

# Cautious Optimism

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**'Things aren't as bad as they could have been. Indonesia is going forward, perhaps only a bit too slowly.' This appraisal by the Australian economist Hal Hill aptly summed up two days of heated discussion about the Indonesian economy during the twenty-first 'Indonesia Update'. Yet there was also alarm, expressed by Indonesian and foreign experts alike, with respect to increasing corruption and lack of genuine reform in Indonesia today.**

By J. Thomas Lindblad

The conference theme, 'Business in the Reformasi Era', immediately directed attention to the pressing question of how a businessman should respond to the present reshaping of politics and economics in Indonesia. Most contributions addressed the climate for investment and economic recovery from a bird's-eye view, whereas only a few papers reflected a view at a micro level of business or from inside the individual enterprise. Special attention was given to legal reform, privatization and, of course, corruption. General consensus evolved about the existence of a circle of causation in Indonesia, which could either remain vicious or become virtuous. In the positive outcome scenario, less corruption in the legal system will enable the dispersal of debt-ridden assets now held by the Indonesian state, and in turn this will restore business confidence and thus trigger new investment.

The alarm signal was sounded early on when keynote speaker Andrew MacIntyre stated that, 'there is one thing worse than organized corruption and that is disorganized corruption.' The rules of the game change as politics and

economics are reshaped, in particular as a consequence of the far-reaching decentralization that has taken place in Indonesia in the last couple of years. MacIntyre's tune later returned in presentations of two in-depth studies of corruption. Merly Khouw had found no statistical relationship between more bribery and higher efficiency. Interestingly, 75 per cent of responding businessmen claimed to be against giving bribes, whereas only 15 per cent said they would refuse them. In their systematic analysis of bankruptcies since 1998, Marie-Christine Schröder and Keven Sidharta found that corruption has already crept into the implementation of the new legislation on bankruptcy. Their finding needs to be linked with the difficulties that the IBRA (Indonesian Bank Restructuring Agency) reported in selling off assets seized from debt-ridden private companies. This is mainly due to the fact that it is difficult to have the original owners declared bankrupt. According to Felix Salim, the current book value of IBRA-held assets corresponds to a mere quarter of their original stated value when the crisis struck in 1997. Their current undervaluation clearly implies an enormous burden on the

public budget in Indonesia in terms of debt servicing. In addition it offers ample opportunities for original owners to buy back their assets through straw men at fire sale prices.

The link between institutional reform and macroeconomic prospects was stressed by co-convenor Chatib Basri in his general survey of the economy. Basri expected a continuation of the current rate of economic growth, about 3.5 per cent per year, but foresaw that much still had to be accomplished in the vein of institutional reform before a full recovery could be staged. In his opinion, a reformulation of industrial policy should now be given highest priority. This was not taken up in the subsequent discussion, however, which focused on the repercussions that the IMF's departure from Indonesia as of 1 January 2004 would have on the Indonesian economy.

Total private investment is slowly increasing in Indonesia but foreign direct investment has already been in decline for several years. This is clearly a reason for alarm and the climate for foreign investment was a recurrent theme throughout the conference. In her general survey of the political situation, human rights activist Sidney Jones, for instance, highlighted sources of uncertainty about the near future in Indonesia today, ranging from clashes between military and police in Aceh and Papua to the ambivalence among many Indonesian Muslims about the worldwide campaign against terrorism. However, as several speakers emphasized, the foreign investment climate depends above all on attitudes and policies adopted by the Indonesian government.

Things will remain uncertain as long as there is no clear consensus within the political elite about the desirability of foreign investment and the presence of expatriates. Even optimistic observers conceded that Indonesia is likely to remain a high-risk environment for foreign companies. The most urgent priority at this point is a return of the Chinese Indonesian capital that left the country when the crisis struck in 1997. In addition, it should be mentioned that foreign business, in particular, seems to have been totally unprepared for the militant trade unionism that has emerged in Indonesia since 1998.

There is traditionally a strong bias in favour of broad developments when reviewing the current situation and future outlook in the Indonesian economy. In this respect the Indonesia Update of 2003 offered a welcome opportunity to consider recent trends from a micro point of view as well. Two concrete examples may help us appreciate the benefits of this different standpoint. In her careful analysis of top conglomerates in Indonesia, the Japanese

economist Yuri Sato noted a dramatic decline in corporate ownership and a concomitant increase in management by either the government or foreign firms. However, this development had no clear-cut repercussions for management performance. In another study, on furniture manufacturing in Jepara (Central Java), Henry Sandee and Peter van Diermen contended that the role of foreign buyers is crucial for the performance of small- and medium-size firms; a type of business which, they argued, possesses considerable potential. Such evidence from the grass-roots level of small-scale furniture makers in the Javanese countryside substantiated cautious optimism, albeit beset by understandable concerns. ◀

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## Information >

The 'Indonesia Update' is organized annually by the Indonesia Project of the Research School of Asian and Pacific Studies at the Australian National University in Canberra. The first 'Update' took place in 1982. The twenty-first one, in 2003, had as its theme 'Business in the Reformasi Era: New Challenges, Old Problems' and drew an unprecedented large crowd. It was jointly convened by the economic historian Pierre van der Eng (ANU) and the economist Chatib Basri (University of Indonesia, Jakarta). A publication of the proceedings is expected in early 2004. Next year's 'Update' will be on natural resources and the physical environment in Indonesia. Information on the activities of the Indonesia Project may be found on:  
<http://rspas.anu.edu.au/economics/ip>