INTERNATIONAL
Herald Tribune

Paris | August 2, 1996 | France

Indonesia: Success Is Threatened for Lack of a Modern State

By Hilton L. Root

This is the second of two articles.

MANILA — In Indonesia, the good fortune of Chinese firms becomes a target of resentment that implicates the political regime.

The attack on Chinese companies last weekend by some opposition supporters is a reminder that social unrest often comes at the expense of the ethnic Chinese, even though many of them are citizens, have lived in Indonesia for many years, speak the national language and identify closely with the country.

One of the Suharto government's outstanding achievements, delivering growth and better services to much of the rural population, is also at risk. Frequent disputes over land ownership that put the government on the side of developers against peasants cast a shadow over the advances in rural development.

Weak property rights allow ownership to be assigned to developers with close ties to people in power. The builders of supermarkets, golf courses and luxury homes usually win, straining the government's hard-won credibility in the eyes of the poor.

Their victories underscore the government's deeper failure to introduce the type of property rights needed in a modern economy. When political connections determine ownership, property once acquired is vulnerable to future political instability.

Moreover, the legitimacy of government erodes when peasant protesters and labor organizers must face a military that is frequently above the law.

Social networks rather than contracts keep Indonesia's economy moving, but networks have high entry hurdles, and many people are left out. The bureaucracy at the lower levels is riddled with political appointees, incompetence and venality.

The legal framework for commerce is inadequate, and the court system offers only limited assistance in protecting the rights of investors.

Without the institutional foundations of an open, liberal economy, a level playing field and a neutral referee, economic liberalization has intensified social cleavages, opening the govemment to charges that only a minority benefit.

The biggest special favors go to those closest to the president, most notably some of his sons and daughters and other kin who have become a major link for the international business community to the president. Their participation in a deal adds value as a shield for foreign investors against an insecure legal environment and an unpredictable bureaucracy. They can also provide information that others may not possess.

When President Suharto leaves the political scene the business empire of his children and close relatives may face many challenges. Tensions mount at a time when a lot of Indonesians are asking why one of the president's sons holds a permit to build a national car industry on the basis of exclusive tax breaks even though he has no relevant experience.

As the political vulnerability of the first family's business empire increases, so does the danger of a violent outcome. Now that opposition forces have been mobilized, the stakes to the family of losing have risen dramatically.

Indonesia's weak institutional foundations raise doubts about the sustainability of the political deals on which the country's economic growth and rising living standards depend.

The buttressing of institutional structures, such as an effective contract law and a trained civil service, which ensure the credibility of government policies in some other Southeast Asian countries, are absent, subjecting Indonesia's prosperity to excessive political risk. Correcting these institutional weaknesses will be the main responsibility of whoever succeeds President Suharto.

The opposition's basic appeal is to those who are not getting a fair deal. Its greatest challenge will be to transform its success as a magnet of discontent into the capacity to build the modern state that Mr. Suharto has failed to build.

The writer, a senior research fellow at the Hoover Institution, Stanford University, is author of "Small Countries, Big Lessons: Governance and the Rise of East Asia." He contributed this comment to the International Herald Tribune.