



## *Schlesinger Working Group on Strategic Surprises*

Summary Report, Fall 1999, prepared by Michael P. Taylor

# *Indonesia in Transition*

### Overview

The Schlesinger Working Group on Strategic Surprises held its first two sessions in the fall of 1999, convening practitioners and area experts to discuss Indonesia immediately before and after that country's presidential selection. Participants debated the composition of the new government, the prospect of further regional separatism, and the future role of the military, and the political and social impact of the continuing financial crisis, among other issues. Many expected that the broad coalition-style government that emerged under the leadership of Abdurrahman Wahid would offer short-term stability at the expense of a decisive policy direction. The center would hold in the short term but be weakened.

Participants were not asked to reach a formal consensus, but general agreement emerged on certain key judgments and a range of possible scenarios for Indonesia's future. The chances of the more negative scenarios emerging (see below) were significant in the view of many participants.

### Short-term Outlook: Drifting Pluralism

The selection of Abdurrahman Wahid as president appears to be far from the worst outcome for Indonesia. By selecting Abdurrahman Wahid (known in Indonesia as "Gus Dur"), the country's supreme national assembly, the MPR, managed to avoid both a prolongation of interim president B.J. Habibie's erratic style and the somewhat

dubious leadership credentials of Megawati Sukarnoputri. Other contenders enjoyed far less national stature than Wahid, a popular leader seen—rightly—as personally above the corruption so characteristic of political life during the Suharto era. Moreover, Wahid's credentials as a defender of democratic pluralism and minority rights were well established during the Suharto era. Wahid displayed remarkable political skills in winning the nomination, skills that will remain important if he is to navigate the many obstacles facing his presidency. Opinions differed widely on the odds of Gus Dur having the physical and political capacity to serve a full 5-year term, but his predisposition toward inclusive politics and his openness to new ideas are clear strengths.

At the same time, however, the current situation should not be viewed through the lens of the old regime: Wahid is not a "new Suharto," and his skills at isolating opponents and building a new patronage system will not, and should not, become primary determinants of Indonesia's future. Wahid comes to power at a time when genuine changes have been made to the Indonesian political system; he will operate within a more decentralized system that has been altered in significant respects from the past three decades, when both the military and, in the last decade especially, the Suharto family so dominated the country. After the upheavals of the past two years, the Working Group saw risks in too combative a partisan political arena in Jakarta. The five dominant political parties contesting the June 1999 parliamentary

The Institute for the Study of Diplomacy of Georgetown University launched the Schlesinger Working Group on Strategic Surprises in 1999. This initiative is based on a multi-year Working Group with a mandate to review and assess a range of possible scenarios that contain significant potential for strategic surprises and for unanticipated outcomes. The Working Group consists of some 20 standing "core members," who are joined by a half dozen or more specialists invited on a case by case basis.

elections must subordinate tactical competitive instincts and participate in a pluralist government.

The five major parties, in order of their share of parliamentary seats, are Megawati Soekarnoputri's secular nationalist Indonesian Democracy Party-Struggle, or PDI-P, which appeals to non-politicized Muslims in Java and religious minorities in Java and elsewhere; the former ruling party Golongan Karya, or Golkar, which has important residual appeal in small districts and among Indonesia's powerful public sector employees; Abdurrahman Wahid's own National Awakening Party, or PKB, which rests on his large (30+ million followers) Nadhlatul Ulama mass Muslim organization; the once mild, Suharto-era Islamic party with the bland name Unity Development Party, or PPP, which now has raised its level of Islamic piety and appeal, and finally U.S.-educated Amien Rais' National Mandate Party, or PAN, which rests on its leader's influence in Indonesia's second largest mass Muslim organization (with about 24 million members), the Muhammadiyah).

In this environment, the Indonesian armed forces (known by the acronym TNI) continues to exert a disproportionate influence if measured solely by the number of seats (38) reserved to the military in the national parliament, the DPR. The ideology justifying the TNI's special place in the country is known as *'dwifungsi'* or 'dual function'. This ideology has been weakened, but the military's voice in Wahid's government will continue to be heard. The new president has brought four flag officers into his cabinet, including rivals to Gen. Wiranto, the longtime Suharto associate that the former president handpicked as armed forces commander in 1997. Alert to U.S. and other foreign pressure, those crafting Indonesia's unwieldy (36 members) new cabinet kept overt TNI influence to a minimum, but Wahid will spend a lot of time seeking to keep Wiranto and other recalcitrant generals on the back foot. (This tense stand off between Indonesia's President and the Minister for political and security affairs continued during and after Wahid's lengthy overseas travel right up to the time this report went to press)

However Wahid conducts his responsibilities, the coalition over which he presides will succeed or fail in an atmosphere of

continuing transition away from the Suharto era. But both the durability and effectiveness of inter-party cooperation may not be great, as Indonesia has neither the democratic experience nor the governing institutions in place to manage multi-party government. Nor do early signs point to much effective cooperation between Wahid and his vice president, the daughter of the country's first president Soekarno (Megawati also feels she had the strongest claim to the presidency on the basis of the 34% vote he party tallied in the June 1999 elections.) Thus, the central government may remain weak, to the extent that it fails to preserve its legitimacy, is indecisive, or does not remain unified.

The new government's most immediate challenge lies in regional unrest in East Timor, Ambon, Aceh, Irian Jaya, and other islands where internal migration patterns during the Suharto years created many latent tensions. But Wahid's coalition will also come under other strains, including

- issues of politicized religious piety colliding with the country's still strong secular nationalist traditions;
- ethnic and regional pressures, ranging from the outright insurgent separatism of Aceh or Irian Jaya to moves by provinces and regencies to commandeer more hitherto central government funds;
- irresponsible party politics, ranging from backroom competition for advantage within and between coalition parties to open political clashes in parliament;
- self-aggrandizement by people in power, whether individual rent-seeking and competition for personal enrichment or institutional pressure to retain the status quo from the armed forces or powerful state enterprises such as the state owned oil and gas monopoly Pertamina.

If the full weight of these challenges falls on unsteady governance, the brief period of euphoria for the new government may rapidly evaporate. A partially blind Muslim cleric with a history of poor health, Wahid

has instincts that served him well during the Suharto era. Whether his close circle of advisers can keep him one or two steps ahead of those conspiring to obstruct him in his new role as president is another matter. If he cannot retain the initiative, Indonesia can expect more years of stagnation and drift, the effects of which will fall overwhelmingly on the Indonesians themselves but may also affect the regional security and economic climate.

### Critical Uncertainties

Several key factors will be critical in shaping Indonesia's medium- to long-term future. The development of these variables will go a long way in determining which scenario comes about.

The first of these critical uncertainties is the **durability and cohesion of governmental institutions**. For the most part, Indonesia lacks effective governance structures. In the 1950–57 parliamentary era that is often pointed to as a precedent for the current government, this institutional shortcoming was due to the newness of independence and the stunted inheritance from an authoritarian colonial state. The institutions are older now, but atrophied during the Suharto era when the former president and the armed forces served as the primary forces of cohesion. A more normal set of institutions—for example, a parliament that makes real decisions and courts expected to uphold the law—will begin to develop, but it is unclear how quickly these will advance.

The second critical uncertainty is **the role and mindset of the military**. The election of Wahid marked another milestone in the decline of the TNI's political power—it had little influence over the outcome. The Indonesian army (by far the TNI's most influential element) has problems of competence (many observers view its officer corps as tired and corrupt) and problems of mind set (the TNI may resort to military solutions for economic or political problems). It also has the potential to create a crisis by acting incompetently and creating a problem it cannot control (as appears to have happened in East Timor and in Aceh). In general, the TNI also retains the power to undercut the effectiveness and therefore the legitimacy of the civilian-led govern-

ment in Jakarta. But within the military leadership, both a broadly Western-style “professional group” as well as a “waiting-my-turn” group exist. Both have political and financial ambitions. The underlying cohesion of the military remains a vital question, as do its future political, economic and social roles.

What lessons the TNI takes from the East Timor debacle will be important in this regard. Will its interpretation be that military solutions to separatist problems don't work? Or will it conclude that the “loss” of East Timor is what the country can expect whenever the civilian politicians take charge? Similarly, what conclusions the West takes from East Timor will also shape foreign views of the Indonesian military, an important consideration given the need for Western constituencies to continue to back bilateral and multilateral financial support for Indonesia. Will the West conclude that East Timor's crisis resulted from a deliberate plan by the military and/or Gen. Wiranto, to allow or encourage the militias to run amok? Or did the dissolution of public order display incompetence by local officials, whom Wiranto chose not to discipline, not wanting to stake his entire career and credibility on East Timor? The reaction from Washington will be important to watch, as some in the Working Group felt we have limited our understanding of the Indonesian military by severing training contacts.

Aceh is an early testing ground for civil-military relations. First, in order to defuse Acehese calls for independence, Wahid has at least gone through the motions of investigating and punishing some of the military officers responsible for human rights violations committed in recent years. Second, the military's supreme objective in preserving national unity will make it even more imperative for Wahid not to spark a process that leads to the independence of Aceh.

A third critical uncertainty is **the ability of the leading political figures to work together and effectively govern**. With a protracted transition period finally behind them and with obvious challenges ahead, Indonesians expect a great deal from the Wahid government. Issues like preserving national unity, restarting economic growth, instituting the rule of law and eradicating corruption, professionalizing the military,

and accommodating demands for justice for past human rights abuses, are all on the agenda. Wahid's cabinet is inclusive but inexperienced, especially in economic management; policy coordination may well become an increasing problem. Additionally, important political elements which cooperated during the election process—such as the Muslim community which united behind Wahid—may again go their separate ways. Finally, if the economic reform process becomes overly politicized, international capital flows may continue to stay away. All of this would combine to make it very difficult for the Wahid government to deliver on its goals. His honeymoon will only last so long.

A final critical uncertainty is **the role external actors might play**. A number of interested parties could have an impact on developments in Indonesia. China already watches its populous neighbor to the southeast with a wary eye. The economic impact of the Sino-Indonesian middle class—which controls a large section of the Indonesian economy—will expand as the state erodes, perhaps giving China even more incentive to monitor Indonesian events. Indonesia's strategic thinkers believe that China sees advantages in a weak, decentralized or even fragmenting Indonesia. The United States and its allies are also an unpredictable element. A refugee/humanitarian crisis, ethnic conflict, or natural disaster could again draw us in. We could easily exacerbate the evolving situation by raising the stakes on local disputes and adopting postures that complicate the task facing Indonesian leaders. Malaysia has Acehese ties, but is unlikely to intervene due to the possibility of the break-up scenario. The international financial institutions are important actors as well. What will lending look like now that Habibie is gone? Finally, other Muslim countries could search for synergies with the world's largest Muslim country in order to increase their own strategic weight. Even if symbolic, this would be particularly important for the Muslim-secular balance within Indonesia.

#### Possible Medium to Longer-term Outcomes

Based on how the critical uncertainties listed above develop during the period of

drifting pluralism, a number of scenarios are possible for Indonesia. Each scenario has at its core a particular direction for one of the uncertain elements.

#### Deterioration

More of the same drifting pluralism. As year after year of ineffective governance piles up, Indonesia becomes stuck in a rut of underdevelopment. Inefficient institutions ossify and economic growth remains low—if it occurs at all. The vacuum at the center continues unchecked, leaving the door open to separatist challenges and socioeconomic strains.

#### Secessionist Conflict

Indonesia violently tears apart as separatist regions pull away from the center. The leadership in Jakarta is unable to create a positive sense of Indonesian nationalism, and the existing parties cannot accommodate the concerns of the outer islands. Economic issues are a fault line as recovery from the Asian financial crisis is slow. Resource-rich Aceh and Irian Jaya have long been bitter at the transfer of nearly all locally generated resources to central coffers in Jakarta. They also resent subsidy policies designed to benefit Java.

Indonesia's dialogue with the West is dominated by the transition to independence in East Timor. Jakarta resents what it sees as Western efforts to inflame tensions elsewhere in the country. The military becomes weak and demoralized as it takes the brunt of the blame for East Timor, an action which Western governments interpreted as a deliberate plan by the armed forces. Attempts to restore law and order in Aceh push low-level separatist violence to a high boil, eventually leading to de facto or formal secession. East Timor's independence nominally comes first but does not strike as closely at the heart of Indonesia, and it is Aceh that becomes the first vital domino in a series of similar independence movements. The Southeast Asian region is destabilized as the violence threatens to spread and draw in even more countries.

#### Military Crackdown

After a period of weak and ineffective civilian government, the armed forces step in and seize control to maintain the territorial integrity of the country. Popular uprisings

are eventually put down, and Indonesia becomes a pariah state similar in nature to a giant Burma.

### Democratic Evolution

Indonesia is transformed by its experience with post-Suharto democracy and steadily advances along its governance learning curve. Legitimate institutions gradually develop and take hold, providing a framework for managing political tensions. Real constitutional change in the form of political devolution and improved revenue sharing quiets the restive regions. The military becomes more accountable and accepts its reduced role. Economic growth returns.

### Regional Consequences of the Secessionist Conflict Scenario

Indonesia's neighbors are terrified at the prospect of a disintegrating Indonesia, a fear exacerbated by recent developments in Aceh. An independent, resource-rich, staunchly Muslim state of Aceh would change the political dynamics of Southeast Asia. Singapore, to its discomfort, would gain a third Muslim-majority neighbor. Discontented Muslims in the south of Thailand and the Philippines would gain a potential ally in Banda Aceh, the provincial capital. The most serious impact would be on Malaysia, itself home to a sizeable Acehnese population. The emergence of an independent Aceh would likely be a boon for the opposition Partai Agama Islam (PAS), much to the distress of Prime Minister Mahathir. In the short run, the perception in Jakarta that Malaysia-based groups are financially supporting the Aceh independence movement will be an irritant in Kuala Lumpur-Jakarta ties.

ASEAN—already weakened as an organization by its expansion and its impotence during the Asian financial crisis—would be put under further strain by serious conflict in Indonesia. Its nascent doctrine of flexible engagement is unlikely to have much of an impact on an Acehnese secession. Without a strong and stable Indonesia at its core, ASEAN's economic integration initiatives would come to a halt, and it might cease to be a viable grouping. A weakening of ASEAN, in turn, would relatively strengthen China's position in the region, and might

encourage the type of Chinese adventurism that some in Jakarta fear.

The U.S.-Indonesia bilateral relationship is in reasonably good shape although sub-surface strains are evident, notably over the IMF's dominating role since the financial crisis erupted in 1997. Western "heavy-handedness" over East Timor also rankles both nationalists and politicized Muslims. Still, Indonesia is now embarked on a path that is largely consonant with U.S. goals and values. The task for U.S. policymakers will be to help Wahid and Indonesia's democratically-elected government succeed without crossing the line into intervention and interference. Members of the Working Group voiced a range of views on the use of and terms for U.S. conditionality in the bilateral relationship, but there was broad support for nuanced engagement and awareness of the risks of adverse reactions and backlash if Washington operated heavy-handedly. Some members voiced concern that it would be difficult for Washington to avoid predictably shrill and excessive responses in the event of significant regional or ethnic violence. The risk was identified as local activists seeking to provoke exactly such a chain of events.

### Policy Recommendations

U.S. policy toward Indonesia should not be "Timor-ized." Congress, in particular, tends to view Indonesia through an East Timor lens, due in part to the vocal interest of Catholic and Portuguese-American groups. Human rights concerns for the Timorese will certainly be important aspects of American policy, but they should not be allowed to dominate our relationship with a budding democracy of over 200 million people. Additionally, a narrow focus on East Timor or Aceh risks turning these regions into Kosovo-like hot spots that pits the U.S. against the country at large despite our wider interests.

On the problem of separatism, it is clearly not in the U.S. national interest to see Indonesia disintegrate. The U.S. has been right to assert that it does not wish to see the East Timor experience repeated across the Indonesia archipelago, and that it respects the territorial integrity of Indonesia. This point should be repeated more forcefully and more often.

U.S. policy toward Aceh should be one of “follow events closely but don’t get directly involved.” The Aceh region is far too sensitive and tricky for reckless American policy initiatives. We should be wary of a role of external mediator, for example; President Wahid is the best internal mediator, and we shouldn’t usurp his authority. A more plausible U.S. role would be as an external coordinator, bringing a focus to the countries with an interest in Aceh’s stability (subsequent U.S. and European-based initiatives appear to generally respect these caveats).

On the problem of civil–military relations, the U.S. belief that the Indonesian military should be under full civilian control is well-known. This is a long-term objective shared by many Indonesian leaders as well, including President Wahid. The pace and content of this transition should be left to Indonesia’s democratically elected government to decide.

The U.S. should be thinking of ways to re-engage with the Indonesian military, given the delicate political transition underway and the military’s continued capacity to cause mischief. The IMET program would seem to be a suitable program to begin the re-engagement process, given its stress on developing healthy civil–military relations. In addition, the U.S. might consider assisting Indonesia in strengthening its navy, a less corrupt and politicized service.

As for the problem of restarting economic growth, the U.S. will have ample opportunity to help, given the long list of areas in which Indonesia needs help; for starters, getting IMF and World Bank programs back on track. The U.S. should push the various international financial institutions (IFIs) to support Indonesia. The dispatch of U.S. Treasury-led teams to assist Indonesia’s economic planners at the end of 1999 was a good start.

Beyond that, Indonesia needs *time*. It cannot sort out the enormous and intertwined banking / debt / investment / confidence problems overnight. In particular, Indonesia’s frozen independent power producer (IPP) contracts, most of which concern power supplies from East Java, remains a major problem. Some of the disputed electricity contracts carry OPIC insurance and have U.S. Eximbank funding. The World Bank’s Multilateral Investment Guarantee Agency (MIGA) also has contingent liabilities. The United States should be careful in allowing OPIC and/or the Eximbank to impose the statutory penalties called for in cases of default.

Furthermore, the U.S. should give careful consideration to Indonesia’s request to delay debt payments, which will soon exceed the country’s entire gross domestic product. As Indonesia moves forward with new issues of financial-sector recapitalization bonds (for a total cost equivalent to some 40–50% of GDP), the public sector debt will grow larger still. Indonesia will need speedy action from the Paris Club to restructure more of its public sector debt. Finally, allocating to Indonesia more funds under the Asian Growth and Recovery Initiative (AGRI), a program launched by President Clinton and Prime Minister Obuchi a year ago.

In conclusion, members of the Working Group believe that this is a time for carefully calibrated engagement, avoidance of intrusive interventionism, and sustained and patient support of programs of economic partnership, civil society building and military training keyed to mutually agreed milestones. Above all, the U.S. should give Indonesians the space and time to heal recent wounds and define their own approach toward political and economic modernization.

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The Institute for the Study of Diplomacy (ISD), founded in 1978, is part of Georgetown University's Edmund A. Walsh School of Foreign Service and is the School's primary window on the world of the foreign affairs practitioner.

ISD studies the practitioner's craft: how diplomats and other foreign affairs professionals succeed and the lessons to be learned from their successes and failures. Institute programs focus particular attention on the foreign policy process: how decisions are made and implemented.

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The Institute's immediate constituency is Georgetown students. ISD staff and associates teach courses, organize lectures and discussions, mentor students, and participate on university committees. ISD's larger constituency is the broader academic and policy community. The Institute reaches this group through its conferences, working groups, publications, and research activities.