of poorly performing states. The symptoms are not as severe as they had been in the mid-1960s, but they are certainly serious enough to command attention. The argument advanced here, however, is that it would be a mistake to draw the conclusion that Indonesia is now incapable of serious developmental progress and is thus at risk of falling backward into a dangerously degenerative condition. Indeed, for all the numerous difficulties the country is struggling with, it is remarkable that so much progress has been made over this period of time.⁴¹ Indonesia has had to rebuild a shattered

economy and a destabilized polity and to do so in a time of deteriorating international economic conditions and in the context of a transitional political framework, in which authority became so fragmented that the possibilities for coherent policy action were severely circumscribed. Indeed, given all of this, in some ways the more remarkable point is that the things have not turned out worse for Indonesia.

For all the distressing internal conflict and violence and for all the worrying problems of corruption and criminal activity that erupted following Suharto's departure, it is important to keep sight of the fact that ethnic and religious tensions and violence appeared to ease during 2002–03, that efforts to enshrine shari'a (Islamic law) in the constitution failed, that there has been growing official recognition of equal status for Indonesia's Chinese minority, and, most important, that these have been happening along with the ongoing consolidation of democracy (the reforms to the structure of national government, the devolution of power to local government, and the continued reduction of the military's direct role in the government). In the circumstances, these are powerful achievements. They speak to the underlying durability of both the shared conception of the Indonesian republic as a coherent nation and the common commitment to building a framework for open and accountable government that reflects the vibrant plurality of Indonesian society.

Indonesia, in the midst of historic adjustments, faces formidable challenges. Even though the primary determinants of its developmental trajectory will be internal to the country itself, there is scope for the international community to assist the situation. With the United States increasingly conscious of Indonesia's strategic significance within Southeast Asia in traditional geopolitical terms and in the war on terrorism, and with the United States also increasingly sensitive to the significance of Indonesia as both the largest Muslim country in the world and the most promising example of a broadly tolerant, pluralistic, and democratic society in the Muslim world, there can be little doubt that it is powerfully in the interests of the United States to see Indonesia move to a stronger developmental trajectory.⁴² The record of the past few years offers some grounds for optimism, for in a number of important areas U.S. policy instruments appear to have made significant contributions. Others are more ambiguous, and in some cases there are grounds for believing that U.S. policy initiatives are actually injurious to Indonesia's developmental effort.

On the positive side, in a number of areas it has been possible for U.S. development assistance projects to make significant contributions. Some of these have been obvious and natural targets for U.S. aid. For instance, a

range of USAID projects have focused on deepening democracy through providing technical assistance to support ongoing constitutional fine-tuning (such as the issue of direct presidential elections); helping to foster “demand” for democratic government by supporting nongovernmental organizations that play a key role in articulating public grievances and advancing the notion of public accountability of officials; supporting the expansion of an independent media; and facilitating the political decentralization drive with projects to promote political and administrative capacity at the local government level. Similarly, on the economic front, a range of valuable projects have focused on, *inter alia*, facilitating the resolution of outstanding corporate debt through the Jakarta Initiative; providing specialist technical assistance to key agencies; and providing support for regulatory reform drives in areas ranging from trade policy to rice production to the drafting of a new companies law.⁴³

Not all priority areas have been as susceptible to developmental assistance as these. For instance, there is universal agreement on the fundamental importance of strengthening the courts and legal processes. And while USAID has indeed mounted projects in this area, it is widely understood that this is an area that requires long-term behavioral change on a number of dimensions that will likely take a generation to accomplish. Other difficult areas include the challenge of connecting with Muslim constituencies and the question of resuming military aid to Indonesia. The former—an obvious priority, given both the war on terrorism and the general desire to smooth the path for social tolerance and pluralism in Indonesia—proves to be deceptively difficult. Thus far the emphasis has been on reaching out to moderate elements within the Indonesian Muslim community. But this can be a double-edged sword, leaving progressive Muslim leaders easy targets for their militant rivals seeking to discredit them as being little more than puppets on Washington’s financial strings. Similarly, the question of resuming military-to-military cooperation via the International Military Education and Training (IMET) program is also problematic. The case for engaging Indonesia’s military is strong, since in any scenario for Indonesia’s short- and medium-term future, the military is critical to its developmental prospects.⁴⁴ Further, given both its national security powers and the alleged involvement of some officers in at least tacit support for Muslim extremists, the military is likely to be critical to Washington’s drive against terrorism. But here, too, there are inescapable ambiguities that bedevil any attempt to assist Indonesia. Not only has the military been associated with serious human rights abuses and political actions that seem inimical to democracy, in some respects the police

(now an independent agency) has a more impressive track record as a partner in the war on terrorism, given its impressive strides in pursuing the Muslim extremists responsible for the October 12 bombings in Bali. There is no simple answer to this problem. Working with the military is, almost certainly, essential to advancing U.S. efforts to contain terrorism, but if it comes at the price of simply disregarding the deeply problematic track record of particular sections of the military, it will likely prove counterproductive.

Finally, in one conspicuous case, it is hard to avoid the conclusion that U.S. policy carries significant, if unintended, negative implications for Indonesia. I refer here to the preferential regional trading arrangements that Washington has negotiated with, among others, Singapore and Australia. Regardless of any wider arguments for or against these initiatives, they are likely to have a negative impact on Indonesia. Along with any trade-diversion effects, under rules-of-origin requirements, Singapore will need to separate out goods coming from Indonesia for re-export to the United States, as these will be subject to less favorable treatment than goods originating in Singapore. This is unwelcome news for Indonesia. Of course, such initiatives are not intended to harm Indonesia (or any other country in the region). Although it is subject to powerful domestic political constraints within the United States, those responsible for U.S. international interests might ponder the potential importance of trade policy as an instrument for engagement with a country like Indonesia as a means of facilitating the flow of U.S. trade and investment with Indonesia.⁴⁵ The burden of discussions about development assistance is typically upon the policies of the recipient country and the way in which donor countries can contribute to refinements in these policies. But given the enormous importance of the U.S. economy as a market for exports and as a source of investment, it is also appropriate to consider how U.S. policies affect the prospects for developing countries—all the more so as protectionism and economic nationalism come more to the fore in countries like Indonesia.

Conclusion

Indonesia is a notable case for considering the problems of poorly performing states, given the sharp swings in its developmental trajectory over time. In the early 1950s it was, like many newly independent countries, muddling along with weak and fragmented governance (albeit of a generally democratic nature) and modest economic growth. As political and economic difficulties accumulated, this situation was overturned by the country's founding president, Sukarno, who imposed authoritarian rule. His chaotic dictatorship

only deepened the country's problems and had severely negative consequences for the economy. During this phase—the late 1950s to the mid-1960s—Indonesia was in many ways a prime example of the dangerously degenerative consequences of weak governance and a sickly economy. Eventually the situation deteriorated so far that the military was able to move against Sukarno and claim power for itself. Thereafter, in a stark break with the past, strong and systematic authoritarian controls were imposed, enabling Suharto's new regime to enforce stability across the archipelago. This paved the way for strongly pro-growth economic policies to drive a thirty-year boom and industrial transformation, before the regime finally unravelled amid the upheaval of the Asian financial crisis. More recently we have seen Indonesia struggle to rebuild itself economically and politically in particularly challenging circumstances.

Viewed in its entirety, Indonesia's developmental record thus offers an important illustration both of how poorly performing states can readily slide into more dire circumstances and of how even acute situations can be salvaged. (In 1964 or early 1965, no one inside or outside Indonesia could have guessed that within a few years the country would be enjoying sustained strong economic growth.) But the model that was so successful in economic terms, and for so long, could not endure indefinitely given its shallow base of public consent. And in the wake of the regime's dramatic collapse, the country has faced an uphill battle to rebuild. Also of analytic and policy interest are the ambiguities of Indonesia's current situation.

Indonesia's problems today are numerous and serious, but the situation is not dire. Thanks primarily to its own internal reform efforts, but also aided by constructive policy engagement in certain areas by the United States and other providers of development assistance, the country is now showing signs of slowly emerging from a deeply worrying period of flux. But just as there is ambiguity in assessing Indonesia's developmental performance over the past years, so too there is ambiguity in considering the likely character for the period ahead. Given the recent progress with restructuring the national political institutions, there are good grounds for expecting that Indonesia will experience stable and moderately effective government and moderate economic growth. A stable developing country with a viable form of democratic government and economic growth in the 3–4 percent range is above the status of low-income poorly performing states. And yet it is by no means a situation about which one can be sanguine either.

A trajectory of only moderate economic growth will not allow Indonesia to regain the rapid pace of developmental progress it once enjoyed. In practical

terms, this means that improvement in living standards will be slow and that we may well see the deterioration of public infrastructure, such as public health and education systems and roads in outlying areas. If this is correct, a growing gap is likely to emerge between Indonesia and the more strongly performing economies of East Asia. The best hope is that Indonesia will be able to continue its record of broadly successful institutional reform at the national political level and extend this to the next wave of institutional challenges: regional government and the legal system. Better institutions will permit better governance, and better governance will permit more rapid economic progress. Primary carriage of these issues inevitably lies with Indonesia itself, but this is something to which the United States has shown it can make a significant and positive contribution.

Notes

1. This is the figure for 2001. World Bank, *World Development Indicators, 2002*.
2. Herbert Feith, *The Decline of Constitutional Democracy in Indonesia* (Cornell University Press, 1962).
3. Hal Hill, *The Indonesian Economy since 1966* (Cambridge University Press, 1996), pp. 1–3; John Bresnan, *Managing Indonesia* (Columbia University Press, 1993), p. 1. For a full accounting of the period, see Bruce Glassburner, ed., *The Economy of Indonesia: Selected Readings* (Cornell University Press, 1971).
4. Benjamin Higgins, *Economic Development* (New York: W. W. Norton, 1968), p. 678, as quoted in Hill, *The Indonesian Economy since 1966*, p. 1.
5. Harold Crouch, *The Army and Politics in Indonesia* (Cornell University Press, 1978).
6. For a fuller discussion of the issues see Andrew MacIntyre, “Political Parties, Accountability, and Economic Governance in Indonesia,” in *Democracy, Governance, and Economic Performance: East and Southeast Asia*, edited by Jean Blondel, Takashi Inonguchi, and Ian Marsh (Tokyo: United Nations University Press, 1999).
7. Hill, *The Indonesian Economy since 1966*, p. 3.
8. Alan Gelb, ed., *Oil Windfalls: Blessing or Curse?* (Oxford University Press, 1988).
9. The best overview study of the Indonesian economy through the Suharto period is Hill, *The Indonesian Economy since 1966*. For a comparative perspective, see I. M. D. Little and others, *Boom, Crisis, and Adjustment: The Macroeconomic Experiences of Developing Countries* (Oxford University Press, 1993).
10. World Bank, *World Development Indicators, 2000*.
11. For a critique of development progress under Suharto, see Jonathon Pincus, *Class Power and Agrarian Change: Land and Labour in Rural West Java* (London: Palgrave Macmillan, 1996).
12. Hill, *The Indonesian Economy since 1966*; David Cole and Betty Slade, *Building a Modern Financial System: The Indonesian Experience* (Cambridge University Press, 1996); Radius Prawiro, *Indonesia's Struggle for Economic Development* (Oxford University Press, 1998).

13. World Bank, *The East Asian Miracle* (Oxford University Press, 1993).

14. No single study brings all these variables together. Although not dealing with Indonesia, the best comparative overview of this subject remains Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Cornell University Press, 1990).

15. Measured in local currency, GDP per capita at the end of 2002 was still about 10 percent below the 1997 level and about 3 percent below if measured in dollars. See World Bank, *Indonesia: Maintaining Stability, Deepening Reforms* (2003), pp. 1, 3.

16. The rule of thumb used by policymakers in the Economic Planning Agency (BAP-PENAS) is that about 400,000 jobs are created with each additional 1 percent in GDP growth; with the workforce growing by about 2 million each year, an annual growth rate of 5 percent would be necessary to employ the new entrants. For a wider discussion of the socioeconomic ramifications of the economic dislocation created by the crisis, see Aris Anata, ed., *The Indonesian Crisis: A Human Development Perspective* (Singapore: Institute for Southeast Asian Studies, 2003).

17. See, for instance, Transparency International's Corruption Perception Index for 2002 and 1997 (www.transparency.org) or other declining statistical indicators (for instance, World Bank, *Indonesia: Maintaining Stability, Deepening Reforms*, table 40 (statistical annex); the analysis of seasoned economic observers such as Prema-chandra Athukorala, "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 38, no. 2 (2002): 143–45; and journalistic accounts such as Antara Newsagency, "Mega Admits Legal Graft Worse than Ever," December 16, 2002; "World Banker Assails Indonesia's Corruption," *New York Times*, August 28, 2002.

18. Another of the fascinating puzzles the Indonesian case reveals is the question of corruption. Under Suharto, Indonesia was characterized by pervasive corruption combined with sustained strong private investment and growth. In the half decade since, Indonesia has been characterized by pervasive corruption and disappointing investment and growth. The recent experience is less puzzling; the combination of deep corruption and strong growth under Suharto is more intriguing. How was it that pervasive cronyism and corruption coexisted with extremely good aggregate economic outcomes for so long? Again, this is not the place for an extended discussion of the subject. But briefly, a key element to the puzzle seems to have been that the president had both the incentive and the capability to ensure that, although graft flourished, it did not become either so expensive or so unpredictable as to deter investors. Central to this was the institutional ability to monitor and punish agents who acted in a sufficiently capricious manner as to deter significant numbers of investors. Putting it crudely, subsequent to Suharto's fall Indonesians have learned that there is a malady even worse than organized corruption: disorganized corruption. For a fuller discussion of these themes, see Andrew MacIntyre, "Institutions and the Political Economy of Corruption in Developing Countries," paper prepared for the workshop on corruption, Centre for Development, Democracy, and the Rule of Law, Stanford University, January 31–February 1, 2003 (<http://apseg.macintyre.anu.edu.au>); and Andrew MacIntyre, "Institutions, Property Rights, and Corruption in Indonesia," in *Corruption: The Boom and Bust of East Asia*, edited by J. E. Campos (Ateneo University Press, 2001).

19. The data are from Standard Chartered Bank, quoted in John McBeth, "Bombed Economy," *Far Eastern Economic Review*, November 14, 2002.

20. World Bank, *Indonesia: Maintaining Stability, Deepening Reforms*, p. 17.
21. *Ibid.*, p. 6.
22. International Crisis Group, *Al-Qaeda in Southeast Asia: The Case of the "Ngruki Network" in Indonesia*, briefing paper (Brussels: 2003).
23. International Crisis Group, *Communal Violence in Indonesia: Lessons from Kalimantan*, Report 19 (Brussels: 2001); International Crisis Group, *Tensions on Flores: Local Symptoms of National Problems*, briefing paper (Brussels: 2002).
24. "Unchecked Thuggery Could Lead to Organized Crime," *Jakarta Post*, March 17, 2003.
25. For an easily accessible discussion of these issues, see "A Military Mafia," *Newsweek*, August 26, 2002; and "TNI Nothing More than Mercenaries," *Jakarta Post*, March 17, 2003.
26. Athukorala, "Survey of Recent Developments," pp. 145–48, 155–56.
27. World Bank, *World Development Indicators, 2002*.
28. Hal Hill, *The Indonesian Economy in Crisis: Causes, Consequences, and Lessons* (Singapore: Institute of Southeast Asian Studies, 1999).
29. Kevin O'Rourke, *Reformasi: The Struggle for Power in Post-Subarto Indonesia* (Sydney: Allen and Unwin, 2003); Dwight King, *Half-Hearted Reform: Electoral Institutions and the Struggle for Democracy in Indonesia* (Westport, Conn.: Praeger, 2003).
30. Andrew MacIntyre and Budy Resosudarmo, "Survey of Recent Developments," *Bulletin of Indonesian Economic Studies* 39, no. 2 (2003): 133–56.
31. Stephan Haggard, *The Political Economy of the Asian Financial Crisis* (Washington: Institute for International Economics, 2000).
32. Arned Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (Yale University Press, 1999); Gary Cox and Matthew McCubbins, "The Institutional Determinants of Policy Outcomes," in *Presidents, Parliaments, and Policy*, edited by Stephan Haggard and Matthew McCubbins (Cambridge University Press, 2001); Andrew MacIntyre, *The Power of Institutions: Political Architecture and Governance* (Cornell University Press, 2003).
33. For a wider discussion of these issues, see MacIntyre, *The Power of Institutions*.
34. For valuable overviews and analyses of the continuing political reforms, see the various reports of the National Democratic Institute: Andrew Ellis and Etsi Yudhini, *UU Pemilu 2003: Observations on Some Key Issues* (Washington: National Democratic Institute, 2003); Andrew Ellis and Etsi Yudhini, *Indonesia's New State Institutions: The Constitution Completed, Now for the Detail . . .* (Washington: National Democratic Institute, 2002).
35. Of course, many factors play into judgments about the relative success of different administrations. My point here is simply that the fact that Megawati has had to worry much less about the possibility of removal from office by her political opponents has had a powerful effect on her ability to promote coherence and purposefulness within the cabinet and to bargain with the legislature over policy. To be sure, Megawati's administration has suffered from a range of problems, but it has been less subject to the debilitating incoherence and gridlock of her predecessors.
36. This theme is developed further in MacIntyre and Resosudarmo, "Survey of Recent Developments."
37. John Bresnan has written of American "amnesia" about Indonesia, and in an often repeated remark, Paul Wolfowitz (previously a U.S. ambassador to Jakarta) said that

Indonesia was the important country the United States knew least about. John Bresnan, "Indonesia," in *The Pivotal States: A New Framework for U.S. Policy in the Developing World*, edited by Robert Chase, Emily Hill, and Paul Kennedy (New York: W. W. Norton, 1999), p. 25.

38. The former term comes from Garten and the latter from Chase, Hill, and Kennedy. See Jeffrey Garten, *The Big Ten: Emerging Markets and How They Will Change Our Lives* (New York: Basic Books, 1999); Robert Chase, Emily Hill, and Paul Kennedy, eds., *The Pivotal States: A New Framework for U.S. Policy in the Developing World* (New York: W. W. Norton, 1999).

39. Zachary Abuza, *Militant Islam in Southeast Asia: Crucible of Terror* (Boulder, Colo.: Lynne Rienner, 2003); International Crisis Group, *Jemaah Islamiyah in Southeast Asia: Damaged but Still Dangerous*, Report 63 (Brussels: 2003).

40. Winston Lord's fifteen-page testimony at his 1993 confirmation hearing did not mention Indonesia once, and the Department of Defense report "United States Security Strategy for the East Asia–Pacific Region" (February 1995) was scarcely better. See Bresnan, "Indonesia," p. 25.

41. A broadly similar conclusion was reached by the veteran head of USAID's Indonesia office, Desaix Terry Myers, in a valedictory speech at the end of a second tour of duty in Indonesia, March 17, 2003. See Desaix Terry Myers, "More Progress than Meets the Eye: The Role of U.S. Assistance in Turbulent Times," Open Forum report (Washington: USINDO, 2003).

42. Matthew P. Daley, "U.S. Interests and Policy Priorities in Southeast Asia," testimony by the Deputy Assistant Secretary of State for East Asian and Pacific Affairs before the House International Relations Committee, Subcommittee on East Asia and the Pacific, March 26, 2003.

43. For an overview of projects, see USAID, *USAID/Indonesia Annual Report FY 2002* (March 2002). It should be noted that much valuable developmental assistance work is also done by U.S. nongovernmental organizations. For example, in the area of political reform, the National Democratic Institute, the International Foundation for Electoral Systems, and the International Republican Institute have made very important contributions.

44. For an informed and cogent summary of the case in favor of reengagement, see John Haseman, "Engage Indonesia's Military," *Far Eastern Economic Review*, March 20, 2003. But see also International Crisis Group, "Resuming U.S.–Indonesia Military Ties," briefing paper (Brussels: 2002).

45. For a thoughtful general critique of the problem, see Bernard Gordon, "A High-Risk Trade Policy," *Foreign Affairs* 82, no. 4 (2003): 105–18.