The Evolution of Indonesia’s Economic Nationalism

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Abstract: This paper reviews the evolution of Indonesia’s economic nationalism. It provides analysis divided into three sections which are based on the periodization of the alternate governments in the country, from the era of Sukarno to Suharto and after Suharto or the Reform period. The argument is that there is a continuity within the Indonesian governments’ perception of the international system which leads to the rise of protectionist policies. Recently, and perhaps for the future, the trends of domestic political change and power structure have become the underpinning factors to the persistence of inward looking economic governance.

1 THE ROOTS AND EVOLUTION OF INDONESIA’S ECONOMIC NATIONALISM

Economic nationalism is a consistent feature in Indonesia’s foreign policy, even though the state has undergone fundamental internal political changes from the era of Sukarno’s leadership (1945-65), Suharto’s dictatorship (1966-98) and the present democratic government under Jokowi. Indonesia’s economic nationalism is grounded upon the nation’s struggle against colonialism, which informs Indonesians about the nature of the global system and its impact on their country. The global system is viewed as exploitative towards developing countries. Powerful states are always eager to maximize their economic benefits from asymmetrical relations with weaker states, particularly ones which are wealthy in natural resources. In this system, Indonesia is vulnerable to foreign threats by virtue of its natural wealth (Weinstein 1972, 117-18). For this reason, the function of Indonesia’s foreign policy has been to save the country and the people from external domination and exploitation. The nationalists refer to the 1945 Constitution (article 33) which mandates the state enforce economic sovereignty, which consists of three pillars; protection of the country’s vital national economic interests, the state’s intervention to mobilize resources for economic development, as well as prioritization of the public interest over private or market interests.

1.1 The Sukarno Era

Indonesia’s independence, proclaimed on 17 August 1945, was soon followed by worsening economic conditions. The nationalist government’s endeavours to rehabilitate the country’s vital sources of income, which were declining following the removal of Japanese infrastructure and equipment, were significantly disrupted by Dutch and Allied military aggressions. The Dutch government particularly wanted to regain control of Indonesia’s plantations and controlled the circulation of commodities to rebuild the old mechanism of colonial revenues for post-war economic recovery (Dick 2002, 168-70). Even after the process of transfer of sovereignty from the Netherlands to the Indonesian nationalist government in December 1949, political and economic troubles continued. The political issue was about the Dutch’s persistent objection in recognizing Indonesian sovereignty over West Irian (West New Guinea). The economic issue was derived from the Finec (Financiele en Economische Overeenskomst) agreement between the Dutch and the Indonesian delegations to the Round Table Conference held in The Hague, from August to November 1949. It was a political compromise to end the Dutch occupation (Wie 2010, 57-58).

The Finec agreement stated that Indonesia had to take responsibility for the Netherlands East Indies government to pay foreign debt to the Netherlands government, an amount of approximately US$ 1.13 billion, much of which was used for military spending during the Indonesia’s revolution (1945-49). In addition, the Netherlands demanded Indonesia
guarantee the continuation of profitable Dutch businesses operating in the country without any hindrances. Nationalization would only be permitted upon rigid court procedures and the compensation for the Dutch business owners would be assessed in accordance with real prices applicable at that time (Wie 2010, 58-59).

The subsequent implementation of the Finec agreement gave the maximum economic and financial benefits for Dutch private companies operating in Indonesia. On the other hand, the Indonesian government was burdened by tremendous debt payment obligations. The nationalists were aware about the negative consequences of the continuing foreign economic dominance to local development. Moreover, the two principal antagonists of the Cold War, the United States and the Soviet Union, for their own ideological motives, penetrated into Indonesia’s domestic affairs by accelerating subversive activities against the Republic by attaching themselves to proxies within Indonesia (Kahin 1995). These political and economic environments shaped the nationalist twin interests; maintaining territorial and economic sovereignty.

Jakarta began to be active in international diplomacy with nationalist rhetoric. Sukarno stressed that Indonesians had to see themselves as an element of the global struggle against imperial forces (Thompson 2015, 25). Indonesia was engaged with like-minded postcolonial states from Asia and the Middle East to promote worldwide decolonization (Indonesian Ministry of Foreign Affairs 2005). The high noon of Indonesia’s anti-imperialism campaign was the holding of the Asian African Conference in Bandung, West Java, in April 1955, which gave birth to Asian-African solidarity based on values mainly such as peace, equality, prosperity, and respect for sovereignty among nations (Abdulgani 1980). In 1956 Jakarta declared that it supported the Egyptian government’s decision to nationalize the Suez Canal. Jakarta’s decision was framed in the discourse of anti-imperialism and anticolonialism (Sukma 2003, 32).

Indonesia was successful in creating an international society where its nationalist projection was well-accepted. It provided Sukarno with political morale to execute his revolutionary obsessions. When the United Nations failed to accommodate Indonesia’s claim over West Irian, and tensions with the Netherlands increased, the nationalist leader ordered nationalization of all Dutch business assets, thus ignoring the clause of the Finec agreement. By 1959, 179 companies were taken over (Kanumoyoso 2001). In response to the Western endorsement of the formation of Federation of Malaysia in September 1963, the Indonesian authority confiscated operations of foreign corporations, including those owned by Americans, Australians, Belgians, and British (Wie 2010, 63). The aspiration for economic sovereignty was reached amid turbulent domestic and international political situations.

### 1.2 The Suharto Era

During the Suharto government, economic nationalism continued to characterize Indonesia’s domestic and international policies. Although there were different forms and manifestations of the nationalist agenda, the essence was retained. In the 1970s Suharto focused on recovering the economy from severe crisis. Unlike Sukarno, foreign policy was revised into good neighbourliness to serve the necessity for external stability in support of national economic development. Confrontation was changed to become cooperation (Malik 1968). Regional institutions, mainly the Association of South East Asian Nations (ASEAN) were established in order to demonstrate Jakarta’s heart-felt and cordial attitude towards bettering its relationships with neighbouring countries. Suharto tried to recapture international confidence in the Indonesian economy by amending rules on investment. However, limits to external capital were made to protect interests of local businesses. The three most important policies included the restriction in government projects which could be conducted by foreign companies, special requirements for corporations to employ indigenous people, and affirmative action to uplift cooperatives.

The state intervened in the partially liberalized economy (Mallarangeng 2002, 35-96). As a result, along with the growing flow of international investment and trade, local industries were thriving.

The oil boom in the early 1980s contributed significantly to enhancing Indonesia’s economic performance. Through a cartel like organization of petroleum exporters (known as Organisation of Petroleum Exporting Countries, OPEC), Indonesia and other oil producers determined prices in the global oil markets. Under the leadership role of Indonesia’s technocratic economist and able diplomat, Subroto, OPEC was united to cope with problems stemming from the Gulf War and resistance of the importing countries. The oil prices were kept at an advantageous level for OPEC members. Revenues from oil exports were allocated to empower technological and agricultural sectors, thus by 1985 Suharto could claim that Indonesians had achieved food self-sufficiency (swasembada pangan),
meaning that Indonesia no longer needed to import rice to meet domestic demand (Wie 2005, 258-60). With economic success, the New Order leader began to expand Indonesia’s nationalist economic orientation to the global political arena. In 1985 the second Asian-African Conference was held in Bandung. The main objective of the gathering was to recollect the spirit of Third Worldism to respond to challenges faced by developing countries. At the forum Suharto sought a new kind of solidarity to fight against dependency and underdevelopment. A discourse of economic independence in the age of technology was welcome by the participants. Moreover, Indonesia emphasized that economic sovereignty was its primary foreign policy interest (Antara 1985).

Nationalism was getting more assertive. In 1992 Indonesia chaired the Non Aligned Movement (NAM). Arguing against NAM critics saying the group had no more relevance after the collapse of the bipolar system; Jakarta promoted the concept of new international economic order which would be more just and equitable for the Developing Nations. Indonesia’s foreign policy was redefined from the response to ideological and political bipolarity of the Cold War to be a tool for struggle for the Developing South against the economic domination of the Developed North (Anwar 1994, 157). The global leadership of NAM was used as a strategic entry to advance Indonesia’s economic interests especially to market the nationalist high technological products of the aircraft industries. Led by Bacharuddin Jusuf Habibie – the president after Suharto, the national aircraft industry turned out to be the iconic image of Suharto’s economic nationalism (Amir 2007).

2 ECONOMIC NATIONALISM IN THE REFORM ERA

Under the post-Suharto governments, economic circumstances becomes an important part of political considerations which drove the nationalistic policies. Noticeably, an inward-looking stance on bilateral and regional economic relations appeared to be the approach to cope with stressing internal issues (Aspinall 2016, 80-81). It began with the Asian financial crisis in 1997-98 which hit Indonesia hard. The country lost its pride and esteem in becoming an emerging economy. Moreover, the government in Jakarta had to compromise for urgent help from international financial institutions, mainly the International Monetary Fund (IMF).

2.1 Liberal Reform then Economic Nationalism

The IMF’s rescue programs comprised market-facilitating reforms in order to restructure the Indonesian economy (Djijwandono 2000). They were followed by extensive liberalization of public sectors formerly controlled by state owned enterprises (SOEs). Import tariffs were decreased, although bureaucracies were still somewhat influential. Indonesia joined ASEAN FTA with China (CAFTA), which was implemented in 2010, accompanied by a series of regional institutional building to prepare for an Asian regionalism (Chin and Stubbs 2011). Indonesia became an active participant in the ASEAN-led organisation advancing economic integration. The scheme of ASEAN+1 FTA was being expanded into the Regional Comprehensive Economic Partnership (RCEP) which embraces all six ASEAN main dialogue partners in the Asia Pacific region (Fukunaga 2015). On the global stage, Jakarta uses the Group of 20 as its diplomatic vehicle to promote the values of open economy linked to good governance.

However, the liberal reforms did not last long. Mounting domestic criticisms of the IMF presence, which were framed in the discourse of defending economic sovereignty against the United States’ intervention, resulted in the government of President Megawati Sukarnoputri quitting the ongoing reforms. Some regulations were launched to return the controlling function of SOEs over circulation of imported goods. The government issued quotas for imports especially directed to limit inflows of agricultural products from other countries. The turn towards economic nationalism re-emerged under President Susilo Bambang Yudhoyono’s second term in office. Perhaps, the global financial crisis in 2008 and 2009 was a factor intensifying Indonesian nationalist sentiment. The government favoured by the parliament passed new laws on trade and investment which further legalized restrictions on imported goods, foreign capital, and professionals working in the country. The trend of local economic protection has strengthened since 2012, and is continued by President Jokowi’s administration. The focus is on sectors which are considered as strategic to the state and public interests, such as agriculture, horticulture, mining, farming, fishery, and telecommunication (Negara 2015, 7; Patunru and Rahardja 2015, 4-7; Warburton 2017, 3-9).

In international economic affairs, Indonesia’s involvement within the proliferating free trade multilateralism is confined to low-impact legalization.
or soft law. Although there are binding obligations created through issue-based arrangements, the degree of their implementation is dependent on cost and benefit calculations as well as the goodwill of the signatories (Abbott and Snidal 2000, 422-23; Ravenhill 2013, 59). Jakarta avoids formal submission of its external conduct and sovereignty to the supranational entities. This is why Indonesia is always allergic to the idea of rethinking the nationalist code of conduct called the ASEAN way, mainly in terms of non-interference in other states’ domestic affairs. Nevertheless, Jakarta is eager to demonstrate its international assertiveness. In the forum of the Asia-Africa Summit in 2015, Jokowi openly criticized the World Bank and IMF for their hegemony and double standard in dealing with the economic problems of the developing world (Jakartagreater 2015). He tried to revive the global nationalist impetus which in past decades had given Indonesia much energetic momentum in becoming a leader in antineocolonialism. In line with this view the Jokowi government has started to review trade deals with external parties which were considered to be disadvantageous for Indonesia (Deny 2015). At RCEP rounds, Indonesia opposed the legal rights for investor state dispute settlement (ISDS) in which foreign companies can bring lawsuits against the host state. Together with other developing countries within RCEP, Indonesia asked for the withdrawal of proposals about the reduction of the state’s intervention to protect domestic public service sectors (Das 2017, 4-5). Mietzner (2015) calls Jokowi’s way the representation of technocratic populism.

2.2 Pressing Economic and Political Circumstances

There were pressing domestic situations which had the Jokowi government retain and even strengthen the nationalist bids. After his cabinet was formed in the last week of October 2014, Jokowi had to manage Indonesia’s economy, which was in shambles due to the impact of the global economic go-slow. The trend had been happening since 2012 under the Yudhoyono government. Three indicators were visible; export revenue, currency strength, and investment growth. By 2010, Indonesia enjoyed a high increase in exports of commodities, especially to China. The application of China-ASEAN free trade led China to become Indonesia’s largest trading partner, the volume of Indonesia’s trade with China exceeded that with the United States and Japan. Indonesia-China total bilateral trade was upward from US$ 15.7 million in 2010 to US$ 22.9 million in 2011. Indonesia’s major exports to China were raw materials. However, there was a downward trend to US$ 21.6 million in 2012, although it increased again by about US$ one million in 2013, and Indonesia suffered from a deficit with China (IMF data 2017). The plummeting prices of main export goods, such as coal, natural gas, and palm-oil, have also significantly affected Indonesian account balances. Meanwhile, the growth of exports slowed down and was even negative in the last two quarters of 2014 (Damuri and Day 2015, 6-11).

The direct implication of the declining exports has been the slump in the value of the rupiah. Since 2013, the rupiah has depreciated about 12 per cent, and by the end of September 2015 the exchange rate had reached 14,750 rupiah for one US dollar. This sent a message that there was a significant pressure on the Indonesian currency. It lost consumer confidence in the Indonesian export goods. At the same time, the country’s most favourite export commodities were unreplaceable. Psychologically, households shifted their portfolio to foreign currency, particularly the American dollar, instead of holding the lesser performing rupiah (Glienmournisie 2015). Domestic industries were greatly affected by the weakening of the rupiah. This was because they relied on imported components for production. In addition, foreign debts rose along with the strengthening of the dollar. Consequently, prices of products must be increased to meet rising production costs. This in turn weakened competitiveness against imported industrial goods. All segments of the society were impacted by the surge in daily need prices (Okezone.com 2015). Observers viewed the condition as worse than in the 1998 crisis. In fact, the rupiah value at the beginning of the Jokowi presidency was the worst since August 1998.

Perhaps, the most challenging economic circumstance during Jokowi’s first year in office was the downfall of private foreign investors’ confidence in investing in Indonesia. The decline began in early 2014. Previously, foreign direct investments had risen and hit a peak in the third quarter of 2013 amount to US$ 7.4 billion. This figure dropped to US$ 6.9 billion by April 2014 (Detik.com 2014). The decrease continued through 2015. The Coordinating Agency for Investment noted that at the end of 2015 total investment in Indonesia was US$ 5.5 billion, 12 per cent lower than the number over the same period in 2014 (Republika 2016). This was despite the fact that Jokowi has repeatedly affirmed his personal commitment to reforming the investment climate in the country, including promotion of tax incentives and simplification of bureaucratic procedures. At the World Economic Forum in early 2015, Jokowi
persuaded foreign investors and grinned that he would intervene if needed to remove any hurdles. However, it was not effective. Concrete realization of foreign investment in projects remains very low (Chilkoti 2015).

Many were concerned about the deteriorating economy, although it was understood that the real causes came not only from inside, but were mostly related to external factors taking effect during Yudhoyono’s final years. Whilst, Indonesia’s overall productivity growth has not fully recovered on account of the Asian financial crisis, unlike that of Thailand and Malaysia, the Jokowi government was faced with below target economic growth, estimated at about 4.7 per cent in 2015. It was lower than that of other ASEAN countries such as the Philippines and Vietnam and much less than China and India (Patunru 2015). Bearing this fragile economy in mind, the government’s ambitious infrastructural development programs, for example building 24 new airports, over 1,400 seaports, 7,800 kilometres of highways, 35,000 megawatt power plants, all of which requires around US$ 70 billion (Tempo.co 2017), seem unlikely to succeed..

Politics was also not conducive for the newly formed government. The democratization in Indonesia which took place after Suharto’s resignation in May 1998 gave rise to different nature of business-state relations. Under the New Order, politics was controlled by bureaucratic elites. Of course they had business interests which were patronized by the cronies of Suharto’s family, including those of the ethnic Chinese conglomerates. However, after Suharto the authoritarian regime changed into a democracy which was characterised by patron-client relationships between the ruling elite and the oligarchies. The widening space of political parties to compete for power and public participation in general elections were intruded by business vested interests, mostly through money politics. This had nothing to do with the changing economic policies, but rather the alternating hierarchical position of local business in politics. The indigenous entrepreneurs became more assertive and powerful in both politics and the economy, and subsequently occupied the strategic posts of executive structures and legislative authorities. The ethnic Chinese business, however, did not much benefit from this development by virtue of most of them being reluctant to run into open political competition (Fukuoka 2012).

The oligarchs’ primary interests are to monopolize access to the state’s resources, which can be exploited to accumulate individual or group wealth, as well as social influences (Winters 2013). Thus transactional politics between politicians and business was pervasive in the post-Suharto administration. Local tycoons such as Aburizal Bakrie, Arifin Panigoro, Jusuf Kalla, Surya Paloh, and Taufik Kiemas are some examples of the leading business actors whose political influences determine process of strategic economic decision making. Robison and Hadiz (2017, 5) claim that agenda of economic liberalization, development policy reform, decentralization of governance, and power consolidation have been severely co-opted by the complex objectives of the rent-seekers. With this in mind, it can be argued that protectionist policies applied under the Yudhoyono government and the Jokowi government are by-products of the oligarch’s strategies to protect their businesses from the effects of the free market. An indication of which, Robison and Hadiz (2017, 5) explain, is that none of the Indonesian conglomerates have been able to expand worldwide businesses, especially in strategic sectors such as mining, agriculture, infrastructure, and energy. They have focused on tightening their monopolies in the domestic economy. This is in contrast to the Chinese and other Asian entrepreneurs who have developed global corporations to compete in the free market.

The penchant for protectionism is to some extent consistent with the ambivalent worldviews generally held by Indonesian political elites in describing external environments. On the one hand, there is growing pride and esteem of the political leaders who envisage their country as an emergent global, or at least regional, power. Indonesia’s international importance is shaped by its demographic size, strategic locations in the crossroads of the Indo-Pacific regions, huge natural resources, and economic advancement, making it an undeniable political and economic giant. Consequently, the discourse of prioritising the national interest over regional states’ interests has characterised Jakarta’s foreign policy in the last decade. For example, the neighbouring countries’ concerns about certain issues are ignored because they are seen as contradicting the Indonesian stance. On the other hand, Indonesian elites continue to worry about the vulnerability of being deeply engaged in the predatory global capitalist system. Therefore, they believe that Indonesia has to keep a distance to outsiders, especially those who have the predation tendencies. The most extreme expression of this xenophobic point of view is reflected in unreasonable suspicion and objection toward anything foreign (Fealy and White 2016, 98). There are even politicians who justify exclusivism particularly towards Western foreigners by referring
to cultural and religious moral obligations. Their attitude tends to be resistant to globalization and the Western way of life.

The stage for the nationalist politics is most observable during the 2014 presidential elections when Jokowi vied head-to-head with Prabowo Subianto – a retired army general who then turned to business and politics (Aspinall 2015). Both candidates campaigned on almost similar nationalistic themes, mainly economic autarchy and sovereignty. Although Jokowi’s tune was heard as more moderate than his rival, many had not expected that there would have been a better prospect for economic liberalization. Moreover, Jokowi’s triumph in the contest was made possible by the combination of his attractive technocratic populism and the dynamic roles of the oligarchs. Fukuoka and Djani (2016) mention it as the post-clientelist initiatives in which material political capital merged with pro-poor agendas such as improvement in public services and local economic empowerment. Hence, it is understandable if later Jokowi had to compromise with the oligarchic interests.

Jokowi faced political turbulence. Politics in the parliament was adversarial and polarized. The newly shaped cabinet was overwhelmed by problems due to lack of coordination within. Tensions emerged between Jokowi and his party elites. The president’s popularity rate waned (Warburton 2016, 297). These problems were undeniably related to the consequence of power sharing among Jokowi’s oligarchic sponsors. In that unfavourable atmosphere, Jokowi’s economic team became the centre of attention. Anything unpopular could provide the opposition politicians with critical issues to discredit the government. Whilst troubled economic conditions had to be dealt with through proper responses, the options available for Jokowi were constrained by the oligarchic structures. As a result, the government took a conservative policy to prolong protectionism.

3 CONCLUSION

The origin of Indonesia’s economic nationalism can be traced back to the postcolonial periods when the newly independent republic had to cope with economic predicaments. Problematic relationships with the Dutch forced the nationalists to disregard bilateral economic and financial agreements, and eventually nationalized Dutch businesses operating in the country. Sukarno’s nationalistic actions were buttressed by international diplomacy in which anticolonialism and antiimperialism became their chief agenda. Within the forum of the Asian-African Conference, Jakarta founded the global setting for its nationalist economy. The same nationalist substance was continually present in Suharto’s foreign policy, albeit in a different form and scope of issue. Suharto’s economic nationalism was supported by multilateralism such as OPEC and ASEAN. The latter has become the major vehicle of Indonesia’s nationalist policies up to now. ASEAN provides normative structures, called the ASEAN way, which have secured Indonesian interests from external interference.

The recent unfavourable domestic economic and political conditions are evident as the cause of the re-emergence of Indonesia’s economic nationalism. Liberal reforms inculcated by international organisations following the Asian financial crisis were left and economic policies turned once again inward-looking. The regional economic institutions only function to maintain Jakarta’s participation in world affairs, even though they are engaged with half-hearted commitment.

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