his title. Then, in March 1966, Sukarno tried to exercise his presidential prerogative to form a new Cabinet. Army paratroopers surrounded his palace and forced him to flee the capital. Thereafter, his orders were ignored.

In March 1967, just 46 months after Sukarno had assumed the title of "President for Life," Suharto appointed himself Acting President, and put Sukarno under strict house arrest. Finally, one year later, Suharto took on the full title of President. The new military regime now looked to Japan and the West for political support and for economic aid. Indonesia, dazed and shaken, was firmly in the Army's grip.

NO MIRACLE, NO MIRAGE

by Donald K. Emmerson

Is Indonesia winning its war on poverty?

A Chemical Bank report is optimistic: A bumper rice crop, buoyant oil prices, a construction boom, natural gas sales, and increased manufacturing combined to lift GNP by 9.5 percent in 1980—the country's highest growth rate in seven years. The bank predicts another strong performance in 1981.

A World Bank report is somber: "Life expectancy at birth—48 years—remains very low by international standards. About 600,000 infants less than one year old die annually. Almost 30 million people aged 15 and over remain illiterate. Daily wages in many parts of Indonesia are less than $1."

Indonesia Handbook, an Australian travel guide, is unflattering: "Oil-king generals earn $100 a month, then blow $50,000 on a daughter's wedding. You can buy the captaincy of a ship ($1,200) or [pay] to send off a letter extra-fast at the post office (25¢). You must even pay the teacher in order that your child graduate from the 4th to the 5th grade."

Diverse views reflect diverse realities. Indonesia must be credited with impressive gains in overall economic growth since 1965. Yet poverty remains widespread, and corruption seems to have grown along with the economy. This contradiction is rooted in the history of Indonesia's "New Order."

In 1966 and 1967, Indonesia's new military rulers rejected Sukarno's romantic nationalism in favor of development through trade with and aid from the major capitalist nations. Sukarno's successor, General Suharto, made "development" the goal of his New Order of "political and economic stability." The Army undertook to ensure political order, while a newly influential group of Indonesian technocrats was charged with reversing Indonesia's economic decline.

Led by Berkeley-educated Widojojo Nitisastro, who told the *New York Times* that he wanted to make Indonesia a "test case" of the free enterprise system, the 7 Western-trained economists and 5 generals in Suharto's 18-man "Development Cabinet" set out to balance the budget, stabilize the currency, reschedule Indonesia's foreign debts, and attract foreign investment. As one of those technocrats later recalled, "In 1967, everything and everyone was welcome. The first major company [Freeport Sulphur] virtually wrote its own ticket."

Suharto's anti-communist triumph in Southeast Asia's most populous nation and his inclination to follow the Western path pleased Washington, then waging an inconclusive anti-communist war in nearby Indochina. In 1966 and 1967, Indonesia rejoined the United Nations, the International Monetary Fund (IMF), and the World Bank. In response, a consortium of industrial democracies called the Intergovernmental Group on Indonesia* granted Indonesia $200 million in emergency aid.

During 1968, on his first overseas trip as president of the World Bank, Robert McNamara visited Indonesia and announced that his organization would set up a permanent mission in Jakarta, a move unprecedented in the bank's operations. Enjoying special powers (such as direct access to McNamara) that, according to one bank officer, "exceeded those of

*Current members: Indonesia, the United States, Japan, the Netherlands, West Germany, France, Belgium, Italy, Switzerland, Austria, Britain, Australia, New Zealand, and Canada. Denmark and Norway are observers.

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KRAKATAU AND CORRUPTION

Named after the Krakatau volcano, whose sky-darkening 1883 eruption was one of the most powerful on record, the Krakatau steel mill and its checkered history illustrate many of the pitfalls of economic uplift in Indonesia—and the rest of the Third World.

In the late 1950s, the Soviet Union, then courting Sukarno, agreed to build a prestigious steel mill for Indonesia, just as it had done for Algeria, India, and China. Construction got underway in 1963 but was halted three years later, after Sukarno was ousted and the Russian technicians were invited to leave the country. The half-completed structure rusted until 1970, when the Indonesian government formed the Krakatau Steel Co. and married it to Pertamina, the prospering state-owned oil company. Pertamina soon signed contracts with a number of West German firms: Ferrostaal agreed to build the smelter; Siemens the power station; and Kloeckner the other sections.

But in January 1975, it came to light that Pertamina had borrowed over $10 billion from Western banks—a debt eight times the total of Indonesia's foreign reserves. Investigators later found that the director of Krakatau had built himself a $1 million home and that the contracts with the German firms were unusually expensive: The fee to Siemens, for example, was said to be triple the normal cost per kilowatt of capacity.

The scandal lives on today in the courts of Singapore, where Pertamina's attorneys are sparring with the widow of Haji Achmad Thahir, once a senior Pertamina official, over $35 million of the dead man's fortune, acquired on an annual salary of $9,000. Mrs. Thahir does not deny that much of the $35 million (which now sits in a Singapore bank) came from enormous kickbacks on Krakatau contracts. But she testifies that her husband did nothing unusual. Even President Suharto, she claims, has received commissions on arms deals with West Germany and Israel.

The story of the still-unfinished Krakatau steel mill indicates the scale of corruption in Indonesia, supposedly one of the most graft-ridden countries in the world. According to a recurring but unverifiable estimate, 30 percent of the national income goes to "leakage." Bribery and abuse of office go back to the early days of Dutch colonialism, when unsalaried Dutch East India Company officials paid the company an "office charge" for the privilege of squeezing the locals.

Today, say some of Suharto's critics, political corruption has enabled generals, top bureaucrats, and their associates to monopolize entire sectors of the economy. Suharto's wife, for example, is rumored to control the importation of cloves, which are rolled into the tobacco of Indonesian cigarettes. "You either get somebody in power associated with your company," one foreign businessman told the *Asian Wall Street Journal,* "or they wipe you out."

any other of the Bank's resident missions before or since," and sharing officers with BAPPENAS, Suharto's development planning agency, the World Bank mission could directly influence Indonesia's development policies. The bank's first loan to Indonesia: $5 million in 1968 to dredge and rebuild silted irrigation canals.

Confounding the "Berkeley Mafia"

While the World Bank was dispensing loans, Pertamina, the state-owned oil company, was issuing exploration contracts to Western oil companies. In 1970, one of those firms discovered Indonesia's first offshore oil field. In May 1971, more oil was located in Sumatra; in September, the Java Sea offshore field began producing; in October, the Union Oil Company struck even more oil off the east coast of Kalimantan.

One year later, the IMF reported that Indonesia, thanks to oil exports, had run up a trade surplus of $500 million.

In aggregate economic terms, Suharto had scored an impressive success. Between 1965 and 1968, the government's budget deficit had been cut from the equivalent of 64 percent of expenditures to zero, and the inflation rate brought down from 600 percent to 10 percent. The nation's politics had been stabilized and its ability to export natural resources revived.* For achieving political stability and economic growth so soon after replacing a regime that had accomplished neither, the New Order was credited with what Rand Corporation analyst Guy Pauker, writing in 1973, called an "economic and political miracle."

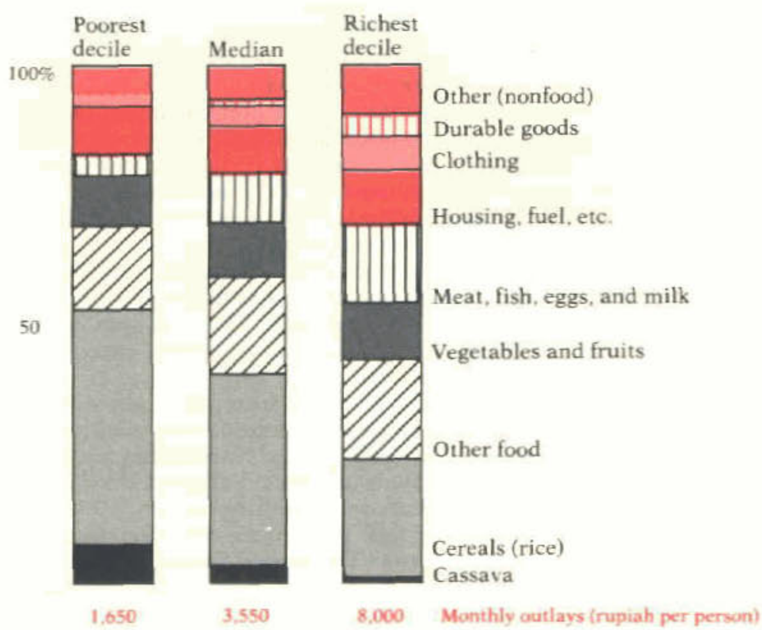
But economic growth was narrowly based on the export of raw materials—mostly oil and timber. And the results of the First Five Year Plan, which came to an end in 1973–74, were respectable but not miraculous. The increase in rice production was less than half the planned 47 percent, although most other targets were attained. With this success under their belts, the technocrats—by this point dubbed the "Berkeley Mafia" because of their American degrees—produced the Second Five Year Plan.

Certain actions taken by the Organization of Petroleum Exporting Countries soon made the new plan irrelevant. In July 1973, Indonesia sold a barrel of its crude oil for $4.72. By November of that year, the price was $6, and eight months later,

*Political stabilization came at a price. In 1965 and 1966, hundreds of thousands of suspected leftists were killed or imprisoned without trial; many were held until 1979. Even today, criticizing Suharto means risking arrest. Democratic rights, he once said, are like spices: "Used excessively, they spoil everything."

INDONESIA COMPARED: GNP PER PERSON, 1950–77

HOW INDONESIANS SPENT THEIR MONEY, 1976



Note: In 1976, U.S. $1 = 415 rupiah.

Source: International Bank for Reconstruction and Development, 1980 (top) and 1976 (bottom).

THE OBSCURE TRAGEDY OF TIMOR

In April 1974, a group of young Army officers toppled the right-wing government that had ruled Portugal since 1926. The new regime in Lisbon soon told the people of Portugal's colonies of Angola, Mozambique, and East Timor (as something of an afterthought) to prepare for independence.

Lost in the backwaters of the Indonesian archipelago, Portuguese Timor was populated by subsistence farmers, 90 percent of them illiterate. Poor in natural resources, it had remained a colony of Lisbon from the 16th century until the 1970s for one reason: No one else wanted the place. And when Portugal no longer wanted it, the trouble began.

In August 1975, a group of Timorese seeking continued links to Portugal attempted a coup. They seized the small airport, the radio station, and police headquarters in Dili, the capital. But many of the Timorese in the local Portuguese Army garrison went over to *Fretilin,* a leftist pro-independence party then led by Francisco Xavier do Amaral, a former customs official. Fretilin soon launched a counterattack, and by mid-September it controlled most of the colony. Alarmed by the prospect of "a Cuba on the doorstep," the Indonesian government sent arms to Fretilin's foes, now organized as the *Movimento Anti-Communista*—a coalition group that, unsurprisingly, favored incorporation of Timor into Indonesia. On November 28, 1975, Fretilin declared Timor independent.

Indonesia's rulers responded with a naval bombardment of Dili, followed by a 10,000-man invasion. Indonesian troops shot suspected Fretilin sympathizers and herded the rest of the population into resettlement camps. There, thousands suffered from tuberculosis, malaria, and malnutrition. In mid-1976, Indonesia officially annexed Portuguese Timor but kept out all foreigners.

By September 1979, when foreign relief agencies were finally allowed to enter Timor, between one-tenth and one-half of its estimated 1975 population of 650,000 had died. The situation of the 240,000 people still in the camps was "as bad as Biafra," according to an International Red Cross official.

Fretilin, now consisting of a few hundred insurgents, showed unexpected tenacity; its guerrillas harassed Indonesian installations as late as mid-1980. And for five years, the United Nations has annually voted to condemn Indonesian actions in Timor. Yet it is unlikely that the Suharto regime will be pressured into pulling out. In 1975, Secretary of State Henry Kissinger told the American Ambassador in Jakarta to downplay the Timor issue. The United States, he said, had "enough problems of greater importance" elsewhere. That comment was, and is, true of almost every government in the world—and it may serve as a kind of epitaph for East Timor.

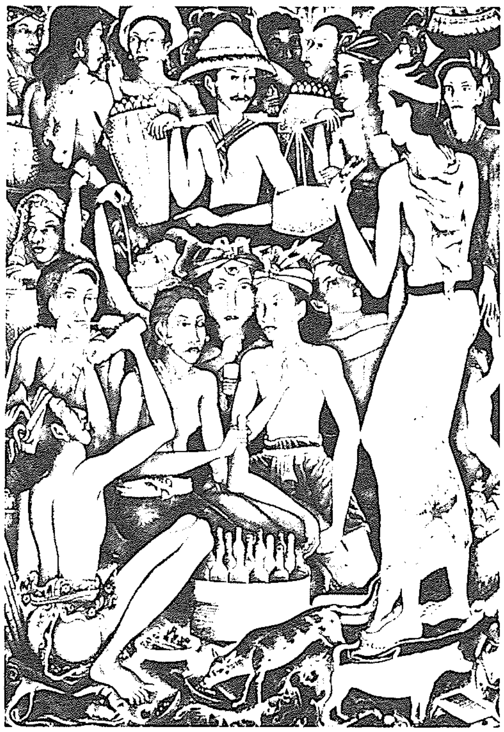
$12.60. (As of early 1981, the price ranged from $33 to $38.) In 1966, when Suharto's economists began to draw up their frugal plans for stabilization, oil accounted for 5 percent of Indonesian government revenues. During 1974, when the Second Five Year Plan was introduced, the percentage shot up to 55 percent. Yet Indonesia's petroleum proved to be a mixed blessing. Although the rising value of oil enlarged Indonesia's foreign exchange holdings, it also pushed up the prices of imports, including petroleum-based fertilizer. The government was hard put to spend its earnings on development without enlarging the domestic money supply and so spurring inflation.

Soldiers Sell Volkswagens

The oil bonanza also encouraged some Indonesians to question the technocrats' careful planning. One such doubter was the man in charge of Indonesia's oil, General Ibnu Sutowo, the director of Pertamina and, not coincidentally, owner of the only Rolls Royce in the Indonesian archipelago. Sutowo thought the technocrats' idea of incremental development was far too cautious. He operated beyond their reach, signing contracts with foreign firms and taking out unreported loans from foreign banks. As the U.S. House of Representatives' Subcommittee on Foreign Assistance later charged, Suharto's regime tended to agree "in principle" to focus on rural development and the creation of jobs; but then its leaders would quietly commit themselves to "costly, capital-intensive projects"—schemes such as the Krakatau steel plant in Cilegon, Java, now scheduled for completion in 1983.

General Sutowo, who liked to think big and spend bigger, was a prime mover behind such projects. Using his company's funds—he once told *Time* magazine that "Pertamina and Sutowo are very difficult to separate from each other"—he invested in motels, monuments, mosques, hospitals, Southeast Asia's largest helicopter fleet, and giant oil tankers at top-of-the-market prices.

Late in 1974, when Pertamina ranked 118 on the *Fortune* list of top corporations outside the United States, a worldwide recession and a fast climb in foreign banks' interest rates caught Sutowo by surprise. As newspapermen Seth Lipsky and Raphael Pura later explained in *Foreign Affairs*, "Pertamina was a bubble. Much of its debt was to fund projects that would take far longer to build than the loans would run." (There is reason to believe that the Japanese, European, and American bankers who made those loans were betting that Tokyo and Washington



Market *(1954) by Balinese artist I.B.M. Nadera. Much of Indonesia's commerce still centers around such open-air markets, featuring everything from patent medicines to single cigarettes.*

Photo by Frank Bodmer.

would not allow a nation as strategically located and resource-rich as Indonesia to go bankrupt.) It was a $10.5 billion bubble —four times the foreign debt run up by Sukarno—and its creation infuriated the technocrats. They were happy to see Pertamina stripped of its nonoil holdings and then to see Sutowo separated from Pertamina.

But Sutowo was replaced by another general, not an economist. Even today, citing their theory of *dwi fungsi* ("dual function"), which holds that the armed forces have a duty to develop as well as defend the nation, the military combines public duties with private profit. Thus, General Sofjar was already chairman of the Indonesian Chamber of Commerce when he became head of the Army Strategic Command, which reportedly holds partial ownership of the Volkswagen distributorship in Indonesia, as well as interests in a bank, logging, and Mandala Airlines. This last enterprise puts the Strategic Command in competition with the Air Force, whose C-130 cargo planes sometimes carry civilian passengers for a fee. The Navy, for its part, is said to be involved in commercial shipping, and the police supposedly engage in logging. (Timber is second only to petroleum as an export commodity.) Some of the profits from these ventures go to running the military. To foot the bill for its 1975 invasion of Timor, the Army took over a number of East Timorese coffee plantations, from which it reportedly raised about $20 million. More generally, the Indonesian government's 1981 defense budget of $2.1 billion is widely reckoned to cover only 30 to 50 percent of the real needs of the 240,000-man armed forces. Profits from the military's corporations make up the shortfall.

Neither China nor Nigeria

Partly because of the economic power of Indonesia's military elite, partly because of high-level corruption, and partly because of the technocrat's own development strategy, the distribution of wealth is becoming increasingly imbalanced. The cities are getting more of it than the rural areas. Within the cities, the disparity between rich and poor has increased. In the countryside, where the great majority of the Indonesian population lives, the real income of the poorest people may even have declined over the last 10 years. Indonesia is not subject to the desperate poverty found in Haiti, India, and sub-Sahara Africa, but on a typical day in Java in 1976, 17.2 million people could earn about enough to buy only a pound of rice—with nothing left over for shelter, clothing, or additional food.*

The more Indonesia's population grows, of course, the scarcer farm land becomes, especially in Java. One-third to one-half of peasants on that island are without land. (Most of those who do possess land don't have much. The problem of rural reform on Java is not to break up large holdings but to provide the landless with nonagricultural employment.) Underemployment is chronic, and "shared poverty" the rule: In one fishing village in East Java, for example, one worker wakes the fishermen, while others only guard or clean the boat, thus gaining shares in the catch without even going to sea. In 1974, the Federation of Indonesian Labor claimed that out of the 44 million – strong labor force, only 12 million workers were fully employed. These are the realities concealed in the statistics showing a growth in

*The production of rice has increased faster than the population it must feed, but economic growth has increased demand even faster. A poor family that earns a little extra income is likely to spend it making home improvements or eating less cassava and more rice. The government is unwilling to risk riots by allowing scarcity to reduce demand. So, in the 1970s, despite real achievements in output using the high-yielding varieties collectively known as "miracle rice," Indonesia became the world's largest importer of rice, buying some 2 million metric tons per year. The rice revolution also played favorites: Only the wealthier farmers could afford pesticides to keep insects from stripping the crop.

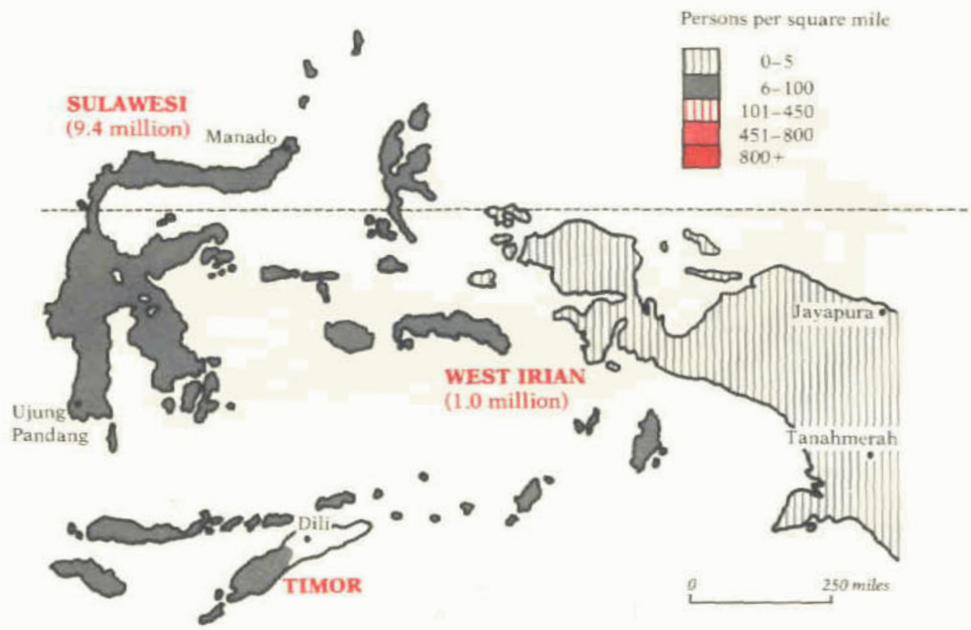
INDONESIA'S POPULATION: IMBALANCE AND OVERCROWDING

Indonesia's total population in 1976 was 130 million.
All figures are approximate. Information on East Timor not available.
Numbers in parentheses indicate the populations of principal islands only.

per capita income from \$160 in 1966 to \$360 in 1978.*

Maldistribution of jobs and income did not "just happen." It was the direct result of the New Order's philosophy. During the late 1960s, Suharto's technocrats conceived of development as the fruit of "top-down growth." They gambled on the strong (who by the end of the Sukarno era were relatively weak), and the bet paid off. Stabilization and rehabilitation spurred production, and the economy was revived. But as the economy stabilized, the strong grew stronger—as did their interest in stabilizing inequality. Accustomed to promoting growth in general, the technocrats were ill-equipped to redirect its benefits downward to landless laborers in the villages.

*Even this 1978 figure may be over-optimistic, for it appears to be based on an underestimation of Indonesia's population.



Source: International Bank for Reconstruction and Development, from 1976 population survey.

Even so, one might ask, does not Indonesia's successful effort to generate growth affirm the superiority of the market mechanism?

No. Suharto's New Order is no more a showcase of free-enterprise capitalism than Sukarno's Guided Democracy was a test of socialism. Indonesia remains Indonesia. For all the technocrats' willingness to deregulate, the state now penetrates the economy more than ever before. At the top, interlocking directorates, formal and informal, link generals and bureaucrats to ethnic Chinese financiers and foreign investors in big businesses such as oil, shipping, and construction. At the bottom, many a district chief tries to siphon off what he can. The New Order's success in bringing about overall economic growth results less from its strategy than from oil revenues, and its failure to distribute more equally the ensuing wealth is explained as much

Published in 1980 by dissident Indonesian students, this cartoon shows Suharto using "HPH" (the official forestry licensing system) to carve up Indonesia for ethnic Chinese and foreign businessmen.

by the authoritarian political system as by its decidedly mixed economic model.

Yet Japan and the West remain strongly committed to Suharto's regime. As of 1980, Indonesia was the World Bank's third largest borrower (with $2.6 billion), behind only Brazil and Mexico. And in fiscal year 1980, only Israel, Egypt, Turkey, and Pakistan received more American aid than Indonesia, which got $231 million. Nor was Washington being sentimental: By 1980, Indonesia accounted for 6 percent of all U.S. crude oil imports.

Energy-short Japan has an even greater stake in the New Order. In 1980, when Indonesia was the world's ninth-largest oil exporter, and when oil and gas made up over half of its exports, Japan bought over half the petroleum Indonesia sent abroad. (Indeed, in 1979, more than half of *all* Indonesian foreign trade was with Japan.)

Indonesians are ambivalent about this dependence on Tokyo and Washington. In a nationwide poll conducted last year by the Jakarta newsweekly *Tempo*, nearly three-fourths of the people asked said they were better off financially in 1980 than they had been when Suharto came to power. But many seemed to think they were better off despite, not because of, the government's pursuit of foreign investment. Forty-six percent of those asked believed foreign businessmen had helped the economy; 35 percent felt they had not.

But a popular uprising is hardly imminent. Indonesia today is not China in 1949. Nor is it Nigeria in 1979, because the New Order seems unlikely to civilianize and democratize itself. So Indonesia will remain a military autocracy: Suharto may be toppled by a coup, but if so, his replacement will probably come from the Army.

The population's acquiescence is not solely a matter of fear. "Trickle-down growth" has reached and co-opted many of the New Order's potential opponents in the middle class. In towns and villages, merchants, civil servants, and the more prosperous farmers have gained enough from development to shy away from any Marxist visions of the future.

In Indonesia since Sukarno, a lot has been done for the few. But a great deal remains to be done for—and by—the many. Aggregate growth and political stability have been achieved, but distributive justice has not. The New Order now seems too corrupt to overcome that particular failure but just strong enough not to have to.