



The Heritage Foundation
Background
Executive Summary

No. 1291

June 4, 1999

PROMOTING DEMOCRACY AND ECONOMIC REFORM IN INDONESIA

JOHN T. DORI

Indonesia is important to the safety, stability, and prosperity of Southeast Asia. The world's fourth most populous country, Indonesia controls strategic sea-lanes through which pass 40 percent of the world's commerce, including 80 percent of Japan's oil supply and 70 percent of South Korea's. Before falling victim to the effects of the Asian economic crisis in August 1997, Indonesia's economy had averaged 7 percent growth over the previous 25 years despite being riddled with corruption and inefficiency.

The Asian economic crisis hit Indonesia harder than any other country. The value of the currency plummeted from around 2,450 to the dollar before the crisis to 17,000 to the dollar at the worst point. Interest rates soared to over 50 percent in 1998, and inflation to over 77 percent. Because of the tremendous depreciation in the value of the currency, businesses were unable to repay their debts and insolvent banks were unable to extend credit. The Indonesian economy eventually would shrink by 13.7 percent in 1998.

This tremendous economic hardship led quickly to major changes in the political system. Indonesians had seemed willing to tolerate political repression during economic good times; they were not so tolerant toward what they saw as their

government's ineffective response to the effects of the economic crisis. They took to the streets in violent demonstrations that killed over 1,000 and culminated in the May 1998 resignation of President Suharto, who had ruled with an iron grip for 32 years.

The political system was liberalized dramatically under B. J. Habibie, Suharto's successor as president. Habibie has released political prisoners, relaxed restrictions on the press, and allowed the free formation of political parties. The president's tenure was fixed at two five-year terms. Important parliamentary elections were set for June 1999, with selection of the next president to follow in November. In a surprise development, Habibie announced that the restive Indonesian province of East Timor, invaded and annexed by Jakarta in the mid-1970s, would be given the opportunity in August 1999 to decide

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between independence and greater autonomy within Indonesia.

This major political development has been marred, however, by Indonesian military support for pro-Jakarta militias in East Timor which have been killing and intimidating supporters of independence. Indonesian military support for these militias is particularly disturbing because violence of any kind makes investors wary of Indonesia. The peaceful and credible conduct of the referendum on East Timor and Indonesia's other major elections in 1999 would be a significant milestone in the re-establishment of investor confidence.

Indonesia's record on much-needed economic reform also undermines investor confidence. Jakarta has been slow to implement the kinds of reforms needed to restore the economy. These include pruning and restructuring the bloated and crippled financial sector, implementing meaningful bankruptcy reform, and reducing barriers to trade and investment. These reforms are the minimum required to regain the faith of international investors.

Indonesia's economic and political challenges go hand in hand. An Indonesia mired in economic stagnation is less likely to be able to settle its political differences peacefully and more likely to be beset by ethnic, religious, and sectarian violence. This harms Indonesia's future economic prospects, creating a vicious cycle of economic and political degeneration that threatens the stability of the Southeast Asia region.

With important economic and security interests in Southeast Asia, the United States has a stake in preventing Indonesia's devolution into chaos. Chaos in Indonesia could threaten nascent economic recoveries underway elsewhere in the region. It also could put at risk the critically important sea-lanes under Jakarta's control, jeopardizing the commercial interests of the United States, the world's largest trading power.

Although Indonesians ultimately are responsible for their own political and economic fate, there are steps that Washington can take to facilitate Indonesia's transformation to a more open economic and political system:

- **Offer** assistance to appropriate non-governmental organizations to help assure that Indonesia's three major votes during 1999 are conducted peacefully and credibly, and contribute to the strengthening and consolidation of democracy.
- **Declare** that the United States and the world will be watching the process and outcome of Indonesia's votes in 1999.
- **Avoid** peacekeeping commitments in East Timor, which would be more likely to freeze the conflict in place than to solve the underlying differences between the parties.
- **Press** Indonesia to implement badly needed economic reforms and not rely on International Monetary Fund assistance to solve its economic problems.
- **Promote** reforms in Indonesia's military and consider rebuilding ties with the military if it acts responsibly during all three of Indonesia's votes during 1999. Restoration of Indonesia's participation in the International Military Education and Training program could help move the Indonesian military toward greater professionalism, civilian control, and respect for human rights.

America's interest in a peaceful and prosperous Southeast Asia requires that it assist Indonesia's further evolution toward democracy and free-market economics. An Indonesia restored to economic growth and progressing toward genuine democracy is in the interest of Indonesians and Americans alike.

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Backgrounder

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Indonesia is important to the safety, stability, and prosperity of Southeast Asia. Composed of more than 13,000 islands and possessing the world's fourth largest population, Indonesia controls some of the most strategically and commercially important sea-lanes in the world. Before falling victim to the effects of the Asian economic crisis in August 1997, it boasted an impressive record of economic growth dating back a quarter century, despite an economic system burdened by endemic corruption.

The instability wrought by the Asian economic crisis has brought rapid political and economic change to Indonesia. The severe effects of the crisis led to violent rioting which resulted in the resignation of President Suharto in May 1998 after 32 years in power. Despite a \$50 billion assistance package from the International Monetary Fund (IMF), Indonesia still is struggling to overcome the effects of the crisis. Ethnic, religious, and sectarian violence is widespread, threatening the stability of the region and making investors reluctant to take a chance on Indonesia. This violence and the underlying divisions in Indonesian society that it represents also threaten the success of three elections to be held this year—elections that will play an important part in determining Indonesia's future.

If Indonesia can commit itself to overcoming the forces that in recent years have threatened to tear it apart, it stands a chance of evolving into a peaceful, stable, and prosperous country. However, this requires a firm determination to remedy the effects of more than three decades of political repression and backward economic policies. It also requires a commitment to do this peacefully so that international confidence in Indonesia can be restored. If Indonesia is unable to do this, it likely will remain mired in economic malaise and sectarian violence. In time, it even could split violently into a host of independent regions of greater and lesser viability, which would threaten the stability of Southeast Asia.

With its important economic and security interests in Southeast Asia, the United States has a stake

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in preventing Indonesia's devolution into chaos and assisting Indonesia's renewed progress toward political and economic openness and liberalization.

Although Indonesians ultimately are responsible for their own political and economic future, there are some steps the United States can take to assist them on their path.

- **First**, the United States should support and encourage the peaceful and credible conduct of Indonesia's three elections this year, the *sine qua non* of Indonesia's eventual evolution toward economic renewal and greater political freedom.
- **Second**, the United States should encourage Indonesia to implement further political reforms that consolidate and build on recent democratic gains.
- **Third**, the United States should urge Indonesia to adopt free-market economic reforms, which represent Indonesia's best hope of overcoming the effects of the Asian economic crisis.
- **Finally**, if the Indonesian military and police play positive and responsible roles during all three of Indonesia's major votes this year, Washington should consider forging closer ties with the armed forces to encourage their increased professionalism, evolution toward civilian rule, and respect for human rights.

In the aftermath of three successful elections and the legitimacy that this would bestow, Indonesia would be on its way to becoming freer and more prosperous, as well as a genuine partner of the United States in furthering political and economic freedom in Southeast Asia.

THREE CRITICAL ELECTIONS

Indonesia is in the midst of an ongoing democratic transition. This year, it will hold three critical votes that will determine its future course. These will include parliamentary elections on June 7, a referendum on the independence of the province of East Timor on August 8, and the selection of Indonesia's next president by the People's Consultative Assembly in November. It is critical to U.S. interests that stability in Indonesia come as a result of successful democratic and economic reform.

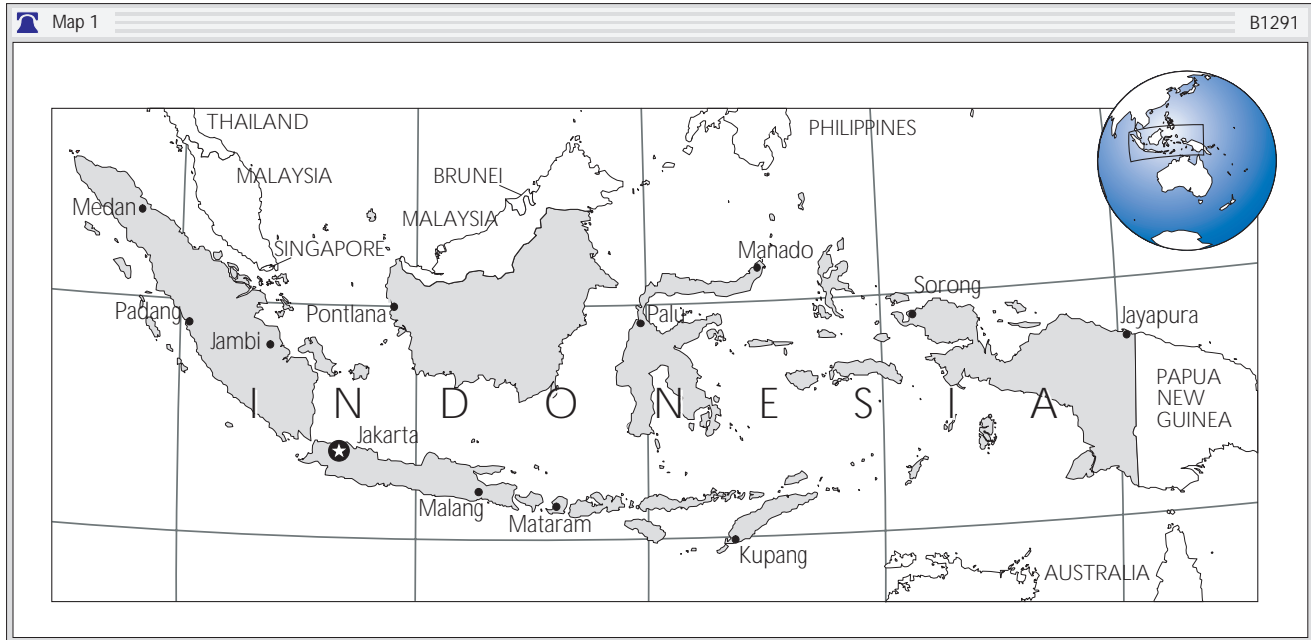
Parliamentary Elections

The first vote, scheduled for June 7, is to determine the makeup of the 500-seat Indonesian Parliament, or DPR. The only nationwide poll of the three, it will be a monumental undertaking. More than 130 million registered voters from 300 ethnic groups will cast ballots at 250,000 polling places spread across three time zones and 6,000 inhabited islands.

The logistical challenges are enormous. Indonesians and most foreign observers anticipate confusion over the outcome, largely because of imprecise election laws. An independent vote-count organization is expected to produce an unofficial result within several days, but the official tally may not be ready for several weeks.¹ The prospect for confusion over the outcome of the election has increased concern about post-election violence. Urban areas may be particularly prone to violence if the ruling party, GOLKAR,² is perceived to have won by an unexpectedly large margin.

There are strong hopes that the parliamentary elections will be Indonesia's first free elections since 1955. Already, however, there are allegations of ballot theft in advance of the June 7 poll,³ and

1. The independent vote-count organization is called the Joint Operations Media Center (JOMC) and is funded through various international donors coordinated by the United Nations Development Program (UNDP). It is hoped that the JOMC can contribute to keeping the elections honest by at least providing a rough snapshot of the election results.
2. GOLKAR is an abbreviation for Golongan Karya, which means, literally, "Functional Group."
3. "One thousand ballots stolen in N. Jakarta," *The Jakarta Post*, May 10, 1999.



the ruling party has been accused of using its wealth to buy votes on a broad scale.

New Political Parties. The complexity of the parliamentary elections will be compounded by the tremendous proliferation of political parties since Suharto's fall. During the Suharto era, only two government-sanctioned opposition parties⁴ were permitted to challenge the ruling GOLKAR party, which always managed to win handily and thus maintained an iron grip on the presidency and the Parliament. Under B. J. Habibie, Suharto's successor as president, political parties have been allowed to form freely; 48 parties are contesting the June elections, although only five are major parties.

One of the five major political parties is GOLKAR, which maintains some of its former power because of its wealth and continued organizational presence throughout the country. It is attempting to overcome deep and lingering resentment over Suharto-era corruption, repression, and abuse by projecting a vague new image of reform. GOLKAR is led by Habibie, who will be its candidate for president later this year.

In a significant development, on May 17, two days before the official beginning of the campaign season, leaders of three of the remaining major political parties announced the formation of a "united front" in support of GOLKAR's ouster from power. The fourth party joined the coalition shortly thereafter, considerably reducing the likelihood of GOLKAR's continued control of Parliament.

Finally, the military's role in determining control of the next Parliament cannot be ignored. Putting aside its ability to inject itself into politics by force of arms, the Indonesian military will control 38 seats in the new 500-member Parliament. With this unified bloc, it could play an important part in determining control of the Parliament, and the parties will have to be careful about how forcefully they call for any reduction of the military's role in politics.

The Islamic Equation. Some 88 percent of Indonesia's 210 million people call themselves Muslims, and there is some concern, especially among members of minority religions as well as the more secular-minded, that the country is headed for a

4. These were the Indonesian Democratic Party (PDI) and the United Development Party (PPP).

closer integration of church and state.⁵ These fears are compounded by the fact that three of Indonesia's five major political parties are Islamic-based, and there has been a noticeable resurgence of Islam in recent decades, especially in more urban areas.⁶ Perhaps most worrisome has been the spate of religious violence, mostly between Muslims and Christians, that has tormented Indonesia in recent months. The most violent Muslim-Christian clashes have occurred in the city of Ambon and may have claimed over 1,000 lives, although an exact death toll is unknown.⁷

Balanced against these alarming facts are some that are more comforting. The Indonesian brand of Islam traditionally has been moderate in nature, and none of Indonesia's major Islamic leaders has come out in favor of creating an Islamic state.⁸ In fact, all political parties are required officially to adhere to the state ideology of "Pancasila," which formally recognizes five religions and downplays religious belief as a basis for public action in favor of "God, humanity, national unity, democracy, and social justice."

East Timor's Future

The next crucial ballot is an August 8 referendum to determine the future of the province of East Timor, which was invaded by Indonesia in 1975 and forcibly annexed the following year after the pullout of Portugal, East Timor's former colonial ruler. The United Nations has never recognized Indonesia's dominion over East Timor, and Portugal has led a long international campaign

against Indonesian rule. Likewise, a large segment of East Timor's population has never accepted Indonesian rule.

Between 200,000 and 250,000 East Timorese died from fighting or famine in the aftermath of the Indonesian invasion, and Jakarta has paid a high price in terms of international credibility for its continued subjugation of the people of East Timor. Jakarta's harsh rule, however, also was accompanied by substantial government investment in developing East Timor's economy. President Habibie surprised the world in January of this year with his announcement that East Timor would be allowed to choose between outright independence and greater autonomy within Indonesia.

Prospects for Violence. After struggling for independence for so long, however, East Timor may not be ready to go it alone.⁹ An independent East Timor would have little or no industry to call its own and meager exports on which to rely.¹⁰ Fully half of its modest gross domestic product (GDP) of \$113 million in 1998 came from Indonesian government spending, prompting fears that a liberated East Timor would become a perennial recipient of international aid to survive.¹¹

Even more serious is the threat that an independent East Timor would descend quickly into civil war, much as it did upon the Portuguese withdrawal in 1975. The possibility of violence is all too real. Although popular sentiment in East Timor broadly favors independence from Indone-

5. Jose Manuel Tesoro, "Islam's Struggle for Power," *Asiaweek*, January 29, 1999, p. 20.

6. Jose Manuel Tesoro, "Traditional Yet Modern: The Muslim Middle Class and Politics," *Asiaweek*, January 29, 1999, p. 24.

7. John McBeth and Dini Djalal, "Tragic Island: Ambon Violence May Have Had Its Origins in Jakarta," *Far Eastern Economic Review*, March 25, 1999, p. 28.

8. Tesoro, "Islam's Struggle for Power," *op. cit.*

9. For detailed analyses of the economic, political, and social obstacles potentially facing an independent East Timor, see Dan Murphy, John McBeth, and Bertil Lintner, "Economy of Scale: Micro-State Would Face an Uphill Battle to Prosper," *Far Eastern Economic Review*, February 11, 1999, p. 20, and John McBeth and Dan Murphy, "Sudden Impact: Hard on the Heels of Indonesia's Surprise Decision to Offer East Timor Independence, There Are Already Signs That Civil War Threatens the Territory's Future," *Far Eastern Economic Review*, February 11, 1999, pp. 18-19.

10. Murphy, McBeth, and Lintner, "Economy of Scale."

11. *Ibid.*

sia, it is badly divided over the timing of that independence. Many East Timorese, including even detained pro-independence resistance leader Xanana Gusmao, favor a period of autonomy before any potential independence, most likely owing to genuine fears over the viability of an independent East Timor.

Unfortunately, the Indonesian military also is contributing to the possibility of violence by heightening tensions in advance of the referendum. Some important generals appear to be challenging President Habibie's decision to allow the people of East Timor to determine their own political fate, perhaps fearing that pro-independence sentiment there would embolden similar separatist movements in the provinces of Aceh and Irian Jaya. The military tacitly admits supporting "pro-integration" militias in East Timor,¹² which for weeks have been terrorizing and intimidating "pro-independence" supporters, shooting and hacking to death 57 in one particularly gruesome incident in the city of Liquica. In addition to the killing and death threats against pro-independence leaders and organizations, the pro-integration militias reportedly are holding entire villages captive in an effort to intimidate the villagers into voting to remain part of Indonesia.¹³

In a small measure of hope against the campaign of violence and terror being waged by the pro-integration militias backed by the military, Australia spearheaded an effort in April to create a United Nations-led police force of 300 officers from Australia, Britain, Germany, Japan, the Philippines, and the United States to help maintain peace in the run-up to the August referendum.¹⁴ Although it would be better if this police force were regionally led rather than U.N.-led, it may be able to serve a useful purpose if it is not allowed to

hinder the eventual settlement of underlying divisions between the parties by becoming a permanent fixture of the East Timorese political landscape.

Selection of the President

The final vote, which will take place in November, is perhaps the most important of the three. At that time, the People's Consultative Assembly, or MPR,¹⁵ will convene in a special session to select Indonesia's president, who will serve a full five-year term.

From the time of Suharto's resignation, President Habibie's role has been to serve as an interim president until new elections could be held. Although Habibie has indicated that he will seek election on his own, his interim status and tenuous grip on power have meant slow going on badly needed economic reforms and a wait-and-see attitude on the part of foreign investors before once again sinking their money into Indonesia. Thus, it is hoped that a peaceful and legitimate presidential selection process will restore international confidence in Indonesia and allow it to get on with the business of reforming and retooling its economy. But the presidential selection process is marred by the fact that the Indonesian people play only an indirect role, through a mix of elected and appointed officials, in the determination of their own president.

NEED FOR CONTINUED POLITICAL REFORM

At stake in the three major votes of 1999 is nothing less than Indonesia's commitment to peaceful democratic reform. Although much remains to be done, Indonesia's political reform

12. See John McBeth, "Second Thoughts," *Far Eastern Economic Review*, April 29, 1999, p. 18.

13. Keith B. Richburg, "A Campaign of Terror; Army-Backed Militias Use Violence to Sway Vote on E. Timor Independence," *The Washington Post*, May 9, 1999, p. A18.

14. "Aussie Police to Assist UN Force in Ballot Watch," *Courier Mail* (Brisbane), May 5, 1999, p. 6.

15. The MPR is a 700-seat assembly consisting of the entire membership of the 500-seat DPR in addition to the 200 members of Indonesia's National Assembly, which in turn is comprised of a mixture of regional representatives selected by the provinces and representatives of various interest groups.

under President Habibie has been rapid and impressive. For instance, soon after coming to power, President Habibie freed some political prisoners, relaxed restrictions on the press, and permitted the free formation of opposition political parties. In a move that would have been unheard of during the Suharto presidency, he acceded to the restriction of the president's tenure to two five-year terms. Another break from the Suharto era was the ban on political participation by civil servants, a force previously used to great advantage by the ruling party.

Habibie also exceeded expectations by deciding to allow East Timorese to choose between independence and greater autonomy within Indonesia. Moreover, a measure was passed in April 1999 that granted extensive authority to the provinces in a variety of matters. The creation of a more competent and independent system of local governance in the provinces will be a key test for the next administration. This is needed to help prevent further violent disintegration in Indonesia.¹⁶

Despite this progress, however, there is still much room for improvement, particularly in regard to the military and its role in Indonesian society. In one positive move, the military's representation will be cut from 75 to 38 seats in the next Parliament with the general understanding that the number of seats will fall to zero after the election in 2004. So that there will be no confusion about the military's diminishing role in Indonesian politics, this general understanding should be codified into law.

Moreover, the investigations into serious allegations of the active or passive involvement of the military in the violent rioting that led to Suharto's resignation should continue, and those who are implicated should be dishonorably discharged and

punished for their actions. Investigations also should continue on the military's involvement in human rights abuses in East Timor, as well as its arming and support of "pro-integration" militias in advance of the August 1998 referendum there. Finally, Indonesia should indicate its intention to move toward direct election of the president.

THE ECONOMIC CRISIS AND THE NEED FOR REFORM

Indonesia's next president will face tremendous challenges in trying to revive an economy devastated by years of misguided policies and the effects of the Asian economic crisis, which hit Indonesia harder than any other country. The Indonesian economy shrank by 13.7 percent in 1998 after having averaged 7 percent growth for the previous 25 years;¹⁷ and after Indonesia's currency, the rupiah, crashed in August of 1997, the economy essentially came to a standstill. The depressed value of the rupiah meant that businesses were unable to repay their debts and banks were unable to lend. Millions of Indonesians suddenly were thrust into poverty and rendered unable to afford the necessities of daily life.

In addition, the effects of the crisis were magnified by years of Suharto-era cronyism and corruption, such as imprudent lending to friends and relatives of the president. It was against this backdrop that Indonesians took to the streets to protest the Suharto regime's ineffective response to the crisis, leading to Suharto's resignation in May 1998.

Indonesia's economy has remained largely moribund despite an IMF assistance package that has grown to \$50 billion.¹⁸ Indonesia's leaders have relied on IMF largess instead of taking the bold steps necessary to overhaul and retool the economy. President Habibie's interest in economic

16. For more on Indonesia's potential for disintegration and the U.S. interest in avoiding it, see John R. Bolton, "Indonesia: Asia's Yugoslavia?" *Far Eastern Economic Review*, April 1, 1999, p. 31.

17. Testimony of R. Michael Gadbaw, chairman of the U.S.-Indonesia Business Committee of the U.S.-ASEAN Business Council, before the Subcommittee on East Asian and Pacific Affairs, Committee on Foreign Relations, U.S. Senate, March 18, 1999.

18. "I.M.F. Approves \$460 Million Loan Installment for Indonesia," Bloomberg News report in *The New York Times*, March 26, 1999, p. C18.

reform, for instance, frequently has seemed geared to meeting the minimum requirements for the continuation of international financial aid.

Continued large-scale foreign assistance cannot provide a lasting solution to Indonesia's economic crisis. Suharto's government repeatedly hedged or refused to advance needed economic reforms while the IMF and other aid agencies continued to provide assistance. Indeed, organizations like the World Bank reportedly knew their loans to Indonesia were being funneled to Suharto family businesses. The World Bank also turned a blind eye toward corruption in projects it funded and accepted false government economic statistics to allow Indonesia to get better credit ratings.¹⁹

The real answers to Indonesia's economic crisis are to be found in responding to the economy's need for broad reform in its financial, legal, trade, and agricultural sectors. These reforms are needed to end the effects of the stifling policies of the Suharto years that allowed selected cronies to act above the law, maintain market-distorting monopolies, and sustain unsound banks.

Recently, however, some encouraging signs have begun to emerge. The World Bank is predicting that the economy already may have struck bottom and may be poised to resume growth of 1 percent in fiscal year 1999. While this assessment is clearly a minority view, nearly all independent analysts predict resumed growth in 2000.

Several economic fundamentals buttress these claims. The rupiah is now trading at around 8,000 to the dollar, still a far cry from the pre-crisis level of around 2,450 but a dramatic improvement over the 17,000 mark to which it fell during the darkest days of the economic crisis. This strengthening of the rupiah demonstrates increased confidence in the Indonesian economy. Interest rates are down

from over 50 percent last year to around 35 percent. Inflation has moderated and is on track to land in the 15 percent–20 percent range after reaching 77.6 percent in 1998.

Moreover, the rebound in world oil prices has been a boon to oil-rich Indonesia, and 1998 saw a good harvest after an El Niño-induced drought the year before brought the threat of widespread food shortages. Thus, it is perhaps not surprising that in the first quarter of 1999, Indonesia experienced its first quarterly increase in GDP growth since the onset of the crisis in August 1997, a gain of 1.3 percent over the previous quarter.²⁰

Although Indonesia has made halting progress toward reforming its economy in the wake of the Asian economic crisis, crucial reforms await the next government. Especially important is breathing new life into the crippled and bloated banking industry, which must function efficiently if it is to serve as an engine of growth for the overall economy. Since the onset of the crisis, the government has closed 66 insolvent banks and taken control of 12 others, while an additional four have been merged into one.²¹

Although thinning the ranks of the banking sector is a good and necessary first step, however, it does not address the fundamental problem of recapitalizing the surviving banks. For this, the government is turning to a plan to pay for 80 percent of the recapitalization of eight banks, a bailout that it is estimated will cost at least \$35 billion over the coming decade. Unfortunately, it is by no means certain that cash-poor Indonesia will be able to afford this, and the country could thus be forced back into the arms of the IMF.²²

Meaningful bankruptcy reform is also necessary to get the economy moving again. An integral part of a healthy banking system, an orderly and effi-

19. Marcus W. Brauchli, "Why the World Bank Failed to Anticipate Indonesia's Deep Crisis," *The Wall Street Journal*, July 16, 1998, p. A1.

20. *Ibid.*

21. For a detailed analysis of the restructuring of the Indonesian banking industry, see Jose Manuel Tesoro, "Not a Pretty Picture: Reformers Are Battling Powerful Special Interests to Revive the Banks," *Asiaweek*, May 7, 1999, pp. 57–60.

22. Dan Murphy, "Full Drift Ahead," *Far Eastern Economic Review*, May 13, 1999, p. 59.

cient bankruptcy procedure is imperative both to clear old debt and to attract new investors. A new bankruptcy law and commercial court were established in September 1998, but the court has been plagued by corruption, inefficiency, and a lack of understanding of modern business practices. As a result, debtors and creditors alike have been reluctant to turn to the court for relief, and the new bankruptcy law has failed to provide the anticipated jump-start for the economy.

Another vital economic reform that Indonesia needs to undertake is a reduction in barriers to trade. Attempts to develop domestic industries and concerns about food security have resulted in a jumble of restrictions on trade and foreign investment, such as a 60 percent tax on palm oil exports introduced in July 1988. These restrictions have severely undercut Indonesia's ability to take advantage of the Asian economic crisis-inspired reduction in the value of the rupiah to reap badly needed export earnings. Thus, Indonesia is denied foreign exchange earnings at the very time they are most needed.

INDONESIA'S ECONOMIC AND STRATEGIC IMPORTANCE TO THE U.S.

Indonesia is economically and strategically important to the United States. Despite severe economic hardship, Indonesia was still America's 27th-largest trading partner in 1998 (and 23rd-largest the year before). It purchased more than \$2 billion in U.S. exports, in the process supporting more than 32,600 American jobs.

Strategically, too, Indonesia is important to Southeast Asia and to U.S. interests in the region. For instance, it sits astride vital sea-lanes connecting the Pacific and Indian Oceans, through which passes 40 percent of the world's shipping, including 80 percent of Japan's oil supply and 70 percent of South Korea's. As the world's largest Muslim country, Indonesia offers an example of moderation in the Islamic world. Moreover, Indonesia has been wary of China's intentions in the region and has worked within the Association of Southeast Asian Nations (ASEAN) to convince China to modify its claims to most of the South China Sea.

Indonesia also has demonstrated its willingness to work with the U.S. to maintain peace and stability in the region by engaging in joint military exercises with American forces and providing access to repair yards in Surabaya to U.S. Navy ships.

Thus, it is clearly in the U.S. interest that Indonesia continue its evolution toward greater political and economic freedom so that it can serve as an even closer partner to help instill peace and prosperity in the region. But Indonesians have just begun their new political journey. The June 7 elections could be an important step forward, but they also could further empower forces dividing Indonesia along ethnic, religious, or provincial lines.

Since the peaceful and credible conduct of Indonesia's three momentous votes of 1999 is such an important prerequisite for Jakarta's continued political and economic growth, the United States should take several actions to support Indonesia's progress toward these goals:

- **Offer assistance to help assure that Indonesia's three major votes during 1999 are peaceful and credible, and contribute to the strengthening and consolidation of democracy.** Non-governmental organizations such as the International Foundation for Election Systems (IFES), the International Republican Institute (IRI), and the National Democratic Institute (NDI) already are playing an instrumental role in helping to ensure that the June parliamentary elections are free, fair, and conducted peacefully. Funding for these organizations' programs in Indonesia, however, is set to dwindle markedly after the June 7 elections. Few provisions have been made for follow-on programs that could assist in the potentially difficult August referendum on East Timor and the November selection of the president. If the June elections are successful, Congress should continue funding these organizations to remain on the scene, thereby increasing the likelihood that the other two elections will be successful.

These organizations also could implement badly needed educational programs to build on rudimentary Indonesian democratic skills,

teaching fundamental principles of democracy such as coalition- and consensus-building skills, the appropriate role of a parliament, how constituents can hold their representatives accountable, and how representatives can be accountable to their constituents. They also can work toward more advanced skills like the constitutional amendment process to provide a basis for addressing weighty issues, such as the creation of a direct-election presidential selection system and the eventual elimination of the military's role in politics.

- **Declare that the United States and the world will be watching the process and outcome of Indonesia's votes in 1999.** President Clinton and the Congress should publicly encourage Indonesian voters to value their newfound authority and exercise it with deliberation and restraint. To help decrease the possibility of destabilizing post-election violence, the Administration and Congress should explain that tolerance is a key democratic value. They should also warn the Indonesian military and police to conduct themselves honorably and with restraint.
- **Avoid peacekeeping commitments in East Timor.** While the Australian initiative for a United Nations-led international police force for East Timor's August referendum may help deter election-related violence, the U.S. should not support the creation of a U.N.-led peacekeeping force for East Timor if violence erupts after the August referendum. Such a peacekeeping force, which was considered briefly by Australia, would not have the full support of Jakarta and other regional capitals and should not be considered in the absence of a credible and enforceable peace agreement between the parties. Given the U.N.'s abysmal peacekeeping record, diplomatic efforts toward East Timor should focus instead on dispute resolution and reconciliation between the parties. Finally, if a peacekeeping force is inserted into East Timor, under no circumstances should it include American troops, who could be viewed by Indonesians as an unwelcome or inflammatory intrusion into their domestic political process.
- **Press Indonesia to implement badly needed economic reforms and not rely on International Monetary Fund assistance to solve its economic problems.** Despite an IMF bailout plan that has ballooned to \$50 billion, Indonesia remains mired in recession. The Clinton Administration and Congress should stress at every opportunity that Indonesia's best hope for returning to prosperity lies in the adoption of free-market economic reforms and rooting out all vestiges of corruption and inefficiency from the Suharto era. At a minimum, these reforms should include restructuring of the banking industry, amendment of the bankruptcy process to create a functioning and effective means of dealing with bad debt, and reduction of barriers to trade and international investment. Although these reforms will be painful at times, they also will reduce the likelihood of future economic catastrophe. And they will have the added benefit of placing the economic future in Indonesia's own hands and ending once and for all the need to rely on international assistance for survival.
- **Promote reforms in Indonesia's military and consider rebuilding ties with the military if it acts honorably and responsibly in all three of Indonesia's 1999 polls.** If the Indonesian military behaves positively—including the cessation of cooperation with pro-integration militias in East Timor—the United States should reinstate the International Military Education and Training (IMET) program with Indonesia. This program allows foreign military officers to study in the United States and witness firsthand the relationship between the U.S. military and civil society. Former President Suharto suspended Indonesian participation in this program in June 1997 because of U.S. congressional criticisms of human rights abuses in East Timor. After a series of peaceful and successful votes in 1999, a renewed IMET relationship with the United States could represent for the military a break with its troubled past and the beginning of a new era focused on greater professionalism, civilian control, and respect for human rights.

CONCLUSION

The peaceful and successful conduct of Indonesia's three major votes during 1999 is of paramount importance. For Indonesia, it is important because progress toward economic restructuring and democratic advancement is on hold until the uncertainty posed by these momentous votes can be resolved. For the rest of Southeast Asia, these elections are important because a renewed descent into economic and political chaos in Indonesia can have only negative and destabilizing effects on the

region, perhaps even threatening nascent regional economic recoveries now underway.

America's interests in a peaceful and prosperous Southeast Asia require that it assist Indonesia's further evolution toward democracy and free-market economics. An Indonesia restored to economic growth and progressing rapidly toward genuine democracy is in the interest of Indonesians and Americans alike.

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