

Tensions Underlie Indonesia's Success

By HILTON ROOR

A recent report that Indonesia is one of Asia's most corrupt societies may have ruffled some officials, but the truth is that on the eve of President Suharto's succession, the perception that many have abused political connections for their own enrichment has turned the country into a simmering pot that may boil over.

Keeping the flames burning is resentment over the profits gained by the president's family and by the ethnic Chinese minority during two decades of continued economic development. These two groups have reaped enormous benefits, but they face great danger when Mr. Suharto's 28-year-old New Order comes to an end.

In discounting a report by the Hong Kong-based Political and Economic Risk Consultancy that Indonesia ranked only behind China and Vietnam in corruption in the region, Minister of the State Secretariat Mardiono was quoted by wire reports as saying the country's impressive economic growth would not have been possible if corruption were rampant. There is no doubt that under Mr. Suharto's rule, Indonesia has reduced poverty more per year than any other developing country since 1970, and that it has benefited from more per capita private investment than any other oil-rich nation. So the question one has to ask then is: Why the resentment?

The origins of resentment can be traced back to 1968 when Mr. Suharto took over a government that could not carry out the rudimentary functions of a modern state. The country lacked unity, it lacked bureaucratic capacity, the legal system was dysfunctional, and managerial or business expertise was limited. To overcome these barriers to growth, a partnership was forged uniting the military, which provided law and order, with the minority ethnic Chinese, who provided business expertise. Both partners prospered. The ethnic Chinese, who constitute 3.5% of the population, now control 73% of private, non-landed wealth. Economic expansion could not have occurred without the military, which penetrated every sector of government, making itself indispensable, especially before the mid-1980s, when a regulatory maze restricted trade in a wide range of goods to holders of licenses.

The Chinese-military partnership was one reason Indonesia could join the most

exclusive club in the world of developing nations: It became one of East Asia's high-performing economies despite weak protection of property rights and a general absence of transparency. It outperformed other economies in which traders are constrained by a weak institutional and legal framework.

Indonesia's Chinese community was equipped to thrive despite Indonesia's weak contract-enforcement mechanisms, outdated commercial law and unreliable court system. Chinese trade networks, for example, monitor reputations and penalize opportunistic members with ostracism. Sanctions work because excluded members cannot easily establish ties to the non-Chinese community and because membership in the enclave provides opportunities for enrichment that do not exist on the outside. Moreover, ostracism threatens the status and fortunes of a member's entire family.

But social insecurity among the Chinese has had negative consequences: It predisposes Chinese firms toward activities with high profits and quick turnover, and it results in a preference for organizational structures that limit public information while maximizing the discretion of the owner. Accounts are closed to outsiders. Tax collectors and investors alike lack reliable information about firm performance. Although such firms are nimble and adept at adjusting to adversity, their limited capacity to utilize trained managers and long-term strategic planning combined with their inability to develop permanent, autonomous structures make it difficult for Chinese firms to attract outside investment. This reduces contact between members of the Chinese community and those outside this community. It also acts as a barrier that prevents the native population from sharing in the good fortunes of the Chinese firms.

During the past decade, another "creative" solution to Indonesia's weak contract enforcement has given rise to resentment. Whereas the military-Chinese connection bridges the weak contract enforcement in the domestic economy, the president's family plays the same role for international investors. Members of the president's family have become the allies of foreign firms seeking to invest in Indonesia. Participation by members of Mr. Suharto's family adds value to an enterprise because it acts as a guaran-