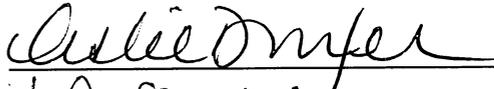


WHAT IS THE DECLINE OF "ANTI-CHINESE" VIOLENCE IN POST-  
SOEHARTO INDONESIA ALL ABOUT?

by

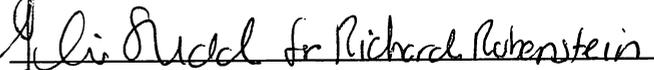
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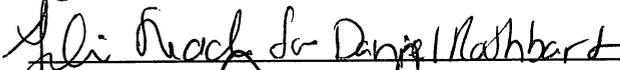
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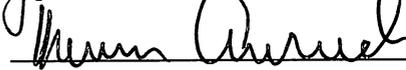
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George Mason University  
Fairfax, VA

What Is the Decline of “Anti-Chinese” Violence in Post-Soeharto Indonesia All  
About?

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## **ABSTRACT**

WHAT IS THE DECLINE OF “ANTI-CHINESE” VIOLENCE IN POST-SOEHARTO INDONESIA ALL ABOUT?

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The thesis acknowledges that violent, physical conflicts between the Chinese and indigenous Indonesians have significantly declined over the past years. It identifies the 1997-98 Asian financial crisis followed by the fall of the Soeharto regime as turning points in the relationships between the Chinese and indigenous Indonesians and between Indonesia and China. These events forced Indonesia's state decision-makers to foster a comprehensive relationship with China that was willing to help Indonesia quickly recover from its economic turmoil. The events provided China with a golden opportunity to use bilateral diplomacy and socio-economic engagements to underscore China's good neighbour policy towards Indonesia and Southeast Asia. This process fostered the formation of a Chinese-opportunity narrative as opposed to Chinese threat rhetoric in the region. These developments also allowed Indonesians to further acknowledge the historically indispensable role of the Chinese skilled human resources and capital in Indonesia's political economy and foreign policy with China.

Such an acknowledgement is expressed in a template for managing the relationship between the Chinese and indigenous Indonesians in the context of Indonesia's state-

building: mutual gains. This mutual-gain template implies that despite their asymmetrical and different roles, opportunities, and skills, these groups attempt to delay their tensions over these issues in order to engage each other in, and benefit from, Indonesia's state-building. Thus, in terms of economic development, the domestic and trans-national Chinese peoples are indispensable partners or competitors of the non-Chinese, indigenous populations in Indonesia. From this point of view, there is Indonesia's further engagement with diverse Chinese capitalists and skilled entrepreneurs that can contribute to Indonesia's economic development. It should be noted that the biggest capitalists and influential entrepreneurs in Indonesia (and Southeast Asia) are the Chinese. There are no direct links between ethno-religious identities and wealth and success, and not all Chinese people are wealthy and successful in business.

The Chinese opportunity perception can sometimes be overtaken by the Chinese challenge narrative in Indonesia's decision-making. This trend has been driven by two interactions: (a) the shifting from peaceful rise to the unilateral rise of China, and Indonesia's inability to decisively push back this unilateral rise to protect its national interests, and (b) the historically ambivalent interactions between mainland Chinese and Indonesia's Chinese minorities that maintain businesses and family ties in both Indonesia and China. In order to address this Chinese challenge, Indonesia's state has adopted nuanced approaches, including: accommodation, co-optation, confrontation, containment, and cooperation, toward the domestic and trans-national Chinese middlemen—depending on the dynamics and contexts of Indonesia-China relations and Indonesia's domestic affairs. Although Indonesia's domestic and international

affairs are different from each other, these domains are not mutually exclusive. Instead, they are interconnected, such that changes in one domain may impact others. Thus, positive Indonesia-China bilateral relations help enhance the relationships between Indonesia's Chinese and indigenous populations, and vice versa. Negative Indonesia-China bilateral relations hinder the relationships between Indonesia's Chinese and indigenous populations, and vice versa.

Nevertheless, recent developments show that Indonesia's mutual gains template for managing the relationship between the Chinese and indigenous Indonesians in the context of Indonesia's state-building is not entirely flawless, inclusive, neutral, and stable. This template seems to have benefited only those who hold political and economic powers (indigenous bureaucrats, Chinese Indonesian tycoons, and some indigenous capitalists), but not the ordinary people (the majority of Indonesians). The template does not erase a common misperception or rumour among some Indonesians that the Chinese (from Indonesia and elsewhere) are united groups who are completely different from the indigenous Indonesians. It also does not erase an unaddressed puzzle which many CIs harbour: will indigenous Indonesians protect—or get rid of—CIs in times of turmoil? Although social groups' gaps and differences are not necessarily the cause of violence, they become convenient catalysts for a few extreme nationalists, fundamentalists, and even populists in their change agendas. These entities claim to alter the mutual gains template, in particular, and the status quo, in general. Even though these entities cannot propose obvious alternative rules of engagement, their promises of change may sound compelling to the chronically marginalized majority in critical times, such as national elections and economic

downturns. During these times, Indonesia's decision-making is unpredictable. The relationships between ordinary people, business, and the state, can be distorted, disrupted, or improved. Some of their tensions may escalate into emotional interactions. In a worst-case scenario, violent confrontation may occur, spilling over to other areas of Indonesia's domestic politics and foreign policy. The neighbouring countries, including China, would consider doing something in order to protect their interests, stabilize, or destabilize Indonesia. Their options may include the possibility of violating Indonesia's sovereignty which goes against Indonesia's will. For these reasons, it is in the interest of Indonesia as a whole to continuously and effectively address the potential for such an unfavourable scenario to occur.

The 2014 presidential election is the right time for Indonesians to confront the challenges, risks, and opportunities regarding the Chinese choice in Indonesia's state-building. Participatory debates and dialogues on how Indonesia as a whole can further and sustain consensus-building, and adjust the template of mutual gains in ways that fit Indonesia's state-building stages and goals, as well as the broader contexts, should be encouraged. Ultimately, these evolving and vital steps are possible if the Indonesian government can ensure that the public debates and dialogues will not escalate into violence during and after the election.

## CHAPTER I: INTRODUCTION

The central aim of this thesis is to capture the complexities in the development of relations between Indonesia's Chinese and indigenous populations, particularly after the Asian financial crisis of 1997-98 which triggered the fall of the Soeharto regime. While the thesis assesses the policies the Indonesian government has adopted to manage, and benefit from, these relations, it also pays attention to the role of identity politics in the context of Indonesia's policy-making.

"Identity politics" in the thesis does not refer to how exactly individual Indonesians describe their Chinese and non-Chinese identity constructions. Rather, it refers to situations in which identity is used as a means to achieve specific political goals, i.e. status quo change versus status quo maintenance. There are two major group categories in this thesis: the Chinese and indigenous Indonesians who exist in public, private, and civil society sectors in Indonesian society. The application of these labels to real-world situations by government officials, academics, businesses, and other entities does have limitations for several reasons: first, the labels Chinese and indigenous Indonesians do not necessarily convey frictions and nuances within these groups (intra-group dynamics). Nor do these labels describe objective characteristics, histories, and the lived experiences of the individuals in these categories. For instance, the Chinese recognized divisions amongst themselves as heterogeneous groups. The basic distinction was between *peranakan* and *totok*. *Peranakan* means Indonesians of Chinese descent. These people were born in the countries of Southeast Asia and spoke

a local language. *Totok* refers to recent arrivals in Indonesia who were mostly born in China and spoke a Chinese language at home. By the time of the establishment of the People's Republic of China (1949), many *totok* Chinese were divided into pro-Communist and pro-*Kuomintang* (Chinese Nationalist Party) groups. The Chinese are also religiously heterogeneous. They belong to Islamic, Christian, Buddhist, or Confucian faiths (Purdey 2006a, 4). As this thesis explains in the next chapters, upper- and middle-class Chinese in urban areas and Chinese peasants in rural areas have different and unequal life opportunities and concerns. These distinctions are not accommodated by the classifications which are made in Indonesia, such as *Cina* (Chinese) or *orang Tionghoa*. Similarly, the indigenous recognize divisions among themselves. For instance, at some point, they may use the term *asli* or *indigenous*. In other contexts, they may identify themselves based on their regional, ethnic, or religious identities. Thus, there are *orang* Jakarta, Kalimantan, or Sumatra (regional identities); Javanese, Malay, or Batak (ethnic identities); Islamic, Christian, Buddhist, and other faiths (religious)—among others. Indigenous peasants lead lives filled with struggle as much as Chinese peasants do (Suryadinata 2008). These examples illustrate that there are variations within the Chinese and indigenous Indonesian groups, and there are connections between these groups. Second, the use of these labels is not neutral. Rather, they function as strategic responses to particular social, political, and geo-economic changes. These labels are used as tools to achieve a purpose. For instance, in the context of China's rise in the global economy after the Asian financial crisis (1997-98), many Chinese capitalists from Indonesia and elsewhere strategically display their Chinese roots in order to align themselves with,

and benefit from, the rise of China. As explained later in this thesis, Chinese Indonesian entrepreneurs do not necessarily share political culture with the Chinese in mainland China nor with the Chinese from other countries. Yet, these entrepreneurs exploit their Chinese identities and linkages in order to encourage a better and comprehensive relationship between Indonesia and China, particularly in the forms of joint development and cultural exchanges. The quality of this comprehensive relationship may be questionable, especially as it does not change the life situations of struggling Chinese Indonesians and chronically underprivileged Indonesians. Still, the idea of using specific Chinese identities and connections to influence policy-making does exist. “Indigenous Indonesians” as a label functions as a claim and a right to own and control the country. This right is thought to belong to particular power-holders—but not all groups in the country. The strategic use of such a label is obvious in economic and political transitions and national elections. These are situations in which indigenous capitalists and populists claim to act on behalf of the majority of indigenous Indonesians and to take back the economy from the “other” (e.g. foreign investors and the so-called “outsider market-dominant Chinese minorities”). This claim may not reflect realities on the ground; and yet, the idea of using seemingly fixed labels and categories to include or exclude the other is pervasive. Only with critical thinking, one can recognize this idea and how it shapes one’s decision-making and social interactions. After all, this paragraph clarifies some limitations in the identification and categorization of the Chinese and indigenous Indonesian people.

The thesis' approach to Indonesia's state-building is based on a synthesis of Indonesia's domestic politics *and* Indonesia-China bilateral relations (foreign policy). A reason for this approach is that these domains are interlinked and cannot be seen as mutually exclusive. Changes in one domain impact the other (Azar 1990; Sukma 2009; Suryadinata 2008). Through field research, the researcher learned that in both domains, there is a pattern: the Chinese foster economic development, whereas the indigenous handle politics and security.

The thesis recognizes that even though there is still a lot to do regarding Indonesia's state-building in the post-Soeharto era, large-scale violent conflicts between the Chinese and indigenous Indonesians have declined over the past years.

Jemma Purdey, the author of *Anti-Chinese Violence in Indonesia 1996-1999*, might respond to this observation by suggesting that anti-Chinese violence has changed to a new" problem facing Indonesia—and that is the rising intolerance against Chinese Christians. Purdey's discussion about a new type of conflict in Indonesia seems to reflect Samuel Huntington's (controversial) thesis of a clash of civilizations which discusses the emergence of new wars in the post-Cold War era as a result of irreconcilable cultural and religious "differences," particularly between Islamic and non-Islamic countries and communities (Huntington 1993). In Indonesia, Muslims are the majority, and non-Muslims, including Christian Chinese, are the minority. As many Chinese minorities are Christians who are economically powerful but militarily and politically vulnerable, Chinese Christians, according to Purdey, are caught in this

new conflict as victims. This reality remains unchanged even when anti-Chinese sentiments may be declining (Purdey 2009). As discussed in the analytical literature review of this thesis, whether or not the Chinese are inevitable victims is debatable, especially as victims tend to have diverse backgrounds and identities. Furthermore, non-CIs and Muslims can make a similar claim that they too are not appreciated by others, such as Christian Chinese groups. These groups can also stress that non-CIs and Muslims are too victims of the conflict between non-Muslims and Muslims mixing with the conflict between Chinese and non-Chinese. The central concern of the thesis is beyond the question that Purdey and Huntington pose *what identity (e.g. ethnic or religious identity conflict) matters* in a crisis or after a crisis. It investigates the meaning of the decline of anti-Chinese violence mixing with anti-institution violence in post-Soeharto Indonesia. The thesis understands that anti-Chinese violence is not all about violence against the Chinese per se. In fact, physical violence aimed at Chinese-owned businesses, diverse cultural and religious symbols, and spilled over to other domestic and international affairs, during and a few years after the Asia financial crisis and the fall of the Soeharto regime. After all, the thesis acknowledges that after a few years of multidimensional, run-away crises in Indonesia's domestic and international affairs involving the Chinese vis-à-vis indigenous Indonesians, these crises have been under control. Even though they have not entirely disappeared in Indonesia's state-building process, these crises have become latent conflicts.

The thesis identifies the 1997-98 Asian financial crisis and the fall of the Soeharto regime as turning points in the relationships between the Chinese and indigenous Indonesians and between Indonesia and China. These events forced Indonesia's state decision-makers to foster a comprehensive relationship with China that was willing to help Indonesia quickly recover from the economic turmoil (Sukma 2009). The events provided China with a golden opportunity to use bilateral diplomacy and socio-economic engagements to underscore China's good neighbour policy toward Indonesia (and Southeast Asia). This move reinforces the Chinese "opportunity" narrative as opposed to the Chinese threat rhetoric in the region (Kurlantzick 2006). These developments also allowed the Indonesian people to acknowledge the historically indispensable role of skilled Chinese human resources and Chinese capital in Indonesia's political economy and foreign policy with China (Fuller 2006). As a result of conflict de-escalation between these groups, Indonesia has been able to build an environment conducive to political and socio-economic reforms and better relationship-building between the Chinese and indigenous populations. The country has been regarded as a rising star in the theatre of global affairs because of its stable democracy, fast-growing economy, and remarkably, a Chinese-friendly society (Rieffel 2004).

However, Indonesia's post-Soeharto achievements are neither problem-free nor sustainable. Recent developments show that Indonesia may have been at a tipping point. There is a gap between the expectations (e.g. fair distribution of power and

opportunity) and realities (e.g. the continued monopolization of power and opportunities in the hands of a few at the expense of others).

In the domain of domestic affairs, Indonesia's achievements in state-building are not necessarily inclusive and sustainable. Some efforts to address Indonesia's structural and social problems, such as: legal reform and decentralization, labour wage increases, and war on corruption, may have targeted the symptoms of structural and social problems. Yet, these efforts do not eliminate the politics of domination and the historical tensions between the political and religious elites (mainly indigenous groups), capitalists (mainly CI entrepreneurs and some indigenous capitalists), and the ordinary people. These continued tensions are convenient resources for social mobilization, and parts of Indonesia's contentious and populist politics (A. Chua 2000; C. Chua 2008b; Kurlantzick 2012).

In the domain of international relations, nationalist Indonesians remain sceptical about the relationship between the mainland Chinese and Indonesia's Chinese groups. These nationalists also wary of China's political and territorial aspirations in Indonesia and Southeast Asia (Sukma 2004). China's disproportionate gains in trade and in the Natuna Islands that Indonesians consider part of their waters have even intensified Indonesia's worries (Laksamana 2011; Storey 2012). These dynamics have an impact on the relationship between the Chinese and indigenous Indonesians. Two emerging puzzles about future interactions between these groups: (a) will China's economic and military rise facilitate the rise of Chinese of different nationalities at the expense of

indigenous and non-Chinese groups, and simultaneously the creation of a coalition against the rise of the Chinese among these indigenous and non-Chinese groups?, and (b) will interactions between these forces trigger anti-and pro-Chinese sentiments, scapegoating politics, and even worse, violence that could impact the security of Indonesia and the Asia-Pacific region?

The thesis acknowledges that even though negative interactions between the Chinese and indigenous Indonesians and between China and Indonesia happened in the past, there is no clear evidence that the past can totally dictate the present and future directions of Indonesia's state-building. Indonesia as a whole has been able to contain violence against the Chinese, the market, and institutions in general over the past years. The Indonesian leaders in the post-Soeharto era have stated that Indonesia benefits from China's peaceful rise and from the utilization of the domestic and trans-national Chinese capital and skilled human resources in the development of Indonesia's political economy and also its bilateral relations with China. These leaders have come to understand that Indonesia's political economy cannot move forward if Chinese Indonesians, the Chinese from China, and other overseas Chinese do not continue to do business and invest in Indonesia (Sukma 2009). Based on their past experiences, these leaders have learned that the potential costs of anti-Chinese violence and its spill-over effects will be multidimensional, trans-national, and irreversible (Cronin 1998; Suryadinata 2008). Acknowledgement of these lessons is reflected in a template describing the interdependence between the Chinese and indigenous Indonesians in Indonesia's state-building: the Chinese foster economic

development, whereas indigenous Indonesians take care of security and politics. The operation of this template generates nuanced results with respect to the control of anti-Chinese and anti-other violence in Indonesia.

This template makes the indigenous Indonesians appear as if they were not involved in Indonesia's economic development. Similarly, the Chinese appear as if they were not involved in Indonesia's politics and security matters. The reality, however, is that indigenous elites and Chinese Indonesian middlemen are engaging each other in Indonesia's policy-making matters (Suryadinata 2008). These details imply that Indonesia's state-building is not risk-free, and neither is the template of mutual gains. Even in the post-Soeharto era, moderates do their best to improve the mutual-gain template for managing tensions between the Chinese and indigenous Indonesians, some extreme nationalists, fundamentalists, whereas populists claim to radically alter it. Tensions and conflicting claims and interests between these forces never end. Rather, they rise and fall as Indonesia's state-building evolves (Storey 2009; Sukma 2004).

Despite its resilience, the sustainability and inclusiveness of the template of mutual gains in Indonesia's state-building should not be taken for granted. The template seems to have benefited only those holding political and economic power (state elite minorities, e.g. indigenous bureaucrats and Chinese Indonesian and a few indigenous tycoons), but not the ordinary people (the majority of Indonesians). The template does not erase a common perception or a rumour that the Chinese in Indonesia, China, and

elsewhere are a homogenous and united entity that is existentially different from indigenous Indonesians, another homogenous and united entity. Thus, if there is a recurrence of anti-Chinese feeling in Indonesia, and if the Chinese issue once again becomes an important political-security issue in Indonesia, the Indonesia-China bilateral relations might be affected (Sukma 2004).

Although these asymmetries and conflicting narratives and sentiments are not the direct cause of violence, they become politically convenient resources for a few extreme nationalists, fundamentalists, and even populists in their change agendas. These entities claim to alter the mutual gains template, in particular, and the status quo, in general. Even though these entities cannot propose obviously alternative rules of engagement, their claims and narratives of change, justice, and pro-poor-people may sound compelling to the chronically marginalized majority in critical times, such as national elections and economic downturns (Suryadinata 2008). During these critical times, Indonesia's policy-making is highly unpredictable. The relationships between the state, businesses, and the ordinary people, can be distorted, disrupted, or improved. Some of their historic tensions may recur, escalate, or may be escalated, into emotional debates. In a worse-case scenario, violent confrontation may occur, spilling over to other areas of Indonesia's domestic politics and foreign policy. The neighbouring countries, particularly China, a new global and regional superpower, might consider doing something in order to protect their interests and/or stabilize Indonesia. The policy choices of these neighbouring countries might include aggressive intervention which jeopardizes Indonesia's sovereignty. For these reasons,

it is in the interest of Indonesia as a whole to continuously and effectively prevent these unfavourable scenarios from occurring.

The 2014 presidential election is the right time for all Indonesians to confront the challenges, risks, and opportunities of Indonesia's state-building patterns.

Participatory and open dialogues on how Indonesia as a whole can effectively manage identity politics, further consensus-building, and adjust the template of mutual gains in ways that fit Indonesia's state-building stages and goals, as well as the broader geopolitical contexts, should be encouraged. Ultimately, these evolving and vital steps are possible if the state of Indonesia can ensure that the public debates and dialogues will not escalate into violence during and after the election.

## CHAPTER II: ANALYTICAL LITERATURE REVIEW

### Introduction

The purpose of this chapter is not to merely summarize what different authors discuss about the research topic in order to set the context for the thesis. Rather, the purpose is to map the conflict life as far as the researcher' eyes can see, utilizing the existing literature and theories of the field of conflict resolution. Conflict mapping is important to the thesis process, especially as it helps the researcher organize information drawn from the extant literature and from different and even disparate schools of thought. While discussing and evaluating the core arguments of the extant literature (*what has been known*), the chapter identifies three unanswered but important puzzles which the present and future research can further explore and address (*what has not been known*). The chapter eventually highlights that the thesis can address two puzzles out of these three, and that the remaining puzzle may benefit future research of a similar topic.

The extant literature includes two approaches to understanding the sources and solutions of anti-Chinese violence in Indonesia: (a) the roles of state and market systems in violence and counter-violence, and (b) ethnic minority politics and crisis. The former approach recognizes the existence of non-rational thinking in humans' and states' behaviours; yet, it prioritizes rational choice discourse with which scholars, analysts, and practitioners of the fields of political science and political economy are familiar. The latter approach recognizes the existence of rational choice

discourse, but it emphasizes more on non-rational thinking and behaviours—or emotion—of individuals and social groups as a primary force setting a conflict in motion in particular times and places. This way of approaching conflict is popular among scholars, analysts, and practitioners with degrees in the fields of psychology, psychoanalysis, and cultural studies. Despite their different and even competing focuses, these two approaches are not mutually exclusive. In fact, a synthesis of these approaches, coupled with interpretative and analytical concepts of the conflict resolution field, helps generate a map of the conflict life – from a transdisciplinary perspective. By contrast, one approach alone is not sufficient to generate such an innovative map. Without this map, the research as a whole cannot be realized and completed.

## **Conflict Root Causes: Deprivation, Frustration, and Aggression**

### **Journeys**

Many scholars understand interactions between the Chinese and indigenous Indonesians as unstable ones because these interactions are rooted in long-standing problems of deprivation, frustration, and violence. According to Ted Robert Gurr, relative deprivation occurs when members of the marginalized majority start to experience a situation where their “value expectancies” (VE: resources, rights, and services to which they feel entitled [a preferred state of affairs]) are greater in value than “value capabilities” (VC: resources, rights, and services which they feel they are realistically likely to acquire and be able to hold on to [an actual state of affairs]) (Sandole 2011). When against the background of escalation of relative deprivation,

populist leaders within the majority community start to mobilize their fellow members to do something about the intensifying VE-VC disconnect. If these leaders' mobilization is successful, the marginalized majority may have a violent response to the perceived source of the disconnect. This source can be institutions and the privileged minority group who benefits from these institutions (Sandole 2011).

In Indonesia, class and ethnicity overlap in a distinctive and potentially explosive way, or in the form of a starkly economically dominant ethnic minority -- the Chinese Indonesians (CIs). CIs are regarded as essential outsider "middlemen" or "market-dominant outsider minorities" (Chirot and Reid 2008; A. Chua 2000; Zenner 1991). They are minorities in the middle of the structure of Indonesia's society who can be controlled, co-opted, and protected by the state and resented by the indigenous majority (Zenner 1991). CI middlemen disproportionately dominate a large portion of Indonesia's economy. During the New Order (*Orde Baru*) regime (1966-1998), the Chinese minority, less than 3% of the Indonesian population, dominated 70% of the private economy (A. Chua 2000, 2004). CIs' economic advantage continues in post-Soeharto Indonesia as capitalists in general and big CI capitalists in particular are able to adapt to the new political conditions (C. Chua 2008a).

The continuity of unequal distribution of wealth and power has resulted in tensions among the state, the market-dominant minorities, particularly CIs, and the indigenous majority, and tensions between the last two groups. Anti-Chinese sentiments and acts are expressions of these tensions. The frustrated, impoverished indigenous majorities

resent and envy the privileged CIs due to their continued economic dominance and ethnic minority status. These indigenous groups feel intimidated by the fact that wealth and power are still in the hands of a few non-indigenous minorities, including CIs. This resentment becomes a source for indigenous political, economic, or moral-religious leaders to mobilize and manipulate the majority of Indonesians to support their power politics (A. Chua 2004; Suryadinata 2008; Zenner 1991).

CIs are understood as vulnerable groups judging by the fact that these groups do not have direct access to military and political power. In order to maintain their survival, CIs must foster alliances with power holders (e.g. politicians, police, the military, gangs, and other security enterprises) who are in the position to offer or even sell security services to them (Anderson 2001; Purdey 2006a). Unfortunately, there is no guarantee that these power holders always carry out the responsibility to protect CI middlemen. This is partially because these power holders are able to sustain and enhance their interests by temporarily exploiting CIs' scapegoating services (Zenner 1991). Since the colonial era, power holders have used CIs as a buffer between the grassroots and themselves. These entities can take CIs as convenient scapegoats to direct the public's frustration and aggression from themselves (Chirot and Reid 2008; A. Chua 2004; Lindsey 2005; Suryadinata 2008). In the same way, the frustrated and impoverished indigenous majority, on their own or with assistance from security forces and indigenous capitalists, can transfer their frustration and aggression to CIs (Coppel 2006a). In short, due to their lack of direct access to military and political

power, and their economic dominance and/or ethnic minority status, CIs have become defenceless scapegoats and victims of multiple parties in Indonesia's society.

The above claims accurately highlight a long-term political and security challenge facing CIs. However, their articulation reveals some contested truths. The idea that discrimination against CIs occurs as a consequence of their identity and status in the structure of Indonesia's society is not a totally persuasive argument. In fact, responses to CIs have a lot to do with what they do and/or who they are -- depending on issues and contexts of interactions.

For example, Indonesia's political decision-makers have rewarded top CI tycoons with lucrative trade and joint investment deals with external actors, including China. This arrangement has nothing to do with ethnic ties or kinship between the Chinese in Indonesia and the Chinese in China as many scholars of ethnic conflict studies may claim (Horowitz 1985; Purdey 2006a). Rather, it is due to the fact that these tycoons are capable of representing Indonesia's interests and negotiating with Chinese counterparts in China very well (A. Chua 2000; Sukma 2009). Unfortunately, a few members of market-dominant minorities -- many of whom happen to be Chinese, engage in negative business practices, such as bribery, tax avoidance, violations of labour and environmental regulations, and discriminatory lending. Their importing of cheap labour from mainland China and elsewhere to work in Indonesia's Chinese-owned firms remains a provocative act for the economically disadvantaged indigenous majorities (A. Chua 2004, 279–282). Although these practices also

involve indigenous capitalists and bureaucrats, the Indonesian public and media heavily criticize the disproportionately wealthy capitalists -- CI tycoons (A. Chua 2004; C. Chua 2008b).

Scholars of ethnic conflict studies may explain that this tendency is evidence of Indonesia's habitual prejudice against ethnic minorities, particularly the Chinese, or even racism (Chirot and Reid 2008). It is true that prejudice and racism have not totally disappeared in Indonesia and across the world. However, this explanation could be more persuasive if it took into consideration of the growing distribution and justice problems Indonesia's and global economic systems. There has been an increasing demand across nations, including Indonesia, that the private sector and market-dominant minorities should play a key role in fostering—but not jeopardizing—sustainable, collaborative, and equitable development and justice (T. L. Fort 2011; T. Fort et al. 2010). Many CI tycoons have acknowledged that it is important and necessary for businesses to become aware and meet such a demand; yet, it is unclear how these words can be translated into actions in a near future. The emerging justice movements and businesses' vague responses—but not necessarily ethnic and racial tensions—explain why the majority of Indonesians and the media pay a great deal of attention to Indonesia's big capitalists, mainly CI tycoons. Unfortunately, scholars of ethnic conflict studies do not take this important point into consideration. Thus their arguments based on ethnic hatred and racism can explain only *a* part of the conflict, but not all conflict life stages and contexts.

## **Crisis: Market Shock, Failing State, And Anti-Other Violence**

Declining security or a power vacuum, according to international security scholars, is the major cause of conflict escalation, crisis, and aggression against minorities and humanity. These challenging situations can be controlled only when there is a re-establishment of law and order (Jones 2012; Panggabean and Smith 2011). Declining security is disastrous for the marginalized citizens who have no power to protect themselves. However, it is an advantageous situation for power holders to exploit or coerce these citizens to support their competition for absolute power (A. Chua 2000, 2004). These insights imply that in chaos, it is not possible for the state to keep track of violence and human rights abuses. Also, if some power holders in the state play a role in strengthening chaos and in exploiting the grassroots for power politics, it would not be easy for the broader public to hold these power holders accountable. Thus the people cannot entirely rely on the state for protection in crises. In order to address this security challenge, privileged Indonesians, including CI tycoons, can leave Indonesia for other countries prior to and during times of turmoil; whereas the underprivileged grassroots, including struggling CIs, are struck by violence as defenceless victims of pogroms (A. Chua 2004; C. Chua 2008a)

The 1997-98 Asian financial crisis followed by the fall of the Soeharto regime was a tipping point in Indonesia's history. This period of time allowed opportunities for different groups in and outside the government to compete against each other in order to fill the power vacuum left by Soeharto. Anti-other violence was a part of these power competitions, taking place in strange and shocking ways. For instance, in May

1998, nearly five thousand shops and homes of CIs were burned and looted, and more than two thousand people died. Between 13 and 15 May 1998, 85 to more than 400 CI women and girls—alongside other poor indigenous women and girls—were systematically and spontaneously gang-raped and abused in public and private spaces, mainly in the capital of Indonesia, Jakarta (Colombijin 2001; Siegel 2001). Within a month, approximately 110,000 CI families, including the wealthiest ones, left the country for neighbouring countries, such as Singapore and Australia. These families carried with them massive amounts of Chinese capital, estimated at about \$165 billion (A. Chua 2000; C. Chua 2008b). An outcome of this chaos was the near Balkanization of Indonesia in that regional security experts predicted that Indonesia would break up in 1998 (Panggabean and Smith 2011).

From a social identity perspective, the examples above relate to violent identity-based conflict which is likely to occur in crises. These are situations where core group identities are narrowly defined as “us versus them,” e.g. Chinese minorities versus indigenous majorities, CI tycoons versus indigenous tycoons, and the state versus the society (Horowitz 1985, 2003; Purdey 2006a). Although identity differences do not cause violence, narrowly defined identities—alongside leaders’ effective mobilization and manipulation of these identities—do intensify tensions between conflicting groups (Rothbart and Korostelina 2011). In a worst-case scenario, identity politics could be used by leaders to fuel revenge against CIs or anything and anybody that the frustrated, underprivileged indigenous majorities considered the protectors of CIs (A. Chua 2004). This violent revenge was countered by entities that offered CIs

protection due to the shared interests between CIs and these entities, their concerns about Indonesia's stability as a whole, or the quest for power politics and security profits. A result of these engagements was a vicious cycle of violent anti-other actions and counter-actions in Indonesia between 1998 and 2002.

While these scholars focus on issues of Indonesia's security and ethnic Chinese identity crises, they have not fully articulated two important points regarding the structure and the people. The process by which latent conflicts escalate to run-away conflicts does not take place only because of a few immediate events, such as security and financial collapses and ethnic minority identity in crisis. The process has its roots in Indonesia's long-standing structural and social problems, particularly the continued misuse of power and pervasive governance and trust deficits. These issues have been avoided, suppressed, or rationalized by coercive and social control means (Anderson 2001; Coppel 1985, 2006b). Crises are opportunities for Indonesians to confront, express, and respond to these old problems, while at the same time coping with new challenges. Even in crises, conflicting parties do not have one single way of thinking and behaving, such that they are all completely uncontrollable – physically and emotionally, blindly allowing zero-sum violence against humanity (Mayer 2004). For instance, while some imams stressed not to harm the 'other', some followers took their command seriously, and others did exactly the opposite. Many rioters united to destroy Chinese-owned shops, other indigenous people united to protect their Chinese neighbours (Collison 2009). While most CI tycoons escaped violence in Indonesia, some other CI entrepreneurs decided to stay back to protect their families and work

with their country fellowmen to rebuild the nation (C. Chua 2008a, 2008b). Although these paradoxical experiences have been circulated among Indonesians who witnessed violence in the 1997-98 Asian financial crisis and the fall of the Soeharto regime, they have been marginalized by the mainstream literature. As a result, a simplistic understanding that in crises the Chinese and indigenous Indonesians are totally divided into two camps, i.e. “us versus them,” running *amok* against each other has dominated public and academic debates.

### **Crisis Management: Global Best Practices And Local Realities**

Scholars focusing on institutions examine the efficacy and effectiveness of crisis control and management in Indonesia. They explain that in order to control Indonesia’s internal security threats and potential crisis, Soeharto and his successors had to accept the adoption of the International Monetary Fund (IMF) and the World Bank’s (WB) Washington Consensus (WC) package. Indonesia had no better alternatives at that time. The WC package is a standard reform promoted for crisis-wracked developing countries—or failed, failing, or fragile states (FSs). The prescription encompasses democratic transitions based on well-established democracies’ experiences in free-market economies and good governance (Ramsbotham, Miall, and Woodhouse 2011; Richmond 2011). Advocates of this package assume that markets and democracy gradually transform all FSs and the world into communities of prosperous and non-violent nations; and individuals into thoughtful and responsible citizens and consumers. In the process, internal threats,

such as ethnic conflicts, religious zealotry, and other negative aspects of underdevelopment, can be eliminated (A. Chua 2004).

Against this conventional wisdom, the export of the WC package to developing countries and FSs without comprehensively examining the paradoxes and tensions within and between these two forces, and local realities, can be counter-productive. In the context of Indonesia, the operation of this package has exacerbated—but not resolved—communal conflicts (the so-called ethnic and religious conflicts) in highly determinate and predictable ways with potentially serious consequences, including the subversions of markets and democracy themselves (A. Chua 2004). Markets and democracy are not necessarily mutually reinforcing—as proponents of the WC presume. Markets and democracy benefit different groups; and hence, the rapid pursuit of a free-market and democracy would cause highly unstable and confusing conditions on the ground. Marketization further concentrates enormous wealth in the hands of the market-dominant ethnic minorities, particularly the Chinese in Indonesia (and Southeast Asia). Simultaneously, this process devastates the chronically poor indigenous majorities who cannot compete with the chronically market-dominant minorities without institutional and social support. Introducing democracy in these circumstances may lead to anarchy as opposed to peace. Many radicals among the majorities do take advantage of democracy to express their long-suppressed feelings of injustice by attacking all that they perceive as the causes of their suffering. In their eyes, these causes can be CIs, the market, the state, or even democracy. Indonesia's free-market and democracy foster the emergence of indigenous populist leaders in and

outside the government who scapegoat the resented CIs and stimulate ethno-nationalist campaigns. These campaigns demand Indonesia's wealth and values to be reclaimed by the so-called natives (*pribumi*), and Indonesia's economic development paths led by indigenous capitalists (A. Chua 2000). As Indonesia's neoliberal reforms continue, so do forces that radically counter and manipulate these reforms. The potential for opportunists, radicals, or populists to exploit the politics of ethnic minority hatred or economic nationalism remains intact partially because this politics serves the interest of these entities. After all, in order to counter such politics and the negative implications of the WC, Indonesian decision-makers must identify and empower institutions capable of mitigating the conditions of future anti-Chinese violence, while carefully handling democratization in the face of historically deep structural and social problems (A. Chua 2004; Panggabean and Smith 2011).

This counter-argument to conventional wisdom is useful in that it helps build awareness about the complex interactions between global crisis management practices and local realities. What this counter-argument has not thoroughly addressed, however, includes the following questions: first, how practical and sustainable is the solution focusing on the empowerment of Indonesian institutions? Would the chronically underprivileged indigenous majorities and middle-class Indonesians accept—or resist—the existing rules of engagement in the long term? These questions are important, because it demands Indonesia's populists, as well as policy and media analysts, to explain clearly to the broader public about the strengths and limits of Indonesia's neoliberal agendas. For example, some of, or all, these agendas aim to

strengthen the status quo in ways that might not be entirely acceptable to the majority of Indonesians. Also, there is an over-expectation among neo-liberals in the West and reformists in Indonesia that if developing countries and FSs continuously actualize neoliberal reforms, domestic problems, such as inequality, corruption, and ethnic hatred, will eventually be eliminated (Ramsbotham, Miall, and Woodhouse 2011). The clarification of what reforms are all about helps reduce such an over-expectation, while facilitating Indonesians to prepare themselves to address the risks, challenges, and opportunities associated with these reforms.

Second, do leaders always have the freedom to use scapegoating politics and provoke communal violence against CIs the way they like? From a strategic studies point of view, the success—or failure—of leaders' decision-making and manoeuvrings are linked to internal and external environments (Ramsbotham, Miall, and Woodhouse 2011, 99–111). Dynamics in these environments, such as diplomatic and economic pressures or the lack of public support from within, may prevent leaders from exploiting anti-other and anti-Chinese rhetoric and violence for the pursuit of their absolute power. Furthermore, according to SEA studies scholars, regional leaders learn that in order to sustain and enhance their political interests and the survival of the state, these leaders must skilfully strike a balance between domestic and international affairs (Azar 1990; Leifer 2005; Sukma 2004). They can do so utilizing messy and contradictory tactics. For instance, even Soeharto had to be careful when dealing with CIs. On the one hand, he informed CI tycoons of the rising resentment against CIs among the indigenous majorities in the wake of the 1997-98 financial

crisis. His warning allowed CI cronies to prepare themselves to face or escape the crisis. On other hand, his regime played a significant role in strengthening ethno-nationalistic sentiment and in directing the public attention to CIs and away from his regime (C. Chua 2008b). If anti-Chinese riots happened, these riots could aim at businesses' properties and government offices, but not at top CI businesspersons themselves. The strategy of "violence with limits" is based on the fact that the capital and skills of these CIs are vital to the development of the nation (Anderson 2001; Siegel 2001). Although there is no guarantee that violence can be completely controlled and limited in real-world contexts the way Indonesian power holders claimed, these entities understand that for the survival of the state and of themselves, they cannot do whatever they like with regard to the market-dominant minorities, particularly CI tycoons.

Most importantly, in the calculations of Indonesia's policy-makers, violence against CIs should have limits, in that it should not provoke negative reactions from the regional hegemon China and from other Southeast Asian (SEA) neighbours. These countries have strong interests in Indonesia's political and economic stabilities. China does respond to acts of violence against CIs by sending out "statements of concern" to the government of Indonesia. "A rebuke by Beijing over anti-Chinese riots in Medan in 1994 reminded Jakarta that China was still willing to interfere in Indonesia's domestic affairs" (Laksamana 2011). It is unclear if and how Chinese statements might be translated into actions. Still, there are two developments that made the Soeharto regime worried about the possibility, ability, and circumstances of China

interfering in Indonesia. The first was the Taiwan Crisis (1995-1996) when the People's Republic of China (PRC) conducted missile tests in the waters surrounding the Taiwan Strait. This was PRC's attempt to undermine Taiwan's presidential election as PRC denied recognizing Taiwan as an independent international entity and insisted that Taiwan should be a part of China (Fewsmith 1997). PRC's missile tests provoked the U.S., such that the U.S. President Bill Clinton ordered ships to enter the region and the Taiwan Strait in order to act as an asymmetrical balancing power in the conflict between China and Taiwan (Fewsmith 1997). The engagements among China, Taiwan, and the U.S. did not lead to actual military actions and counter-actions. Yet, the Soeharto regime understood that these emergencies might spill over to Indonesia, and that PRC might have a good justification to enter Indonesia's waters and lands. Second, Chinese nationalistic intellectuals' and populists' assertion that the future will belong to the East (the way China defines it) while the U.S. power has been in decline intensified Indonesian state elites' concerns about PRC's strategic goals in its relationship with Indonesia and with the world (Fewsmith 1997; Womack 2013). Nevertheless, if there were military interventions from outside, particularly from the PRC, these interventions would jeopardize Indonesia's sovereignty. This scenario goes against the interest of Indonesia as a whole. Because of these experiences, Indonesia's decision-makers have recognized the need to think and act carefully on the issue of CIs.

In sum, from the Indonesia leadership's point of view, even if the Indonesian state elites may have played a role in provoking tensions and even violence between the

Chinese and indigenous Indonesians, there were limits to this communal violence. This important insight, however, is not fully articulated by the mainstream literature. This absence is partially because many scholars perceive that state elites can use or abuse power to protect or harm civilians, including minorities, the way they like (Bertrand 2004; Coppel 1985; Purdey 2006a; M. G. Tan 1991). Some scholars might believe that domestic and foreign politics as separated and separable domains in state-building, and that outsiders do not significantly influence domestic politics of a given state. Realities on the ground, however, show otherwise. While the state has the responsibility to protect the people, some Indonesian state elites sometimes benefit from scapegoating politics and tensions between the Chinese and indigenous Indonesians. Yet, it is in the interest of these elites to ensure that there should be limits to this type of violence. These elites have learned that anti-Chinese violence does contain multidimensional risks, including security, socio-economic and political risks. After all, if the mainstream literature fully incorporated the above analyses, it would have been more realistic and holistic.

## **Outcomes: Changing State-Capital Relationships And A Justice Deficit**

### ***Changing state-capital relationships***

A few scholars argue that winners in the post-Soeharto era are CI capitalists, and that the state power has been weakened due to changing political conditions. CI capitalists, but not necessarily the state, have become the key drivers of post-Soeharto Indonesia's free-market and democracy (C. Chua 2008b; Cohen 2011; Harding 2008; Higgins 2012). In fact, that CIs play a significant role in Indonesia's state-building is

not totally new in Indonesia. The difference between the past and the present is that previous regimes officially limited the opportunities for CIs to participate in state-building and to be fully recognized by the state and society for what CIs had done for the country. By contrast, at present, barriers imposed on CIs have been gradually reduced by democratization. The private sector led by CI tycoons now can influence and even manipulate all aspects of Indonesia's state-building (*the building of institutions*).

Christina Chua, in particular, explains that democratized *reformasi* system facilitated the emergence of a plutocracy in Indonesia. It has not terminated the rule of the power circle consisting of politico-bureaucrats and Chinese capitalists. However, it has prompted a change of power relations between the two factions in favour of capital. In other words, a power shift has favoured the private sector—which is still dominated by CI tycoons. A key advantage for these CIs is that the new state could not survive without Chinese capital due to the country's economic indispensability to an Indonesian economy re-emerging from deep crisis. In these settings, major CI businesses have survived, recouped their losses, and directly or indirectly influenced the course of post-Soeharto Indonesia. "Indonesian state will become the state of capital" (C. Chua 2008b, 144). Chua's prediction contradicts the still-predominant international relations realism discourse. This discourse stresses that the only power that counts is military and political power, and that only the state has this power in order to deter security threats and ensure peace for the country. In other words,

realists view non-state actors and businesses as tools as opposed to equal partners with the state (Wilkinson 2007).

While Chua's book accurately reflects capitalists' abilities to adapt in general, the optimism that top CI businesses will lead the country in all aspects is not entirely persuasive for three reasons. First, CI businesses have opportunities but also constraints in their efforts to promote Indonesia's free-market and 'participatory' decision-making. While there are different kinds of corporations and business standards, there is still a strong perception that a few big corporations led by Chinese groups are on the side of evil. This judgement is based on an observation that some Chinese-led companies in Indonesia have not genuinely performed corporate social responsibility, and that these companies have supported corrupt power holders, exploiting the nation's wealth and resources, and abusing human rights (A. Chua 2004). Unfortunately, even if a few Chinese-owned companies have failed the public trust, the remaining Chinese in Indonesia and elsewhere may have to bear the blame because the public sometimes mistakes the Chinese as being one single group. Furthermore, the CI business executives' intentions to promote participatory decision-making, or democracy, are questionable. While talking about democracy, these capitalists may not hope to promote a kind of democracy that empowers the chronically underprivileged majorities to aggressively express their frustrations about historic gaps between themselves and Chinese capitalists. In addition, a few extremists and radicals perceive that CIs belong to a separate race with a different religion and special economic privileges, and that these CIs are only concerned with

their own well-being and the survival of power holders that protect them—but not necessarily Indonesia as a whole (Laksamana 2011, 25). With these matters in view, there is no guarantee that CI capitalists are able to win the hearts and minds of all Indonesians and lead the country the way they like.

Second, Chua's thesis does not discuss the following questions: (a) why is the post-Soeharto era the golden age for only CI tycoons but not indigenous capitalists?, (b) have tensions between CI and indigenous capitalists been over in the post-Soeharto era? Admittedly, Indonesian indigenous capitalists are not as strong as CI capitalists in terms of wealth, skills, and security and business networking. However, this does not mean that these indigenous capitalists can never improve in these areas, and that they would permanently accept the status quo. A question facing CI capitalists and Indonesia as a whole is: if indigenous capitalists become hegemon in Indonesia's economic development in the future, would they collaborate, co-opt, contain, or even worse, eliminate CI capitalists? In the past, high-profile indigenous entrepreneurs took advantage of the chaos of the 1997-98 Asian financial crisis and the fall of the Soeharto regime to eliminate their CI counterparts. They used slogans of –ism, “the people' power,” and “change” in ways that fuelled anti-other resentment among the chronically underprivileged indigenous majority, and indirectly supported radicals' attacks against the Soeharto family and Chinese cronies. At present, indigenous capitalists are multiplying. Many of them use their capital to pursue legislative positions and cabinet posts. Some become politicians and run for elections (Fukuoka 2012). It is unclear if and how zero-sum debates, or even worse, aggression between

CI and indigenous capitalists will reoccur in the future. However, the details above show that indigenous businesses do not totally agree with Chua's argument on CI capitalists leading Indonesia's policy-making.

Third, surprisingly, the mainstream literature about post-Soeharto Indonesia's Chinese and indigenous interactions does not thoroughly elaborate the linkages between internal and external dynamics and actors. Empirically and theoretically, policy-makers cannot formulate and implement policy without taking these linkages into consideration (Azar 1990; Ramsbotham, Miall, and Woodhouse 2011). For instance, the significant role of the new global superpower China in: Indonesia's post-crisis recovery, the rise of pro-market government and society, the comeback of Chinese capital, and Indonesia's support for CIs in their efforts to contribute to Indonesia's domestic and foreign policy-making is absent in the literature. In fact, Indonesian policy-makers and other policy analysts acknowledged that the effects of the 1997-98 Asian financial crisis and the fall of the Soeharto regime were too huge, and that Indonesians with the WC package were unable to address all these effects (A. Chua 2004; C. Chua 2008a; Sukma 2004). China was one of the neighbouring countries that actively offered Indonesia capital and joint development deals to be used in order to address some of the effects of the crisis (Kurlantzick 2006). It was Beijing that worked closely with Jakarta to encourage Indonesian businesses, particularly Chinese capitalists and skilled human resources, to return to Indonesia in order to help rebuild the country (C. Chua 2008b; Higgins 2012; Kurlantzick 2006). Admittedly, most area scholars' writing frames foreign affairs and Indonesia-China relations as part of static

historical issues and backgrounds of their academic arguments (Anderson 2001; Coppel 2006b; Klinken 2009; Purdey 2006b; M. G. Tan 1991). Yet, this framing marginalizes the fact that many of these foreign affairs are dynamic trends and conditions which significantly and unpredictably shape the changes inside Indonesia, and vice versa. Utilizing only a static approach in conflict description and/or analysis has prevented these scholars from developing a comprehensive knowledge system about the complex interactions between Indonesia's Chinese and indigenous populations.

### ***A justice deficit***

Feminists and human rights activists distance themselves from debates about power competition in order to discuss gender and justice issues. These scholars and activists argue that there is no real progress if Indonesia's state and society do not continuously address past human rights abuses. Particularly, the gang-rapes of Indonesian women and girls, mainly CI ones, caused long-term shocks, traumas, and embarrassments to many Indonesians and the concerned international community (Purdey 2006b; M. Tan 2006). In addition to the socio-psychological impact, rapes violate the rights to dignity and group identities and values of the women and their groups, especially as women are symbols, nurturers, and performers of these collective identities and values. As justice and social assistance have not been fully delivered to rape victims and their families, many of whom have been severely traumatized, these people do not find it easy to continue their lives (Eliatamby and Cheldelin 2011). Furthermore, the re-establishment of stability, improvement of legal norms, and economic growth in the

post-Soeharto era are not sufficient to address the consequences of rapes, and the loss of Indonesia's face—or national pride (*kebanggaan nasional*)—in international relations.

The above argument was built on legal and moral grounds. Thus it was strong enough to convince many Indonesian women and men of different ethno-religious backgrounds to speak in 'one voice' against rapes. However, legal justice and moral grounds *alone* are not enough to make a significant and sustained impact on policy-making and on the entire society of Indonesia. Some activists explain this shortcoming to be a result of the lack of resources and good will on the part of the post-Soeharto governments. Others discuss a lack of power to challenge perpetrators -- many of whom still hold important positions in the current government. Some also mention the lack of support on the part of the society, because many people assume that rapes are peripheral, or worse, women's problems. Others doubt if breaking the silence and speaking truths about rapes would result in justice, further communal conflicts, or ostracism (Cheldelin 2011; M. Tan 2006).

Still, key questions remain: (a) how many resources and how much will, power, trust, public support, and time will these campaigns need to effectively influence policy-making and move the society to act concertedly on violence against women and girls?, and (b) would the "victims-versus-perpetrators" arguments and legal procedures *alone* effectively help rape victims obtain access to justice? In fact, there may be a lack of a sound argument that can be used to engage all sectors of the

society—the public, private, and civil society sectors. Without a sound argument and inspiring male and female leaders who are able to articulate this argument eloquently and loudly, the achievements of legal and social justice campaigns would be limited. Such a situation can be different if the contents, evidence, and perspectives in the argument connect with—but do not disconnect from—priorities of Indonesia’s contemporary state-building. For instance: (a) what would be the benefits for Indonesia’s economic growth, human capital development, national security, and foreign policy if Indonesia seriously addresses the rapes; and what would be the consequences if Indonesia fails to do so?, (b) how would the fulfilment of the diverse needs of victims help enhance the legitimacy of the state, while deepening the relationship between the people and state? These questions are important and necessary in post-conflict recovery because they encourage people of different backgrounds to consider their shared responsibility and shared future, while welcoming the multiplicity and overlapping of roles, levels, interests, strategies, and approaches in the process of building a state and a nation (J. P. Lederach 1997). Unfortunately, the ideas and puzzles above are absent in the extant literature. After all, in order to influence Indonesia’s decision-makers to follow up on rape issues, there is a need for justice campaigns to improve their arguments and engage diverse change-agents that can contribute to the protection and promotion of human dignity in Indonesia’s state-building.

In summary, the above critical literature review maps the conflict life, utilizing insights from, and responses to, the extant literature, and some concepts of the field of

conflict resolution. While conflict mapping is encouraged in conflict intervention as it allows researchers to structure and connect information in a meaningful way, this practice has not been fully explored by the mainstream literature. One of the reasons for this state of affairs is that the extant literature tends to examine particular issues and actors of the conflict (e.g. state, security, market, or the majority versus minority discrimination); but it does not examine conflict life as a whole. This conflict life includes issues, actors, institutions, processes, and most importantly, the dynamics of interactions among these forces. This literature review helps address the gap in the extant literature by organizing information in terms of conflict life.

### **Implications For The Present And Future Research**

The extant literature discusses the conflict between Indonesia's Chinese and indigenous populations. It poses and also addresses the following questions: (a) why violence erupted against CIs in the wake of the 1997-98 Asian financial crisis and the fall of the Soeharto regime?, and (b) what to do about such violence? This literature review captures key arguments in the extant literature (*what has been known*), and provides evaluations of these arguments. The review eventually reveals unanswered inquiries or gaps (*what has not been thoroughly known*) in the extant literature which new research can help address.

What has been known about the research topic includes: root causes and conditions (i.e. structural and social problems), crises (i.e. financial downturn, power vacuum, and the collapse of law and order), and outcomes of the crises (i.e. changing state-

capital relations and a justice deficit). What has not been thoroughly discussed in the mainstream literature includes:

- (1) Why has there been a sharp decline in ‘anti-Chinese’ riots since the fall of the Soeharto regime? What are the implications for Indonesia’s state-building process?
  
- (2) What roles do CIs play in Indonesia’s state-building in the post-Soeharto Indonesia era? How are the interactions between Indonesia and China (*international politics*) and between Indonesia’s indigenous and Chinese populations (*domestic politics*) linked? How have these interactions changed in the post-Soeharto era?
  
- (3) Under what circumstances can justice campaigns successfully achieve the goal of helping rape victims obtain access to justice and Indonesians better build their state and nation?

New research, including this present thesis, addressing *some*, or all, of the above puzzles is important and necessary on intellectual, political, and ethical grounds. First, the research addresses a demand for studies examining the dynamic interactions between the Chinese and indigenous Indonesians in Indonesia’s state-building. This demand and the debates surrounding it have become clearer as Indonesia approaches the 2014 national election. Indonesians are eager to review the past and imagine

future directions of the country. In addition, well-established Indonesianists, including: Benedict Anderson and Thomas Pepinsky of Cornell University in the United States, and Jemma Purdey of Monash University in Australia, have wondered why there has been an absence of anti-Chinese violence for a decade (Cohen 2011; Fuller 2006; Pepinsky 2012). These Indonesianists previously anticipated that anti-Chinese riots would reoccur if there were a political or socio-economic transition -- considering that the root causes of this type of violence were not totally addressed. Realities on the ground, however, contest these analysts' predictions. Between 1998 and 2004, Indonesia was chaotic; but Indonesia, according to Andrew MacIntyre and Douglas Ramage at the Australian Strategic Policy Institute, has been a different country. The country is now a stable democracy and a fast-growing, competitive market, playing a constructive role in the broader international community (Pepinsky 2012). Furthermore, Indonesia's 2004 national election, the 2008 global financial crisis, and Indonesia's recent inflation have not resulted in large-scale anti-Chinese violence. Indonesia's post-Soeharto governments and more Indonesians have embraced Chinese capital, human resources, and cultures than before (Cohen 2011). Many CI entrepreneurs boast that they are now not necessarily defenceless victims of pogroms, and become the key drivers of Indonesia's free-market and democracy (C. Chua 2008a). The new research is essential as it meets the political and intellectual demands for examining these evolving realities and the discrepancy between what the Indonesianists presumed and what has taken place in Indonesia since the fall of the Soeharto regime.

Second, the research is value-added, as it advocates for sustainable and innovative conflict engagement as a rule—but not as an exception—in the field of peace and conflict studies. It highlights that research is a political act with consequences as opposed to neutral scholarly intervention. Therefore, research must *not* end when a political and/or socio-economic crisis is under control. Indeed, crisis and crisis control is only *a* part of conflict; but it alone does *not* reflect the entire cycle of dynamic conflict which includes start-up conditions (root causes), escalations-crises, de-escalations and post-crises, and recurrences in different forms and environments (Ramsbotham, Miall, and Woodhouse 2011). Thus examining post-crisis dynamics and situations is a way to know conflict as it is. Also, future research must focus on the happenings not only within national borders (*intra-state conflict and cooperation*) but also dynamics outside these borders. This is because most protracted conflicts, such as the conflict between Indonesia's Chinese and indigenous populations, are also parts of global and regional affairs (*inter-state conflict and cooperation*) (Azar 1990; Leifer et al. 2005; Sukma 2009). Conflicts in one capital can have spill-over effects into other places, provoking predictable and unpredictable responses from within and outside national borders (CFR 1998; Cronin 1998; Sandole 2007). Innovative research, therefore, must fully capture all these interrelated conflict developments and responses, articulating how the global and regional environments shape conflict dynamics and processes inside Indonesia, and vice versa. This innovative research is rare as the mainstream literature situates the tension between Indonesia's Chinese and indigenous population only in Indonesia's (static) domestic affairs.

The political costs of *not* conducting research sustainably and innovatively can be high for all parties involved. An example of these costs is a long-standing perception or rumour about Indonesia as a violent country where violent and ‘racist’ indigenous Indonesians always victimize defenceless market-dominant minorities, particularly CIs, and thus the free-market system. During 1998-2004, in order to raise awareness about justice issues, some academics and analysts exposed to the world violent anti-Chinese riots in Indonesia, using publications, media, and conferences in the Asia-Pacific region. The academics and analysts used provocative vocabularies, such as ‘anti-Chinese’ genocide, state-sponsored terrorism, and racism, effectively commanding regional governments, media, and the world to quickly react to violence in Indonesia. A downside of these campaigns, however, is that these powerful vocabularies do *not* reflect all sources and consequences of the violent conflicts. For instance, research has been labelled as anti-Chinese violence; but victims and perpetrators have been both CIs and indigenous Indonesians (A. Chua 2000). Furthermore, these vocabularies have become the long-term memories of many people. Stereotypes of Indonesians continue, cultivating mistrust among non-Indonesians and the loss of face or national pride (*kebanggaan nasional*) among Indonesians. Functioning trust and national pride are important, because without them, the state, businesses, and the people cannot work to address the consequences of past violence and to move the country forward in collaborative ways. To make matters worse, some businesses duplicate the vocabularies of Indonesia’s *amok*, racism, anti-Chinese and anti-capitalism violence, in order to justify their intention of moving their businesses from Indonesia to neighbouring countries that offer cheaper

labour forces. This issue negatively impacts Indonesia's internal stability and foreign relations with the neighbours. Some Indonesian entrepreneurs have used the language of victims as a means to deny their "objectionable (business) practices" (A. Chua 2004, 179). Furthermore, if analysts do not revisit and expand their work by examining post-crisis settings, the relationships between the analysts and local interlocutors can be problematic. The locals understand that despite their good intention, academic interventions have played a role in sustaining stereotypes about Indonesians, and tensions among the ordinary people, businesses, and policy communities.

After all, the point of the new research is neither to deny past violence nor to go against other analysts' contribution to the building of knowledge about Indonesia's conflict and cooperation issues. Rather, it aims to raise awareness that research has intellectual, political, ethical, and even trans-border consequences, and that these consequences will be irreversible if research is not conducted sustainably and innovatively.

### **The Thesis' Central Questions and Argument**

The thesis addresses the following questions:

- a) How have the interactions between Indonesia's Chinese and non-Chinese populations changed in the post-Soeharto era? How has the role of Chinese Indonesians (CIs) in state-building changed in the new context?

b) What are the policy implications of all these changes?

Post-Soeharto Indonesia's political landscape has provided the conditions for neutralizing the uneasy relationship between the Chinese and indigenous Indonesians, and for broadening the roles of Chinese Indonesians (CIs) in Indonesia's socio-economic and political arenas. There are two reasons for these phenomena. First, after the 1997-98 Asian financial crisis followed by the fall of the Soeharto regime, Indonesia's leadership has lessened the strain between the Chinese and indigenous Indonesians by improving the rule of law. This change is welcomed by the society, especially as more Indonesians have come to understand: (a) the irreversible socio-economic, political, and trans-national risks associated with violence against CIs, particularly CI entrepreneurs, and (b) the benefits of supporting CIs to fully participate in Indonesia's domestic and foreign policy-making. Second, CIs have played a greater role in connecting governments, corporations, and the peoples of Indonesia and China than they previously did. The changing roles of CIs, as such, have also reflected post-Soeharto Indonesia's choice of fostering comprehensive relationships between Indonesia's Chinese and indigenous groups and between Indonesia and China. This choice is wise, especially as China has become a new global superpower, and the biggest trading and a long-term economic partner with Indonesia. The outcomes of Indonesia's transformations seem impressive. Under the leadership of Susilo Bambang Yudhoyono (SBY) (2004-present), the country has been regarded by the world policy community as a success story regarding reform. Indonesian diplomats have asserted that reforms are effective in Indonesia, making

the country a pro-market and Chinese-friendly society. It has been known as the fastest growing economy, with the biggest middle-class, multi-ethnic society, and largest democracy in Southeast Asia (Pepinsky 2012). These stories and images surprise the world, enabling Indonesia to be in a higher position to shape global economic order and affairs.

Despite these remarkable achievements, Indonesia's reform is not entirely risk-free. Some changes in Indonesia's domestic and foreign policies have recently created a climate of uncertainty. This climate does not cause the collapse of all Indonesia's achievements; however, it contests the substance and sustainability of these achievements.

First, the power, wealth, and opportunity gaps between the already privileged minorities and the underprivileged majorities have become worsen. This trend has continued despite Indonesia's impressive economic performance (between 5.5% and 5.8% growth in 2014 —well above the figure for the previous decade) (Whitley 2014). The privileged minorities include CI tycoons, and some indigenous capitalists, foreign corporations, and Indonesian bureaucrats and security forces. The underprivileged majorities are ordinary and struggling Indonesians. The widening gaps, on their own, do not cause violence between these minorities and majorities; but they become a condition for populist politics and anti-other sentiments and acts in the long term. Indonesia has a long history of tensions and distrust among the state, CI businesses, and the indigenous people, and particularly between the last two groups.

In the past, sporadically, these tensions and distrusts escalated into communal violence. This violence was sometimes encouraged by spoilers and opportunists in the government, military, police, business, and religious communities in and outside Indonesia (Purdey 2006b). The violence even spilled over into the neighbouring countries, provoking trans-national diplomatic crises (Cronin 1998). Although violence has been effectively contained by coercive means in the post-Soeharto era, the root causes, conditions, and consequences of violence, including the gaps mentioned above, have not been adequately addressed. As a result, uneasy relationships between and within CIs and non-CIs remain intact in spite of the fact that there has been a window of opportunity in the push for better relationship between these groups and for the protection of CIs. The possibility of future conflict recurrence and its spill-over effects, therefore, cannot be completely ruled out.

Second, corruption and moneyed politics involved by state elites has made a mockery of Indonesia's democratization and deregulation. This trend has fuelled public anger, and has disappointed current and potential business partners and investors (Control Risks 2012).

Third, on Indonesia-China bilateral relations, China's shift from win-win collaboration rhetoric to unilateral actions has threatened Indonesia's national interests not only in trade and development agendas but also in the Natuna Islands in the South China Sea (Parameswaran 2010; Storey 2013; Supriyanto 2012; Womack 2013). These trends occur in ways that Indonesia finds it exceedingly difficult to fix.

Furthermore, due of a high level of power imbalance, the SBY administration and CI professionals that have helped foster the Indonesia-China comprehensive relationship are too weak to deal with China's aggressive rise (Womack 2013). As a result, these players have been on the front line for the domestic public's and media's criticism. The intensity of criticism is high partially because the happenings contradict what Indonesian constituencies expected to see out of Indonesia-China friendship and Indonesia's reforms, such as collaborative development and stability.

These evolving and overlapping trends create a twofold effect. One is the return of –ism politics, including economic protectionism and resource nationalism mixing with identitism. These issues have spilled over into the external environment, making it unpredictable for investment and regional cooperation (Davies 2009; Neumann 2012). The second is the private sector's unfriendly responses to Indonesia's return of –ism politics. Many corporations, including Chinese-owned firms, consider moving their businesses to other places and countries that offer a more stable environment and/or cheaper labour forces and operating costs (Bisnis Indonesia 2013; Fitriani 2013). Such a response has fuelled frustration among the impoverished majority Indonesians as these people have feared that they would lose job opportunities. It has also exacerbated tensions between Indonesia and the neighbouring countries, especially as these players are competing against each other in order to attrac foreign investment and partnership. Indonesia's policy-makers have prioritized diplomacy, defence cooperation, and internal steady reform to handing these tensions. However, these policy-makers are cautious that political instability and its domino effects will be high

if multiple competitions and conflicts, i.e. trade and business conflicts, maritime disputes among Indonesia, other countries of Southeast Asia, and China, and historic tensions between the Chinese and indigenous Indonesians, escalate, or are escalated, into crises at the same time (Nehru and Bulkin 2014).

Ultimately, these risks and uncertainties in Indonesia's domestic and foreign policy-making will continue in the coming months. But they will have little impact on the overall decline of violence against the Chinese, market, and democracy—which is Indonesia's modern nation-state institutions in general. The 2014 presidential election is the opportunity for Indonesian leaders to demonstrate their abilities to unite the country to discuss and manage the realities and stories of the Chinese opportunity and/or challenge in ways that contribute to broader security contexts. It is also important for Indonesia's state elites to inform Indonesian voters and the world community of their vision of Indonesia's future and roadmaps to this future.

### **Theory and Research Methodology**

The thesis examines the changing interactions between the Chinese and indigenous Indonesians in the post-Soeharto era, and the policy implications of these interactions. In doing so, the thesis adopted Edward Azar's linkages framework for analyzing how events, issues, and actors in a nation-state shape, and are shaped by, broader geopolitical and regional economic contexts.

Conflicts are characterized by a blurred demarcation between internal and

external sources and actors. Moreover, there are multiple causal factors and dynamics, reflected in changing goals, actors, and targets. Finally, these conflicts do not show clear starting and terminating points (Azar 1990, 6).

Reducing overt conflict requires reduction in levels of underdevelopment. Groups which seek to satisfy their identity and security needs through conflict are in effect seeking change in the structure of their society. Conflict resolution can truly occur and last if satisfactory amelioration of underdevelopment occurs as well. Studying protracted conflict leads one to conclude that peace is development in the broadest sense of the term (Azar 1990, 155)

There are three examples to illustrate Azar's points. The first involves the interconnectedness between Indonesia's domestic and external environments. The thesis places the relationship between the Chinese and indigenous Indonesians in the context of Indonesia's domestic politics and foreign policy with China, a new global superpower. The thesis understands that changes in relationships between the Chinese and indigenous Indonesians within Indonesia's borders impact Indonesia-China bilateral relations, and vice versa (Sukma 2009).

The second involves the interconnectedness between Indonesia's economic development and broader security and political contexts. The thesis contends that a safe security and political environment encourages economic development activities.

By contrast, an unpredictable security and political environment discourages development. The promotion of sustainable and equitable development does not automatically equal sustainable peace. However, this development is one of the conditions for making the social and political environment less conducive to violent conflict (and violent conflict resolution). By contrast, unsustainable and unequitable development creates conditions for security and political problems for the state (Azar 1990).

The third is the relationships among past, present, and future conflicts and their resolutions. Tensions and gaps between and within nation-states about distribution and recognition issues are rooted in a colonial legacy which imposed European ideas of territorial statehood onto groups based on the politics of divide and conquer (*divide et impera*). Furthermore, it does not mean that these imposed ideas can be entirely eliminated in post-colonial societies, including Indonesia. In fact, the ruling elites of a modern, nation-state Indonesia sometimes find the politics of identity and divide and conquer “useful” or “necessary” for the maintenance of stability and order (Anonymous Security and Policy Analysts 2009). This is particularly true considering that the policy of divide and conquer involves the creation or encouragement of divisions among the subjects as a way to prevent them from forming alliances against the sovereign—or a small group of ruling elites.

Furthermore, the power of the sovereign has been justified by the predominant international relations realism discourse which highlights that the Westphalia system

recognizes states as primary decision-makers in international politics (Hobbes 2009), and that everything else, such as specialists, capitalists, and the people are forces strengthening the power of the sovereign (Marx and Simon 1994a; Schmitt 2007). Although there is resistance on the part of the subjects, these attempts have not yet led to any obvious fundamental alteration of the Westphalia system (Ramsbotham, Miall, and Woodhouse 2011). Thus, even in post-Soeharto Indonesia, the state system is still dominated by a few elite minorities (e.g. indigenous bureaucrats, Chinese Indonesian tycoons, and some indigenous capitalists). In other words, Indonesia's democratization and marketization are evolving; and yet, without good will on the part of the privileged state elites, these processes may not guarantee fully democratic decision-making, sustainable consensus-building, and effective empowerment initiatives that favour the chronically underprivileged majorities (A. Chua 2000; C. Chua 2008a; Williams 2013).

The value of Azar's analytical framework is that it encourages the researcher to explore linkages and their nuances as far as her eyes can see. This practice of broadening one's point of view requires work in trans-disciplinary studies. These studies enable the researcher to confront what she knows well (e.g. international relations and conflict and political risk analysis) and what is less familiar (e.g. social identity, economics, and food security and environmental politics) in the researcher's project. A limit of this framework is that it may not sit well with reductionists who articulate events, issues, goals, and actors as totally isolated and static components, and disconnect these components from larger and dynamic geo-political and regional

contexts. For instance, as discussed in the literature review of this thesis, there are research projects examining only Indonesia's historic prejudice against minorities and social identity crises, utilizing dynamic contexts as static backgrounds to make their points. These projects neither capture conflict dynamics nor thoroughly explain the nuanced interlinks between social identity issues and Indonesia's development stages, policy-making environment, and the fast-changing global economic and regional geopolitical landscapes. As nuances are at the core of the researcher's agenda, the researcher has learned to go beyond reductionism in order to practice approaches focusing on linkages in the thesis process.

Field research is one of the steps in this thesis process, especially as it emphasizes the exploration and assessment of nuances in the Chinese and indigenous Indonesian relations—both in the domains of domestic and international affairs. Furthermore, the researcher was curious to understand how Indonesians themselves articulate facts and stories about the research subject, and how these facts and stories connect with—or disconnect from—the existing literature. This learning process means the researcher's interpretations of interpretations about the complex relationships between the Chinese and indigenous Indonesians and between Indonesia and China in the post-Soeharto era. For this reason, the interlocutors and readers of the thesis do have the opportunities to agree and disagree with the researcher's analysis.

Data in this thesis are considered as creative interlocutors as opposed to neutral information and objects. The information provided by the interlocutors may connect

and clash with the researcher's perspective; yet, the fact that the researcher and the interlocutors had the opportunities to exchange ideas is valuable. The interlocutors' insights have stimulated and enriched the researcher's literature review, interpretations, and analysis. Their insights did not dictate how the researcher's learning and writing should take place.

Fieldwork took place in the fall of 2011 in the U.S. and in the summer of 2012 in Indonesia and Southeast Asia. Data were collected through informal dialogue with about 12 Indonesian professionals who are highly educated and who currently work in public and private sectors focusing on security and policy analysis and international relations. These individuals often identified themselves as Indonesians, but in some particular conversations, they described themselves as Chinese versus non-Chinese. Speaking to individual interlocutors in the public and private settings in which they felt comfortable allowed the researcher to gain insight into Indonesia's achievements, priorities, and challenges in the political, socio-economic, and belief-value systems as articulated by those closest to these systems. Informal discussions as opposed to interviews allowed interlocutors to articulate their own thoughts, observations, and evaluations about a particular topic (Sandole 2008). By contrast, formal interviews might make the interlocutors nervous, while at the same time, widening the gap between the researcher and the interlocutors. In addition to the researcher's conversations with these interlocutors, the researcher explored other newspapers and social media, including: *Bisnis Indonesia*, Inside Indonesia, the Jakarta Globe, the Jakarta Post, the Asia Society, Asia Times, [tompepinsky.com](http://tompepinsky.com), [tanotofoundation.org](http://tanotofoundation.org),

Sydney Morning Herald, Financial Times, YaleGlobal Online, the Diplomat, webpage of the Indonesian Embassy in the U.S., and Control Risks. The goal of doing so is to evaluate how far the data gathered from the field were, or were not, in line with mainstream understanding about the relationships between the Chinese and indigenous Indonesians and between Indonesia and China.

The researcher also travelled to places where meetings were not arranged. These places included: (a) wet markets (*pasar*) in Jogjakarta, Indonesia where small businesses and the majority of ordinary Indonesians (including the poor who lived with less than \$2 per day) discussed how their situations were impacted by changes in domestic reforms and Indonesia-China trade relations; and (b) a Mandarin classroom in the mosque in Jakarta where Indonesians of different ethnic groups talked about their still-ambiguous but non-violent relationship with the Chinese. The research sites included conference rooms in Washington, D.C. in the United States where international policy-makers and Indonesian diplomats talked about Indonesia's past and future directions and possible responses to the rise of China. The learning involved in visiting these places allowed the researcher to deepen and broaden her critical thinking and analysis. These travels were essential, helping the researcher further test claims made during discussions with other interlocutors about the research topic. In other words, they helped cultivate in the researcher an interest in exploring nuanced and contradictory facts and stories about the Chinese and indigenous Indonesians and Indonesia and China.

This thesis recognizes that trust-building between the researcher and the interlocutors is not linear. There were two advantages for the researcher in this process. First, the researcher operated independently, utilizing English and Indonesian language (*Bahasa Indonesia*) where necessary. This attempt helped shorten communication barriers between the researcher and the interlocutors. Second, many Indonesian interlocutors encouraged the researcher's sensitivity and/or boldness in different conversational contexts, particularly those Indonesians who work in the fields of policy analysis and education. These interlocutors hoped to hear ideas that contributed to their professional work and Indonesia's state-building. "Sensitivity" means that the researcher was willing to listen to truths as articulated by the interlocutors. For instance, if the interlocutors expressed that democratization and development activities have mitigated anti-other violence (e.g. anti-state, anti-Chinese, and anti-market), the researcher would display the will to take this opinion as it was without over-interpreting it. "Boldness" means that the researcher shared comments and critique in a straightforward and friendly manner where appropriate and when these interlocutors expressed their willingness to hear nuanced insights from the researcher. Against the researcher's principle of being sensitive and bold is a zero-sum discussion. Attacking the points claimed by others in a total win-lose manner is counter-productive because these people might launch a counter-attack in order to protect their faces or esteem. It is important to acknowledge that protecting self-esteem is a human basic need and a right. For example, the researcher did not openly criticize assumptions in diplomats' and entrepreneurs' public speeches on Indonesia's rise and Chinese-friendly society and China's peaceful rise, because she understood

that these were diplomatic and face-saving talks as opposed to mutual dialogues and critical learning.

One of the challenges facing the researcher relates to the validity of information. Regarding failures in domestic and foreign policy-making and implementation, as well as corruption issues, the researcher sometimes did not spell out exactly which bureaucracies, security forces, corporations, and individuals were involved. As a result, the reader might wonder about the validity of information or even the clarity of the research agenda. This state of affairs is due to the fact that information on these issues is not entirely thorough or open to the public. In order to address this challenge, the thesis incorporated into the researcher's arguments about governance deficits the opinions available in mainstream newspapers and insights claimed by anonymous interlocutors. After all, the research obtained value-added knowledge through this experience and other learning efforts above.

## **Outline and Chapters' Summaries**

**Chapter One** is the thesis' introduction. It captures the key argument of the thesis and theory and research methodology that informed the thesis process.

**Chapter Two** provides a literature review in the form of conflict mapping. This means that while the thesis reviews and critiques the extant literature, it also organizes information in ways that explain conflict as a whole as opposed to disconnected components of the conflict life process. The chapter then articulates the intellectual

and political grounds of the thesis, and eventually outlines major research questions and central arguments of the thesis.

The following chapters provide descriptions, interpretations, and analyses of the complexities of the interactions between Indonesia's Chinese (*orang Tionghoa*, or *Cina*) and indigenous (*pribumi*, or *asli*) populations. All chapters emphasize that even in the post-Soeharto era, CIs continue to dominate non-traditional security domains, e.g. domestic and trans-national development, as well as Indonesia-China diplomatic relations; whereas indigenous Indonesians dominate defence and politics. These populations may have distinct roles, but their roles are linked, such that one without the other will be likely to devastate the country—both in domestic and international affairs.

**Chapter Three** examines the historically asymmetrical relationship between the Chinese and indigenous Indonesians. Indonesian policy analysts often narrate a 'social contract' that *the Chinese foster economic development, while the indigenous Indonesians strengthen political and security issues*. This contract suggests that Indonesians have the potential to contribute to Indonesia's state-building; and yet, the skills, opportunities and benefits of Indonesians of different social groups in different aspects are neither equal nor the same.

The chapter then explains the continuity of the above 'contract' in post-Soeharto era. Indonesia has not successfully come up with alternatives, and that alternatives to the

established rules of engagement are unnecessary or impossible. For instance, there were a few attempts to build Indonesia's political economy without CI capital and human resources. Yet, these attempts proved counter-productive, causing capital flight, political and socio-economic instabilities, and regional diplomatic tensions. Such experiences led moderate Indonesians to support CIs playing a greater role in post-Soeharto Indonesia's state-building, while suppressing attempts to provoke violent interactions between CIs and indigenous populations. These changes permit de-escalation, or a pause, of violent conflicts between these populations.

In addition to domestic factors, changes in the external environment partially contribute to the de-escalation of the uneasy relationship between Indonesia's Chinese and indigenous populations in the post-Soeharto era. China has increasingly played a significant role in Indonesia's economic development. This trend occurs in the form of joint ventures which are negotiated and sustained by Indonesia's top CI entrepreneurs who have capital and resources in both countries. In turn, Beijing has encouraged Jakarta to further protect and promote the role of these CIs in Indonesia's state-building, particularly in the area of Indonesia-China relations.

The chapter eventually discusses positive outcomes of the de-escalation of tensions between Indonesia's Chinese and indigenous populations in the post-Soeharto era – as understood by Indonesia's decision-makers. These outcomes include stories about the comprehensive relationships between these groups, and between Indonesia and China. From the points of view of international policy and business communities, these

relationships partially constitute conditions for Indonesia to emerge as a forward-looking, democratic, and prosperous country which potentially becomes a model for other transitional societies.

**Chapter Four** argues that positive outcomes of Indonesia's rise as described in chapter two are impressive but they can be short-lived. This is, in part, because the country's fundamental governance deficit problems have not been thoroughly confronted and addressed. These problems include: the highly unequal distribution of wealth, power, and opportunity; rampant corruption; socio-environmental injustice; and periodical abuse of nationalism and other –isms for power politics. These problems have increasingly affected lives of the ordinary and struggling majority Indonesians. They have also impacted the legitimacy of the Indonesian state, as well as the credibility of upper and middle-class CIs who are empowered by the state to lead Indonesia's development issues. As Indonesia is in the 2014 presidential election, these interrelated issues become major sources of debates, and even divisions within and among the government, private sector, and the society. Indonesia can be at a tipping point – if these debates are not handled carefully.

**Chapter Five** expands chapter three's argument about Indonesia's short-term rise and long-term uncertainties. It highlights that the external environment, with regard to China's shift from a benign to an aggressive hegemon in international relations, plays a significant role in intensifying Indonesia's uncertainties in all aspects. Specific examples supporting this argument are drawn from the highly unequal competitions

between Indonesia and China in trade and regional markets, and in the disputed Natuna Islands in the South China Sea. China's aggressive rise and Indonesia's inability to push back, as such, complicate the interactions between the peoples in the region, e.g. between indigenous Indonesians and CIs (and Chinese of different nationalities). In this context, possibilities for deeper relationship-building between these groups may be halted, while a false perception, or even a fear, that China's rise might lead to the rise of all Chinese at the expense of others' ascents. CI businesses and professionals, as well as indigenous bureaucrats, who promote cross-border collaborations between these governments and populations have been subjected to public and media criticisms. These developments show that Indonesia's external and internal challenges increasingly overlap, and that these challenges have been neglected by the common narrative of Indonesia's rise. Indonesia decision-makers' unclear agendas of balancing external and internal challenges have created a confusing climate for business investment. It remains to be seen how far Indonesian leaders can unite the government, private sector, and the people, in order to address all these external and internal challenges at the same time; and eventually to move Indonesia's tipping point to a turning point.

**Chapter Six** re-summarises the central argument of the thesis and articulates the researcher's evaluation of Indonesia's Chinese options in the state-building process. It understands that even though the mutual gains template: *the Chinese do development, while indigenous Indonesians focus on politics and security* encourages Indonesians of unequal opportunities, social capital, and skills to work for one goal— state-

building, it is *not* a panacea for conflict de-escalation and resolution. It cannot guarantee permanently peaceful and neutral interactions between the indigenous and Chinese and between Indonesia and China. This is inevitable considering the fact that these interactions are shaped by, and are shaping, the fast-changing domestic and external environments. These changing environments allow these people to further connect—or clash—with each other.

In particular, if China's engagement with Indonesia and the world is peaceful, the relationship-building between the Chinese and indigenous Indonesians will be evolving positively. By contrast, if China's rise is aggressive—as what is happening now, the interactions between these groups become unpredictable. Indonesian nationalists are concerned if China's rise will lead to status quo change in international affairs, while emboldening the Chinese to influence Indonesia's decision-making in all matters. Similarly, the Chinese in Indonesia still wonder if the majority of Indonesians would like to alienate them when trade and maritime conflicts between China and Indonesia escalate, or even worse, explode. Based on their past experiences, Indonesians learned that if there is a violent clash between the Chinese and indigenous Indonesians, it will spill over to the neighboring countries that will consider intervening in order to protect their interests and stabilize Indonesia. Indonesians do not hope to see this scenario happen because it goes against Indonesia's sovereignty. Thus, it is in Indonesia's interest to effectively address the conditions for this scenario, including the risks associated with the conventional template of 'mutual gains'.

Overall, critically confronting this template does not mean that Indonesians can, and should, get rid of their existing state-building patterns, especially as alternatives to these patterns have not obviously existed. The 2014 national election is the right time for Indonesians to collectively discuss how to better assess and adjust the template in ways that fit Indonesia's state-building stages, goals, and circumstances, and how to use it in order to imagine and actualize their shared future.

## **CHAPTER III: CONFLICT DE-ESCALATION BETWEEN THE CHINESE AND INDIGENOUS INDONESIANS IN THE POST-SOEHARTO ERA**

*Abstract: The decline in anti-Chinese mixing with anti-institution riots in post-Soeharto Indonesia can be interpreted as a consequence of two interrelated factors. First, post-Soeharto governments and the Indonesian public condemn and contain these riots, as they understand that it is important and necessary to continuously include Indonesia's Chinese communities in Indonesia's state-building. Through their past experiences and strategic calculations, Indonesia's key decision-makers learn that the costs, or potential costs, associated with physical violence against Chinese Indonesians, particularly Chinese Indonesian entrepreneurs, would be devastating for the stability and prosperity of Indonesia and Indonesia's neighbouring countries. Second, China's rise as a new global superpower has an impact on the interactions among the Chinese and non-Chinese groups. Chinese Indonesians can play a greater role in strengthening Indonesia's political economy and in Indonesia-China bilateral relations that they previously did not.*

### **Introduction**

Despite their asymmetries and differences in terms of socio-economic and political power, the relationship between Chinese and indigenous Indonesians are not always absolutely zero-sum. In fact, the survival and socio-economic and political interests of these groups are interrelated, and therefore, Indonesians understand the need to navigate and avoid hostile interactions while establishing strategic collaborations and

ad hoc partnerships. In the post-1945 independence era, Indonesian leaders, mostly non-CIs, have claimed to base the state legitimacy on its commitment to promoting political stability, economic development, and freedom—which are the basic needs and interests of the Indonesian population (Cronin 1998). These national leaders understand that their state-building strategies will not be possible without engaging Chinese Indonesians (CIs), particularly those who possess strong capital, technologies and sciences, skills, and business and political networks in Indonesia and across Southeast Asia (A. Chua 2004; C. Chua 2008a; Zenner 1991). CI businesses realize that it important to engage in business and social welfare programs with indigenous communities, but also to maintain and strengthen their relationships with Indonesian bureaucrats, the police and military, as well as foreign investors (Zenner 1991). By doing so, these CI businesses can help foster Indonesia’s stability and development, while advancing their safety and interests.

*It is widely known that indigenous Indonesians’ strengths are in political and security matters, whereas CIs’ strengths are non-military and non-political matters, e.g. economics, trade, banking, technologies, sciences, and education. CIs’ involvements in national political and security affairs were prohibited under the Soeharto regime. In the post-Soeharto era, however, new regulations empower more CIs in Indonesia’s state-building, such that there have been more CIs in national and international affairs, and more non-CIs have entered enterprises successfully. But it will take us [indigenous Indonesians] a few generations to catch up with CIs on the economic development front. Likewise,*

*CIs have to take time to compete with indigenous bureaucrats in the political and security arenas. In any case, under the leadership of Susilo Bambang Yudhoyono, there is further acknowledgement of the important role of Indonesia's Chinese—alongside other minorities—in Indonesia's state-building. For this reason, anti-Chinese, anti-state, or anti-something riots are not, and will not, be tolerated by the Indonesian government. Because of institutional protection and support, CIs, the Chinese from China, and other foreigners should be happy to do business in Indonesia (Interview with Indonesian Diplomats 2012).*

This perspective highlights a common pattern in Indonesia's state-building: CIs have good resources (e.g. wealth, human and social capital, and networks) regarding economic development, and therefore let CIs lead economic development; whereas non-CIs strong with security and politics, hence, let them handle security and politics. This pattern was 'thick' with Indonesians' consciousness and the memories of foreign traders and investors operating in the country, and was reinforced by the established socio-economic, political, and cultural institutions for decades. This pattern, however, has been tested when post-Soeharto governments and societies have focused on reforms, hoping to better adapt to the new political environment. In the eyes of Indonesians, an evidence of this adaption is that CIs by legal reform can contribute to Indonesia's state-building in all aspects like other non-CIs. These insights are of great importance, especially as they reflect the conventional wisdom about interactions between CIs and non-CIs in the context of Indonesia's state-building. Government

officials and policy analysts in Jakarta have come to acknowledge the once uneasy relationship between Indonesia's Chinese and the indigenous population. They also understand the necessity of protecting CI entrepreneurs and foreign investors, because these players remain the key drivers of Indonesia's economic growth and infrastructure-building projects (C. Chua 2008a; Sukma 2009). Skyrocketing gross domestic products (GDP) and rapid industrialization of Indonesia are understood by most Indonesian political and industrial leaders as a remedy for mitigating poverty and violent conflicts, and for strengthening Indonesia's state legitimacy, social harmony, and position in global affairs. Furthermore, Indonesia's government officials believe that as post-Soeharto institutions can correct their deficiencies in order to move the country forward, and thus, there is no need for radical change in the state system. "Why [is there a need for] fundamental change? This will lead to chaos, but not stability. Marketization and democratization are strengthening national stability" (Anonymous Diplomats 2012). In other words, Indonesia's post-Soeharto reforms do not refer to change in fundamental rules of engagement among and within the state, private sector, and society. Instead, it refers to the repression and avoidance of potential hostile interactions among the people, including the Chinese and indigenous Indonesians, within the established order (*conflict management*).

This mainstream thinking holds several assumptions. First, asymmetries over political and socio-economic power among CIs and indigenous Indonesians can be best managed by military and police's deterrence tactics or legal reforms emphasizing prejudice and discrimination reduction. While over-emphasizing the restoration of the

rule of law and rapid growth and industrialization in post-violence contexts, this approach does not thoroughly examine and address other important issues, such as the need for reconciliation among the peoples. “Reconciliation” require transforming the relationship between the parties so that future violent conflicts appear unthinkable and undesirable (*bottom-up peace*) (J. P. Lederach 1997; J. Lederach 2010). This objective cannot be achieved only by the economic development mandate and/or legal reforms (*top-down peace*). Without reconciliation, the quality and sustainability of Indonesia’s stability, prosperity, and freedom may not be guaranteed. Second, the conventional wisdom does not squarely confront the fact that legal reforms and the strengthening of security forces may not always be sufficient in containing communal tensions, and in promoting freedom or fairness. For instance, the active protection and promotion of upper and middle-class CIs in private sector, politics, arts, and other walks of life partially help reduce negative stereotypes and perceptions about CIs vis-à-vis the indigenous people. However, this trend is often questioned and pushed back by some hardliners. These entities may presume that the Indonesian government is not entirely ‘fair’, as it is relying heavily on CI human capital as opposed to indigenous Indonesians, in economic sectors and foreign relations with China. In times of transitions and Indonesia-China bilateral relations crisis, these voices stimulate nationalism and other –isms among the people and within the government, such that there may occur negative debates and unnecessary confrontations involving CIs and indigenous Indonesians. Third, the existing political and socio-economic institutions are functioning, forward-looking, and good in that these institutions sustain Indonesia’s democracy, stability, growth, and freedom. This assumption understands

these buzzwords as tangible and visible ‘things.’ For example, democracy as ballot boxes for national elections and even majority rule; stability as the absence of physical violence or the containment of anti-state forces; and development as strong buying and selling markets and large GDP; and freedom as individuals’ capabilities to compete against one another in the free-market system, and to participate in the consumer society. Because of this assumption, some Indonesia’s policy-makers do not necessarily pay attention to nuanced ways of making sense of these buzzwords. For example, democracy and development are understood as conditions for protecting and advancing human freedom and dignity, and vice versa. As a result of not fully recognizing these meanings, many individuals and institutions resist the possibility of changes in the engagements among bureaucrats (mostly indigenous Indonesians), capitalists (more CIs entrepreneurs, and less indigenous entrepreneurs), and the masses (ordinary and struggling Indonesians of diverse ethno-religious groups). Thus, the possibility of transforming conflict management to resolution and transformation seems unlikely. In the eyes of Indonesia’s policy-makers, re-structuring the established order is an unpredictable and unnecessary enterprise.

Despite the above concerns about the efficacy of Indonesia’s policy-making and implementation based on these assumptions, Indonesia’s decision-makers are optimistic about the present and future directions of Indonesia. They believe that Indonesia has offered the world a success story about post-crisis reform and transition.

## **CI Middlemen's Roles In Indonesia's State-Building**

CIIs constitute about 3% of about 250 million Indonesian populations, and yet a handful of CI tycoons are the dominant groups in almost all economic development sectors. This phenomenon shows that these CIIs are the disproportionately dominant minority groups in almost all Indonesia's economic activities, including natural resource industries, trade, and banking. They are able to accumulate and control the biggest capital, highest entrepreneurial experiences, and the most lucrative investment opportunities in the country and across the region—at least for now and for the next couple of decades (A. Chua 2004; C. Chua 2008a; Zenner 1991).

Because of their special status in the structure of society -- economically strong and militarily and politically weak, these CI middlemen could not be successful in business and other sectors without engaging Indonesia's government officials, the military and police (Zenner 1991). As economics and politics are closely linked, economic power can be utilized to influence Indonesia's domestic and transnational politics. For this reason, even in post-Soeharto era, CI professionals and entrepreneurs are still influential in decision-making. The power of CI-owned corporations, for instance, is defined by their abilities to influence policy-making and public opinion by non-military means, such as investments and infrastructure-building, education and research, social welfare and charity programs, and financing elections. In fact, Indonesia's political leaders, together with domestic and trans-national companies, protect CI capital and CI business connections in ways that could maintain and

strengthen the status quo, and bring about mutual interests for these particular elite groups (A. Chua 2004; C. Chua 2011).

Because of historical and independent path reasons, CIs' essential role in Indonesia's political economy continues in post-Soeharto era. There are several reasons for this phenomenon. First, economic liberalization empowers adaptive private businesses, while reducing the role of the government and the influence of bureaucrats (C. Chua 2008b). Thus, in Indonesia where economic sectors have traditionally been dominated by CIs, rapid economic liberalization will continue to benefit the privileged CIs most. This is particularly true when top-down regulations which were established in order to reduce the economic dominance of one group over others have been swept away for the sake of marketization and political reforms. Second, advocates of trans-national investments and overseas joint ventures tend to favour elite CIs because they believe that members of this group have the largest capital and broadest business, security, and political connections that may benefit all joint venture partners (C. Chua 2011). At the same time, CI entrepreneurs have disproportionately controlled and represented major lucrative sectors of the Indonesian economy, including finance, banking, technology, industry, transport, and mining. Third, although they play a significant role in poverty reduction and other social programs, it remains to be seen if CI entrepreneurs have good will to totally share their power, resources, and skills with others (A. Chua 2004). By empowering others to become equally successful entrepreneurs, they may risk contradicting conventional capitalist rules which view competition for the pursuit of exclusive interests in the market as normal. Successful

CI entrepreneurs, therefore, tend to empower mainly their families, relatives, and close contacts in the government, military, or police to become co-investors in their companies (C. Chua 2008a).

As elite CIs, such as business executives and intellectuals, serve as strategic and economic coordinators and facilitators in the Indonesia-China bilateral relationship, violence against these CIs is extremely difficult. Based on their past experiences, Indonesia's decision-makers understand that the costs associated with violence against CIs would be irreversible. As the 1997-98 Asian financial crisis followed by the fall of the Soeharto regime show, violence against CI capitalists immediately triggered capital flight, economic recession, deeper social divisions, and political instability. This type of violence led to social unrests and exclusive power competitions within and across Indonesia's borders (A. Chua 2000; Cronin 1998). These situations greatly impacted Jakarta's status quo, legitimacy, and prestige. Because of these lessons, it is in the elites' interests to forestall and avoid violence against CIs.

### **Mapping The Evolution of Indonesia's Political Economy Model**

Although the Dutch and post-independence Indonesian governments do not have exactly the same rules of engaging with the Chinese, these entities maintain a contradictory approach to managing the interactions among Chinese and indigenous Indonesians. On one hand, they protect Chinese entrepreneurial networks that could expand their power and wealth. On the other hand, they single out, or scapegoat, CIs during socio-economic and political turbulences (A. Chua 2004; Zenner 1991).

Scapegoating is a blame-game tactic to be used to distract the broader public's attention from the ruling groups. This tactic is common in politics, security, business, and even social interactions. A consequence of this contradictory approach to the Chinese issue, however, is the normalization of division and distrust across the society. Even without a crisis, interactions among the CIs, the indigenous population, and the state, and between the first two groups, can be interpreted in simplistic ways. For instance, "they" are *either* the major problem of "our" world *or* the solution for our survival. In addition, as the structure of the political economy has not changed fundamentally, over time, there has emerged a superiority complex among top CI entrepreneurs vis-à-vis inferior complex among non-CI masses, which has sustained polarization of the society (A. Chua 2000). For instance, it is common to hear that the Chinese are 'naturally' successful in business, while non-CIs are not; and that non-CIs are 'naturally' successful in politics and security, while the Chinese are not. These exaggerated narratives do not lead to physical violence. However, they have been available sources of populist politics in times of socio-economic and/or political transition, sustaining suspicion between the Chinese and indigenous Indonesians (A. Chua 2004; Zenner 1991).

What is remarkable in the history of Indonesia is the legacy of the 350-year Dutch rule in Indonesia: the normalization of divide-and-rule (*divide et impera*) in politics, economics, and other social aspects. This politics means one's ability to play off one group against another for one's survival and self-interests (*konflik bersaudara*). Only those in command-and-control positions can thoroughly understand how *divide et*

*impera* plays out. An outcome of the *divide et impera* is the perpetration of the established order, and the absolute monopoly of power, wealth, knowledge, and access to opportunities of one single group—or a few groups—at the expense of others. For instance, the Dutch could play off the Chinese against indigenous population for the survival and self-interests of the Dutch. In the same way, indigenous populists could do so by singling out the Chinese for economic inflation, and emboldening the impoverished indigenous majorities to revenge against the Chinese. This allowed a situation in which the Chinese and the indigenous were in hostile interactions over the inflation, but their interactions did not necessarily aim to challenge the long-standing *divide et impera* structure. The survival of some CI businesses could partially be sustained when they skilfully manipulate the tension between corrupt and incompetent bureaucrats and the impoverished, frustrated indigenous majority in Indonesia's war against corruption. The practices of *konflik bersaudara* continue in post-colonial contexts, as power holders in Indonesia find it a useful tool serving their interests.

### ***Pre-1945 independence Indonesia***

In *Peddlers and Princess: Social Change and Economic Modernization in Two Indonesian Towns* (1963), Clifford Geertz describes that the foreign trade and commerce dominance of the Chinese occurred *before* the establishment of the Dutch East Indies colony for several centuries. On the peripheries as well as in the urban areas, stores owned by Chinese families were the hub of economic activities. The Chinese operated across maritime borders, particularly the South China Sea, helping

to build connections within and between the external traders, including the Dutch, and the indigenous population (Geertz 1963). The mobility, capital, and skills of the Chinese merchants captured the attention of external empires and internal ruling groups, such that they empowered these Chinese to become key drivers of the political economy (A. Chua 2000).

In *Netherlands Indisch* (the Dutch colonial name of Indonesia) Europeans were at the top of the social hierarchy; next were foreign easterners, including the Chinese traders and merchants, and Javanese bureaucrats (*priyayi*); and at the bottom of the social hierarchy were the indigenous communities (*pribumi*). In the pursuit of their interests, the Dutch exploited and perpetrated the gaps among groups by offering the Chinese more economic opportunities in revenue farms, local markets, salt, opium, and pawnshops, as well as protection measures, than the indigenous population. In the same way, Chinese merchants and traders gradually learned to use their economic power as a bargaining tool in their relationships with the Dutch and with other indigenous people. The privileged Chinese operating in *Netherlands Indisch* used their alliances with the Dutch as a means to weaken their competitors, such as Javanese *priyayi* and merchants. For instance, the Chinese's complete monopoly of the salt trade had been protected by the Dutch East India Company. Some Chinese's mistreatments of some Chinese towards their labourers were neglected by the European rulers. As they were continuously favoured by the Dutch, the Chinese elites could obtain opportunities for high levels of education and business skills, and expanded their business networks. Thus both in the cities and rural areas, the Chinese

outweighed the native merchants in major traditional sectors, e.g. cigarettes, batik, and credit sectors (A. Chua 2004).

In *Netherlands Indisch*, patron-client relations and resistance against these institutions evolved at the same time (A. Chua 2004; Coppel 1985; Suryadinata 2005). For example, the Europeans depended on the middlemen for the management of *pribumi* workforce, resources, and other economic activities. The middlemen Chinese depended on the Europeans for the safety of their businesses. As privileged middlemen groups, some Chinese and Javanese *priyayi* could reach out to other groups from different sectors of the society in order to influence the impoverished grassroots to join the power competition among alliances of middlemen, or revolutions against external empires, such as the Dutch and the Japanese. The indigenous grassroots were too marginalized and without mobilization abilities and resources, such that they could not organize themselves against a few powerful minorities above them. For this reason, they resorted to giving themselves over to these minorities and European colonizers as constituents and objects.

The unresolved imbalances of power and wealth over time fuelled tensions among the Dutch, the Chinese, and indigenous population, and tension between the last two groups. One of the most serious crises of the Dutch designed colonial system in the region was the 1740 Batavia (or present-day Jakarta) massacre in which 10,000 Chinese were killed, and their properties damaged (Blussé 1981). This massacre was triggered not only by immediate events, i.e. sugar price inflation and land disputes,

but also by some other underlying forces. First, the rulers, particularly the Dutch and indigenous middlemen encouraged the grassroots to participate in anti-Chinese violence. These ruling elites used the grassroots as a means to weaken their economic opponents and scapegoats—the Chinese. Second, many indigenous grassroots might have accepted the Chinese threat narratives which the rulers and some indigenous middlemen had manufactured. These narratives claimed that the Chinese were responsible for inflation and land problems in the region, and that the Chinese were serious threats to the well-being, prosperity, and values of the indigenous population. The outcome of the 1740 Batavia massacre was a rapid deterioration of Batavia's sugar industry and other economic activities. After the Dutch—with assistance from the indigenous *priyayi* and grassroots—failed to rebuild their sugar mills and other core industries, they had to re-connect with certain Chinese groups that they thought would be able to effectively resolve these bad situations (A. Chua 2004). Through these experiences, the ruling minorities and the ruled majorities in *Netherlands Indisch* became more conscious of the indispensable role that the Chinese middlemen played in the political economy.

### ***Post-1945 independence Indonesia under Sukarno and Soeharto***

In post-independence Indonesia, the Sukarno and Soeharto governments' ambiguous approaches to handling the relationship between the Chinese and indigenous populations exacerbated systemic, social, and security problems. These governments limited the opportunities for CIs to fully participate in the political and security

arenas, but they were willing to engage CI businesses and professionals who were able to strengthen the status quo.

The Soekarno government (1945-1967) claimed to leverage the playing field by protecting and promoting the indigenization of land and private enterprises. This government limited the direct involvement of outsiders and the Chinese in Indonesia's economy and trade. In particular, mining, batik, and rice which had traditionally been owned and managed by Europeans and the Chinese were transferred to the natives. Meanwhile, the government forced CIs to move their families and businesses from rural areas to the cities, presuming that separating CIs from the indigenous population would resolve the long-standing unequal business competition between these groups (Coppel 1985; Suryadinata 1976). The outcome of this policy, however, defeated its goal. The gaps and clashes between and within the rich and the poor, urban and rural areas, regulated and non-regulated businesses, and legal and illegal investments escalated. The economy and financial sectors stagnated, public facilities deteriorated, corruption became rampant, and foreign debts both from the capitalist and socialist blocs increased. Soekarno's severe governance deficit made him unpopular among the majority of Indonesians who understood that their quality of life did not change in the post-independence era (A. Chua 2004).

These situations became golden opportunities for opponents of the Soekarno regime. These opponents aimed to mobilize the grassroots to support their campaigns of status quo change. These campaigns included: (a) a *coup d'état* mixing with Indonesia's

killings of communism and violence against CIs led by General Soeharto (domestic politics), and (b) a confrontational approach to the bilateral relationship between Jakarta and Beijing (foreign policy). They fit into two major dominant narratives or propagandas of the time. First, international communists, particularly those from China, had leverage over Indonesia's ethnic Chinese minority. Second, the Soekarno regime was too weak to govern the country in all matters and to save Indonesia from communism; a new regime led by Soeharto would be the only entity capable of performing these national security tasks (Sukma 2004). Although CIs were not the only targets of Indonesia's 1965-66 killings of communism, thousands of CIs out of an estimated 500,000 - 1 million Indonesian alleged communists lost their properties and lives (Robert 2001). These killings forced Indonesians, mainly CIs, to escape Indonesia in order to save their lives. Upper- and middle-class CIs, in particular, took with them their capital and skills to neighbouring countries, such as Singapore, Malaysia, Hong Kong, and Australia (A. Chua 2004). This trend was met with strong responses by their fellowmen countrymen—the indigenous majority. Some Indonesians were disappointed about the transference of CIs' capital and human resources from Indonesia to the neighbours, but they felt optimistic that Indonesia would be able to build the nation with less CI involvement or even without CIs. By contrast, others understood that Indonesia would find it challenging to sustain its political and socio-economic stabilities without Chinese capital and highly-skilled human resources (Chirot and Reid 2008; A. Chua 2004; Shiraishi 1997; Suryadinata 2008).

The 32-year military ruler Soeharto advanced the legitimacy of his regime through prioritizing political stability and introducing economic reform. This reform largely reflected the one-size-fits-all Washington consensus. This is a neoliberalist model of development which requires overnight, aggressive privatization and economic liberalization. International neo-liberalists and Indonesian reformists believed that a free-market system is the solution to all countries' external and internal instabilities and underdevelopment (A. Chua 2000). However, Indonesia's reforms failed to achieve the noble goal of development. Instead, they exacerbated inequality, unfairness, and discontent. For instance, when Soeharto won lucrative development contracts from developed countries, he quickly channelled them to particular CIs that had enriched the wealth and power of his family and regime. The Soeharto regime cracked down on labour, hard-line, communist, and youth movements who protested against elite CIs in North Sumatra in 1994. It silenced journalists who dared to investigate his business favouritism, or who revealed the alliances between the Soeharto family and CI cronies (A. Chua 2004, 151–153). In 1996, while somewhere between six and fourteen million working age Indonesians were unemployed and lived below poverty line, a few Chinese conglomerates, with assistance by government officials, imported one thousand illegal workers from China to work inside Indonesia (A. Chua 2000). With strong Chinese and overseas capital, Indonesia's growth was high at 7%, making the country known as part of the so-called East Asian Miracle. Remarkably, by the end of the Soeharto regime, the CIs comprised less than 3% of the population, CI elites—in alliances with Soeharto's family members, the military, and other indigenous bureaucrats—controlled about

70% of the private sector (Suryadinata 2008). These developments fuelled grievances among the impoverished indigenous majorities who found that reforms led by the Soeharto family and CI tycoons did not facilitate them to become beneficiaries and key change-agents in Indonesia's political economy. The gradual growth of religiously motivated radicalism, extreme economic or ethno-nationalism, and other -isms among many Indonesians were understood as expression of these grievances. These issues constituted the conditions for multidimensional instabilities and violent conflicts among and within the government, businesses, and the people in times of crisis.

### ***The 1997-98 Asian financial crisis, and the fall of Soeharto***

Soeharto's resignation in May 1998 was triggered by the regime's inability to handle the 1997-98 Asian financial crisis. This critical juncture was followed by the almost Balkanization of Indonesia as violent conflicts in the name of ethnicity, religion, revenge, separatism, and economic nationalism exploded across the archipelago. In Jakarta, nearly five thousand shops and homes of middle and lower class and struggling CIs were burned and looted, more than two thousand Indonesians died, and dozens to hundreds of CIs and non-CI women and girls were gang-raped (Siegel 1998). Within a month, approximately 110,000 CI families, including the wealthiest ones, left Indonesia for Singapore, Hong Kong, Australia, and elsewhere, along with huge amounts of Chinese controlled capital, estimated at \$40-100 billion (C. Chua 2008a). CI capital flight triggered violent reactions and disappointment from indigenous Indonesians who expected to use Chinese control capital to stabilize Indonesia's economic crisis (A. Chua 2004).

Indonesia's multidimensional turmoil, as such, continued till 2002, causing significant spill-over effects into neighbouring countries, and simultaneously generated possibilities for external intervention into its borders. The country's instabilities engulfed its neighbouring countries in waves of refugees and emboldened regional disputes. Canberra and Singapore were geared for self-defense if their national interests were at risk. The Bill Clinton administration had been ready for intervention of any kind in the case that the safety of thousands of American expatriates and billions of U.S. investments in Indonesia might be jeopardized (Cronin 1998). Chinese communities in Singapore, Hong Kong, Taiwan, and China, escalated the issue of Indonesia's anti-Chinese violence on the internet and media while pressuring regional governments to do something to stop violence Indonesia (Purdey 2006b).

Outsiders' efforts to protect their interests and reactions against human rights abuses in Indonesia caused mixed and confusing effects on the interactions among CIs, the indigenous population, and the state. Moderates in the government and society tried to reduce anti-other violence (including anti-state, anti-market, and anti-Chinese ones). These entities understood that if they failed to do so, possibilities of external intervention would be high. If there were an intervention from outside, it would undermine Indonesia's sovereignty. This scenario was not what Indonesians expected to experience. Ironically, moderate Indonesians' efforts to protect CIs were at odds with the goal of a few extreme indigenous and populist groups in the government and the society. The latter wished to exclude CI middlemen, or even all CIs, and to take

over the economy (Anderson 2001; C. Chua 2008a). Although extreme entities were not many, in times of transition, their pro-indigenous-people narratives were influential among the impoverished and frustrated indigenous majority.

The above details imply that tensions between the Chinese and indigenous Indonesian in particular was not merely a domestic issue. It was also an international issue (CFR 1998; Cronin 1998). As this tension escalated into crisis, it became a threat to trans-national and national peace and security. Due to the interdependence between internal and external stabilities, Indonesian leaders have learned that they must be careful in their interactions with the Chinese. Evidence of their adjustments and policy changes was clearer in the post-Soeharto era.

### ***Post-Soeharto Indonesia***

After the 1997-98 Asian financial crisis, Jakarta looked to expand Indonesia-China bilateral relationship in the areas of trade and investments. Successors of Soeharto hoped that the Chinese in China, Indonesia, and across the Asia Pacific region would be able to help mitigate Indonesia's political instability by fostering Indonesia's economic growth agenda (Sukma 2009). Based on their past experiences, these leaders understood that if the economy was not stable, this situation would spill over to politics and the state's security, and vice versa. These Indonesian policy-makers thus were willing to change the Chinese threat narrative to the Chinese opportunity thesis. This process was strategically wise at the time when China actively fostered its peaceful engagement with the neighbouring countries, including Indonesia. By

projecting the country as a Chinese-friendly country, Indonesian policy-makers could persuade CI businesses to repatriate their capital and to bring back home the skills and capital needed for Indonesia's national development. As explained earlier, CIs had moved billions of dollars off-shore in the wake of the May 1998 riots and during Indonesia's killings of 1965-66. This has been a big and long-term loss for Indonesia as a whole.

The emergence of Indonesia's Chinese-friendly and investment-friendly environment was not automatic. This policy existed after decision-makers in the Indonesian state had failed other options. These options sought to promote the role of indigenous capitalists in leading Indonesia's economic development. Dr. B. J. Habibie (1998-99), for instance, promoted the greater role of the state in the markets and the empowerment of the 'weaker' indigenous Indonesians. This policy implied that the state ensured that there would be transference of capital and skills from the market-dominant forces, particularly CI businesses, to indigenous capitalists. His policy largely duplicated what Soekarno had done in the past. Hence, the outcome was expectedly disastrous. Indigenous businesses were unable to lead economic development sufficiently because of Indonesia's rampant corruption and the lack of adequate economic management knowledge or entrepreneurial experiences. Under Habibie's leadership, some officials smuggled tons of rice to neighbouring countries when these tons of rice were expected to be distributed to the most marginalized and starving Indonesians. Tens of millions of Indonesians were then reportedly having only one meal per day (A. Chua 2000). The Habibie government's failure to improve

the quality of lives of Indonesians made it unpopular in the eyes of the majority of Indonesians, and also led to the intensification of economic recession, social unrests and political instability. In order to mitigate these problems, the government had to re-engage with CIs in the country, refugee camps, and abroad who were able to help solve Indonesia's worsening markets.

After Habibie, President Gus Dur's first official visit was to China, where one of his priorities was to praise Beijing's efforts in helping Indonesian leaders persuade overseas Chinese Indonesians to bring their capital back to Indonesia. The next President Megawati followed Gus Dur's policy, further fostering relations between Indonesia and China through diplomatic visits, encouraging more CI entrepreneurs to return to Indonesia (Sukma 2009). In order to keep more capital in the country, Jakarta did its best to create a secure environment, offering CIs better safety, business and political opportunities, as well as recognition for CIs' contributions to Indonesia's state-building. For instance, the Indonesian government lifted bans on expressions of Chinese languages, culture, and revised nationality rules imposed on CIs. Jakarta embraced Confucianism as part of the country's religions, alongside Islam, Hinduism, Catholicism, Protestantism and Buddhism. Chinese tourists, technologies, and economic investments in Indonesia received a warm welcome by the Indonesian state and moderate Indonesians, especially as the latter understood that good bilateral relations could contribute to Indonesia's economic growth and stability (Suryadinata 2008). These initiatives did not exist in the past when the Chinese were misinterpreted as threats to Indonesia's national unity, security, and values.

The current President Susilo Bambang Yudhoyono (SBY), together with other CI professionals, has played a significant role in moving Indonesia-China relations forward in all matters. These comprehensive relations have empowered more CIs to become strategic advisers of trade and development (C. Chua 2008b). Interactions among Chinese and indigenous Indonesians gradually have been re-established, even though their conflicting perceptions about each other and their conflicting interests have not been completely resolved (Purdey 2006a).

In summation, through many critical junctures, e.g. political crises and economic transitions, Indonesia's political decision-makers learned that the interdependence between them and certain wealthy and highly-skilled CIs is strong. This is so because of historical and dependence paths. If relationships between these entities break down, Indonesia's foundations for stability and prosperity would be at risk. These realizations were clearer after the resignation of Soeharto, when Indonesia faced irreversible and transboundary consequences of different types of crises at the same time, i.e. anti-Chinese, anti-capitalism, and anti-government riots. Indeed, Soeharto's resignation can be seen as a tipping point as well as a turning point in the contemporary history of Indonesia. Violence in the names of anti-other riots fuelled by aggressive nationalism and other -isms, reached their peak for a few years to come, and then significantly declined for about a decade. During these critical junctures, there were a few hard-liners and extreme nationalists claiming that it would be worthwhile to "lose ten years of growth" and get rid of the Chinese and everything

connected to them, e.g. religion, economic and social status, once and for all (Anderson 2001). However, a total war against the Chinese and the existing political and market systems were not compelling to all Indonesians. More Indonesians have come to understand that the Chinese on their own could not cause structural and social problems, and that alternatives to the existing institutions have not obviously emerged. They found that Indonesia's domestic and international affairs would potentially become better if they could promote co-existence between the Chinese and indigenous Indonesians. With these matters in mind, moderates in Indonesia's government and society have helped de-escalate the Chinese-problem narrative and prevent hostile interactions between the Chinese and indigenous Indonesians.

### **External Environment: China's Peaceful Rise And Its Implications For Indonesia's Policymaking**

Indonesia's Chinese threat rhetoric has significantly de-escalated since 1990s as a result of China's rise as a regional and global superpower and the improving Jakarta-Beijing relationship. First, Indonesia's policy-makers understand that diplomatically engaging superpowers and other international actors is necessary for the legitimacy and survival of the Indonesian state. In particular, old narratives which framed the linkages between Indonesia's Chinese and foreign and communist threats to Indonesia's state survival become irrelevant in the post-Cold War contexts (Suryadinata 2008).

Second, the government of China has demonstrated its smart approach to engaging Indonesia. For instance, in the wake of the 1997-98 Asia financial turmoil, Beijing refused to devalue its currency, which would have exacerbated devaluations in Thailand and Indonesia. In contrast, global and regional superpowers, i.e. US and Japan, together with the International Monetary Fund (IMF), took advantage of the financial crisis and Indonesia's instability to pressure the Soeharto government to do what these entities liked: hastening Indonesia's neo-liberal reforms and to radically changing its policy on the East Timor trouble (Kurlantzick 2006). When trans-national Chinese solidarity groups expected Beijing to intervene to save lives of CIs and other victims of anti-Chinese riots in Indonesia, Beijing sent out a letter of concern but it did not actually intervene into Indonesia's internal affairs. Beijing skilfully explained that it respected Indonesia's sovereignty (Harding 2008). During the 1970s, China published maps which made a claim to virtually all of the South China Sea (SCS), including the Natuna Islands—a chain of resource-rich islands off the western tip of Indonesia's Kalimantan. The Soeharto government responded with an intraservice joint military exercise (*latihan gabungan*, or *latgap*) in the Natuna Islands. This exercise aimed to send a message to Beijing that Indonesia would be ready to deter external actors that aimed to enter the Natuna Islands. Encountering such a response from Indonesia, Beijing withdrew the maps, understanding that its provocative gestures in the SCS would only put the bilateral relationship between Indonesia and China at risk (Supriyanto 2012). These examples demonstrated that Beijing's ways of handling its bilateral relationship with Indonesia were acceptable and non-threatening to Indonesia.

Third, since the late 1990s, China's partnerships with SEA countries have become substantial. China has been in a position to address the needs for trade and economic growth of these countries. China becomes the largest trading partner with all SEA countries. Indonesia's trade with China was zero in 1990, but is 60 billion dollars in 2011 and is with the US 26 billion (Chandra and Lontoh 2011). In order to maintain trade and stable economic growth, the Indonesian government has to continuously provide conditions conducive to Chinese and foreign investment. One of these conditions is that the Indonesian state must ensure non-violent interactions between the state, businesses, and the people, and between the Chinese and indigenous Indonesians (Sukma 2009)

After all, changes in the external environment and foreign policy have generated spill-over effects into Indonesia's domestic politics, and vice versa. As Indonesia has become more stable, prosperous, and a popular destination for foreign investment since 2004, the Indonesian government has openly acknowledged CIs' indispensable role in fostering and maintaining diplomatic relations between Jakarta and Beijing, and in enhancing Indonesia's position in the global economy. CIs have become aware of their advantages in the post-Soeharto environment, in that they are able to provide Indonesia's decision-makers with relevant input on issues of minority rights protection, trade and economic development, and Indonesia-China relations matters. With these developments in mind, many policy and media analysts have asserted that CIs are assets, and not security threats, to Indonesia (Higgins 2012).

## **Measuring Indonesia's Progress**

### ***A Chinese-friendly society***

A sharp increase of Mandarin classes is an illustration of post-Soeharto's radical change. With its oppressive policies, the Soeharto regime was successful in creating a generation of CIs who were not able to speak or write Mandarin as their first language. Today's demands for Mandarin proficiency skills increase among Indonesians of different social identities. Forces that facilitate this trend include: (a) the increased language's marketability, and (b) the re-emergence of Indonesians' demands for diversity. Both factors are unique phenomena in the time that China has become a new global superpower and when Indonesians have benefited from sustaining the co-existence between the Chinese and indigenous Indonesians.

In Jakarta alone, over 100 language centers with Chinese teachers of different nationalities offer Mandarin lessons, while more national and private universities are offering Chinese Studies. The demands of Indonesians with Mandarin proficiency in Indonesia's job markets are extremely high. This is judged from the fact that the country has faced a shortage of over 100,000 Mandarin instructors in the established mandarin and Chinese classes and centers (Kurlantzick 2006). In summer 2011, Indonesia's seventh Confucius Institute was launched at the Islamic Al-Azhar University (IAAU) in south Jakarta where students of different backgrounds have learned to master Islamic jurisprudence and Mandarin at the same time. This initiative has been a result of the improving bilateral relations between Indonesia and China and of the improving relationship between the Chinese and indigenous Indonesians.

Although young students in this University liked to emphasize the promotion of Indonesia's culture of multiculturalism as the major motivation for their presence at IAAU, their interactions with the Chinese conveyed a pragmatic observation: "the Chinese are *everywhere*" (Interview with Indonesian Students 2011).

Indonesian students' understanding of Chinese pervasive soft power (e.g. Mandarin and economic dominance) has significant implications for Indonesia's Chinese options. First, the perception that the visibility and influence of the wealthy and powerful few Chinese (in Indonesia, China, and elsewhere) symbolize all Chinese groups persists. Second, young Indonesians are eager to engage the Chinese because they have recognized that the Chinese have brought about opportunities for Indonesia in the new era. Third, narratives which frame the stark dichotomy of the Chinese versus indigenous Indonesians has become less acceptable to many Indonesians because the interdependence between the Chinese and indigenous populations in the process of Indonesia's state-building has become more obvious. Admittedly, the Chinese and indigenous Indonesians still have conflicting interests and perceptions about each other. However, in the post-Soeharto era, they have engaged each other more closely in order to keep Indonesia evolving as a vibrant and pro-foreign-investment economy and a stable nation-state. After all, the existence of Mandarin classes which help bond the Chinese and indigenous Indonesians with each other is a step in the right direction towards Indonesia's post-Soeharto reconciliation and development.

### ***A Chinese-friendly government***

The transformation of Chinese threat rhetoric to the Chinese opportunity narrative in Indonesia can be observed at different levels. More CIs hold important positions in the Indonesia government, receiving the state protection and the public support.

For instance, the Jakarta Deputy Governor Basuki Tjaha Purnama, commonly known as Ahok, a Christian CI that owned a mining company during the Soeharto era, has been regarded as Indonesia's "Barack Obama" phenomenon. While representing voices of ethnic minorities, Basuki aims to boost growth and sustain national campaigns against corruption at all levels (Higgins 2012). In response to the rise of Basuki in Jakarta, middle-class hardliners of the Islamic Defenders Front, or FPI (*Front Pembela Islam*), whose key goal is to de-legitimize Jakarta, and thus portrayed Basuki as an "infidel" and a "non-indigenous" member. FPI radicals even prevented other Muslim Indonesians from voting for him. Yet, FPI hardliners were quickly pushed back by moderates and advocates of pluralism, such as the Nahdlatul Ulama (NU), as well as the authorities (Daslani 2012).

Another example is Mari Elka Pangestu who is the first female CI to hold a cabinet position of Tourism and Creative Economy. Prior to holding this position, Pangestu served as Indonesia's Trade Minister. Despite the fact that the policies she had recommended failed to mitigate unequal economic competition between Indonesia and China on trade and joint venture issues, the SBY administration has confidence in

her ability to formulate strategic plans for the development of Indonesia's creative economy (Suwastoyo 2012).

Based on these examples, Indonesian leaders have been confident that Indonesia can improve its prestige and position in international relations. This is a result of Indonesia's stable political system and economic growth and an increasing culture of co-existence between the Chinese and indigenous Indonesians.

### ***Indonesia: a success story for SEA and the world***

In order to become an emerging economic power in the region and the world, decision-makers in Jakarta recognize a need to further utilize CI entrepreneurs and their networks. Chinese capital, alongside domestic and foreign businesses and investments, can help Indonesia quickly achieve its goal of joining Brazil, Russia, India, and China in the BRIC club of big emerging economies by 2030 (Wie 2010). There are success stories which Jakarta's decision-makers use to explain their confidence in the possibility of Indonesia fulfilling such a dream. These stories are often about Indonesia's economic development achievements, e.g. Indonesia's booming consumerism, fast growing middle-class society, and changing position in the global economy. These achievements are of great importance to Indonesia's policy-makers who assume that these achievements have consolidated Indonesians' pride and have neutralized the tensions among the state, the private sector, and the people, and between the privileged Chinese minorities and the impoverished indigenous majorities.

First, Indonesia's gross domestic product (GDP) is between 5.62 % and 6% under the leadership of the SBY administration. At present, consumption accounts for 65% of GDP growth (Nehru and Bulkin 2014). This GDP shows that Indonesia's economic growth is just behind China's growth (7.5%) in Asia in 2013. Indonesia has quickly exceeded India, Russia, and Brazil which were ahead of Indonesia a few years ago. Indonesia is creating a middle-class society which is defined as one with household income of over \$3,000 per year. The country's bourgeoisie was 1.6 million in 2004 and now numbers over 50 million, which is more than India and bigger than elsewhere in Southeast Asia. The number could reach 150 million in 2014, potentially making Indonesia one of the world's most enticing markets (The Economist 2011a). New affluent Indonesians certainly spend money on expensive two-wheel scooters and cars, smart phones, and many other high-tech devices. The country has been regarded as the second-largest number of Facebook members in the world, and the third-largest number of Twitter users. In the eyes of urban, upper- and middle-class Indonesians, consumer choices, internet, and technologies are indispensable parts of their popular culture, especially as these forces have made class barriers blurry and have fostered their feelings of self-esteem, happiness, and freedom (Financial Times 2013).

However, critics of Indonesia's rapid economic growth in the post-Soeharto era may argue that the statistics above do not reflect Indonesia's value-added progress for a number of reasons. First, GDP is a proxy for progress measuring short-term aggregate economic output, income, and spending, while neglecting the pervasive lack of social infrastructures needed for the development of a value-added economy and nation, e.g.

environmental protection, social welfare, and value-added educational achievements. Second, although Indonesia's booming domestic consumption may reflect Indonesia's increasing standards of living, only a few upper- and middle-class Indonesians can afford these standards (Financial Times 2013; Nehru and Bulkin 2014).

Supporters of Indonesia's economic development paths do not necessarily deny all concerns raised by these critics. However, they presume or expect that wealth and opportunities from a few privileged groups will spill over to other families, especially if Indonesia can effectively develop social support mechanisms. These mechanisms have not obviously existed, but they will eventually have to be in place because the public demand for them increases. Impressive GDP and consumerism power are not a panacea for what Indonesia lost in past violence, but they have tactically mitigated the gaps and tensions between the haves and have-nots and between the Chinese and indigenous population. People of different backgrounds, e.g. the Chinese and indigenous Indonesians, engage each other to discuss ways to improve their chances in the market—but not necessarily to intimidate each other and go against the state in the name of ethnicity and God. It is certain that Indonesia's policy-makers still have to work more carefully on reforms. In the meantime, tactical conflict mitigation through an economic growth agenda is necessary in order to ensure Indonesia's stability and the state's power.

Second, due to its substantial wealth and a good economic relationship with the new global superpower China, Indonesia is now in the position to make more significant impacts upon international affairs. In 2012, Indonesia has been recognized as one of

the top ten countries with highest economy status, a \$1 billion contribution to the International Monetary Fund (IMF)'s European bailout reserves (Alford 2012). The willingness and ability to contribute to the IMF can be interpreted as a revolution on the part of Indonesia. This means that Indonesians have successfully turned their 1998 collective trauma to their 2012 collective glory. In January 1998, Soeharto had to resort to accepting a \$40 billion IMF package to bail out Indonesia's malfunctioning economy, yielding the so-called "Washington Consensus" (WC) (A. Chua 2000). The IMF has imposed WC upon transitional societies, including Indonesia, pressuring these countries to go through an overnight transition from isolated economies and totalitarian states to free-market democracies—without considering the local conditions, or giving these societies adequate time and support. Advocates of IMF believe that WC is a universal framework for resolving financial and socio-political problems across the global North and South (Ramsbotham, Miall, and Woodhouse 2011). Unfortunately, a few months after implementing the IMF package, Indonesia's domestic and foreign policy problems escalated, such that the New Order completely collapsed, investments declined, cross-border and communal conflicts recurred at the same time. To make these matters worse, tens of millions were shovelled back into poverty as the economy shrank 13.5 per cent for a couple of years (A. Chua 2000). These experiences made Indonesians feel a sense of distrust towards the IMF and Western governments. Remarkably, about 15 years later, the SBY government has turned the table on the IMF, defending the national esteem and making Indonesia's wealth an important solution (Kurlantzick and Stewart 2012) for Western troubled economies.

In order to assert Indonesia's success stories and its greater role in the international affairs, in his speech on *the Rise of Emerging Powers in the 21<sup>st</sup> century* at the United States' Emory University in 2012, the Indonesian Ambassador to the United States, Dr. Dino Patti Djala, claimed that Indonesia's state-building model which focuses on fastest growth, strongest middle-class, and largest and strongest democracy in SEA is inevitably successful. In Djala's eyes, post-Soeharto Indonesia has provided Indonesians with a "flat soccer playing field." This means that Indonesian leaders of dissimilar backgrounds run for open and fair elections. Indonesian citizens can equally compete for better opportunities, wealth, and recognition. Taking Djala's "transforming Indonesia" narrative for granted, a few analysts in Jakarta and Washington, D.C., have intended to export the Indonesian model to other post-authoritarian societies in the Middle East and North Africa, hoping that these societies would obtain similar successes (Kurlantzick and Stewart 2012). All these positive stories about Indonesia's rise, stated the UK Prime Minister David Cameron at the Al Azhar University in Jakarta in April 2012, have proved that "Indonesia can lead the world" (*Indonesia mampu memimpin dunia*) (Cameron 2012).

In short, this chapter describes the de-escalation of conflict between the Chinese and indigenous Indonesians as a result of the leadership and public acknowledgement of the interdependent relationships between these groups. Learning from their past experiences, more Indonesians understand that the future of Indonesia's stability and prosperity can be at risk without engaging CIs. Wealthy and highly-skilled CIs, in

particular, are indispensable bloodline and mastermind of Indonesia's economic development and foreign trade activities. These CIs—with assistance of *pribumi* and foreign investors, security forces, and bureaucrats—continue to dominate in almost all core industries across Indonesia. The power of elite CIs cannot be ignored, in part as top successful businesspersons in Indonesia and SEA are predominantly CIs. These elite CIs also define their credibility by fostering comprehensive relationships between Indonesians, the neighbouring countries, and global superpowers, including China. The SBY government and its allies have been optimistic about the future of Indonesia, understanding that constructive interactions among the Chinese (in Indonesia, China, and elsewhere) and the indigenous population should continue—especially as these interactions determine the sustainability of Indonesia's success in state-building.

## CHAPTER IV: EVOLVING UNCERTAINTIES IN INDONESIA'S STATE-BUILDING MODEL

*Abstract: Although Indonesia has made impressive achievements in its post-Soeharto state-building, the sustainability of these achievements is not necessarily guaranteed. Economic reforms which focus on either "liberalization" or "indigenization" of the economy only address the symptoms, e.g. the modification of minimum labour wages and investment policies, while exacerbating standing inequality and divisions across the society. Reform efforts benefit the already privileged minorities at the top, particularly CI industrialists who interact closely with foreign investors and bureaucrats, while further marginalizing large sections of the population. Decentralization in boom times allows the emergence of moneyed politics, multileveled corruption, and the politics of nationalism, in part due to the lack of comprehensive check-and-balance mechanisms. Given these evolving uncertainties, the future of peace, stability, and prosperity of Indonesia remains uncertain.*

### **Introduction**

Even in the post-Soeharto era, Indonesia, as SEA policy analysts highlight, is not an innovative, high-tech, or entrepreneurial country with effective natural and human resource management. A third of Indonesia's economic growth is from extractive industries, mainly coal, oil, and gas. Indonesia has among the world's largest deposits of coal, tin, nickel, copper, and gold. Although it is rich in natural resources, Indonesia is unable to exploit these resources on its own due to its lack of

technologies, capital, and high skilled experts in the field. Indonesia thus heavily relies on foreign and transnational companies to exploit its resources. Foreign companies also choose Indonesia as a good destination for their businesses because the authorities welcome them, and at the same time are willing to supply these businesses with security, so that the companies can operate in a longer term in Indonesia. Some companies may see the lack of tight regulations in terms of labour and environmental issues as an advantageous factor. The single largest oil producer in Indonesia is not the state-owned company, Pertamina, but the multinational enterprise, Chervon, followed by British Petroleum (BP), ConocoPhillips, ExxonMobil and Total. Pertamina controls 21% of natural gas production, while six international companies dominate gas fields: Total, ExxonMobil, Vico, ConocoPhillips, BP, and Chervon (Laksamana 2011).

The country's export of coal and metal ores grew about 18% per year from 2000 to 2007, and accounted for close to 8% of government revenue and 4% of the gross domestic product or GDP. Indonesia's huge reserves of thermal coal—used for power plants—are being aggressively targeted by its energy-hungry neighbours and rising regional superpowers, particularly China and, to a lesser extent, India (Cronin and Pandya 2009a). These are the first and the third largest economies in Asia respectively. The demand, combined with high commodity prices, is driving a resource boom in remote Indonesian provinces and creating billions of dollars in personal wealth among a few CI tycoons and other indigenous capitalists and bureaucrats that have connections with these tycoons. Some economists and media

point to the increasing number of Indonesian resource billionaires as a strong indicator of the country's successful economic growth (Ismail 2012).

### **Winners And Losers Of Indonesia's Economic Development Model**

While joint resource extraction can generate national or personal wealth and skyrocketing GDP in a short time, its operation can also trigger negative conflicts and undermine the actualization of good governance efforts in the archipelago.

Losers of Indonesia's resource extraction industries are often the indigenous majority, mainly the chronically marginalized and lower-income families living in resource-rich areas. Borneo illustrates this point. Borneo's territory is shared by Indonesia, Malaysia and Brunei and was once almost covered with green trees and forests. However, since the 1990s, due to illegal and unsustainable logging practices, and mining, livelihoods, ecology, and biodiversity have been at risk. The island lost an average of 2.1 million acres of forest every year (WWF 2011). This forest destruction has impacted local indigenous communities who rely on forests and nature to sustain their daily lives. More than eight million people who live in West and East Kalimantan of Borneo have lost a portion of their food, water, medicine, and other basic means of survival. Thousands of plant and animal species—some are rare and extremely important to the spiritual lives of the local communities—have become extinct (WWF 2011). These unsustainable developments have intensified feelings of injustice among the indigenous communities who feel that they have no decision-making power in Indonesia's lucrative extraction industry.

Winners of resource extraction industries include: foreign companies, domestic tycoons, predominantly domestic and trans-national Chinese tycoons, bureaucrats, and security forces that allow, co-exploit, and protect these industries. Operating in Indonesia where business regulations and their implementation are still weak, foreign and domestic resource companies seek ways to maximize exploitation scales and minimize direct costs. Thus, these companies require limited, short-term, and cheap labourers around their extraction zones, and provide these labourers with no safety and healthcare packages. Companies may not be willing or fail to conduct professional research about the impacts of their extractive projects upon the ecology, social and political dynamics, and livelihoods of the host communities. Illegal activities, particularly the expansion of palm oil plantations, mining, and logging, are serious threats to Indonesia's forest, biodiversity, and the locals' means of survival and ways of life (Cronin and Pandya 2009b). In many cases, illegal logging may involve the local people who are in need of jobs but are not eligible for any position in the legal extraction industry and its related services. Although the Indonesian government aims to seriously deal with illegal extraction and its socio-political impacts, these problems are still very difficult to fix. The slow progress in resource management is not only because of the vast geographical scale and complexity of illegal resource extraction, but also due to the lack of good will on the parts of officials, legislators, provincial elites, and resource entrepreneurs.

Remarkably, joint ventures, particularly resource industries, in Indonesia embolden those at the top of the society to grow stronger. Many of these individuals are, and happen to be, elite CI entrepreneurs. A reason for this trend is that with their strong capital and skills, these CIs have served as key co-investors and intermediaries on the side of Indonesia. In particular, Indonesian Chinese Entrepreneurs Association, or ICEA (*Perhimpunan Pengusaha Indonesia Tionghoa*) governed by prominent ethnic-Chinese oil, gas, and coal billionaires, play an indispensable role in initiating and sustaining China-Indonesia joint exploration contracts. Many of these CI billionaires, however, are too big to fall, especially as they have maintained links with the previous New Order regime and even with the new democratic government (Ismail 2012).

For instance, Sukato Tanoto, a CI tycoon who has built his wealth based on the logging industry, has been involved in financial fraud and high-profile corruption scandals in the country. Yet, it is not easy for the SBY government, as well as the elites, to take any decisive actions against Tanoto and powerful figures involved in his scandals due to political risks involved. Tanoto's capital and leverage power means a lot to Indonesia's domestic politics and foreign relations. He has invested in Indonesia's sustainable development projects which require assistance from NGOs, government officials, international scientists and the U.S. He is willing to serve the broader public by providing scholarships for Indonesian and SEA students, funding regional and international seminars and research on topics related to sustainability and good governance, sponsoring libraries and business schools in national universities in

Singapore, and building numerous primary schools for China's disadvantaged children.

In addition, Tanoto is one of the most important Indonesian tycoons that connects Indonesia with the biggest transnational and foreign oil and gas businesses, including Chervon, Conoco Phillips and PetroChina, and influences foreign partners to allow more Indonesian products to enter foreign markets. The power of Tanoto and other CI tycoons are good examples of how wealth and power still hinge on the strong alliances among wealthier CIs, trans-national enterprises, government officials, and provincial elites. For this reason, any decisive actions against Tanoto will significantly disrupt the relationships between Indonesia and these key investors, as well as Indonesia's entire state-building efforts.

### **Political Risks In Indonesia's Resource-Based Economy**

There are potential risks involved in Indonesia's resource-based economy. The first risk is related to elite CIs and their strategic partners. CIs operating in resource extraction industries have obtained not only materialistic but also symbolic benefits. Their wealth, entrepreneurial expertise, and political partnerships with central and local bureaucrats in resource areas improve as long as resource markets are stable. The benefits that these privileged CIs share with the society will continue if their businesses are successful and if these businesses are welcome and protected by the host indigenous communities. However, if the markets melt down, this situation will lead to a decline in natural resource demands and supplies, job generation, and social

welfare programs sponsored by wealthier CI tycoons and their business and strategic partners. These changes would intensify tensions between/within investors, bureaucracies, and the host communities; and consequently, they would put national and regional peace and stability at risk.

The second is related to the politics of nationalism as a response to governance deficit and as a trend in election times. Indonesia's resource industries are growing, and yet exacerbate the gaps and tensions between the haves and have-nots. The haves are foreign investors, their protectors and allies, and bureaucrats in the central and local governments who give them licenses and permissions to operate in the region. The have-nots are sons of the soil, or indigenous groups, living in resource rich areas. These stories have been used by Indonesia's populists and their supporters for securing their votes and interests in elections. At present, many Indonesian populists play the card of nationalism in ways which may jeopardize Indonesia's business atmosphere and development process. For instance, they raise business costs and modify regulations which seem legitimate to the eyes of their voters but may not be reasonable to the eyes of foreign and domestic business communities (Buehler 2012). Most importantly, there is no guarantee that these politicians will be able to fulfil their campaign promises when they come to power. In fact, it may turn out that these politicians can benefit most from the existing power relations at the expense of those who have voted for them, and at the expense of the companies which have sponsored their election campaigns. The politics of nationalism in election times have complicated trust-building among the ordinary constituents, foreign and domestic

companies, and Indonesian bureaucrats. Trust deficit is an obstacle to the development of an environment in which long-term cooperation in politics and socio-economics can prevail and investments are secure. Foreign investments are the basis for Indonesia to sustain its growth, and to develop its infrastructure (C. Chua 2008a). If investors lack confidence in Indonesia's way of adjusting its institutions, such that some investors choose to seek opportunities somewhere else, the basis for Indonesia's boom may be at risk, engendering the potential for political instability. Although this scenario is not what Indonesians desire, Indonesian decision-makers seem to be leading the country in that direction.

### **Indonesia's \$2 Trouble**

Indonesia's economy has out-performed many neighbouring countries as it has been driven not only by the lucrative resource extraction businesses but also by robust domestic spending on consumer goods. Middle-class Indonesians associate popular culture with electronic entertainment, automobility, and high-tech, urban lifestyles. Remarkably, consumerism within the overarching Indonesian economic growth agenda serves two related goals. First, proponents of consumer-driven economy believe that consumerism address the people's needs for commodities and self-esteem. They argue that if everyone has access to similar communities in the same shopping malls, the differences and imbalances in socio-economic status may become less obvious (Financial Times 2013). Second, consumerism in particular and Indonesia's rapid economic growth agenda in general are good for politics. The ruling groups can be used consumerism as a means to navigate and control socio-political

tensions (e.g. among the state, businesses, and the people; between the last two forces; and within each category) (Marcuse 1991; Mills 2000). However, voices of the urban middle-class Indonesians regarding the link between consumption engine and socio-political stability are not necessarily universal. In fact, not many people can participate in, and benefit from, the market. Below are some facts and stories about the marginalized and struggling groups who play a significant role in Indonesia's state-building but they do not receive adequate recognition and assistance from the privileged Indonesians and business communities.

In what the Indonesian elites call the largest economy of SEA and second largest economy in Asia, only about 1% of 240 million Indonesians are considered entrepreneurs (Forbes 2012), and the majority of these entrepreneurs are, and happen to be, CIs. Indonesia's continued dependency on only upper- and middle-class CI professionals in the economic development and Indonesia-China relations realms, as well as the country's lack of skilled human capital needed for developing an independent economy, does not make Indonesia a strong, sustainable, and fair society (C. Chua 2008a). For this reason, critics of Indonesia's rise thesis are not convinced that Indonesia will become a rising star in the region and the world in a near future.

In addition, according to the Jakarta-based International Labour Union, a United Nations agency, youth unemployment or underemployment is relatively high compared to other Asian countries. Indonesia has one of the world's youngest demographic profiles, with 60% of people under 30, and the population is growing by 2.5 million people per year. As many as 60% of working-age Indonesians are

employed in the informal sector, hawking goods in their villages or working as maids and parking attendants in the cities (ILO 2009). Informal economy plays a significant role in addressing the problem of unemployment faced by the country. It helps those who cannot compete with others in the job markets which increasingly demand high-skilled workers. Many of these young labourers have to drop out of schools so as to maintain their work in informal industries. As a result, their prospects for jobs in formal sectors which require high skills and university education are limited.

According to the World Bank, in 2011, 15% of Indonesia's 240.3 million population lives below the poverty line of \$1.25 per day, and about 47% of the population live on less than \$2 a day. Less than half of the rural poor have access to clean water, and only 55% of poor Indonesian children complete junior high school. Impoverished groups include poor, illiterate, and unemployed CIs and other marginalized groups both in the cities and in rural and resource rich areas. About 60 million of Indonesia's 133 million strong middle class spend more than \$5 per day. To make these matters worse, in 2012, Harvard's Kennedy School of Government estimated that since the 1998 fall of Soeharto, Indonesia's real Gini Coefficient, a measure of inequality, is at 0.45, putting its *disproportionately* income inequality on a par with Indonesia's neighbours, such as the Philippines and Cambodia (The Economist 2011b). These statistics display more doubts than confidence in the stories about the rise of Indonesia as the strongest middle-class society in SEA. Experts warn that staggering power and income imbalances do not promise the sustainability of state-building of any country in the world. Instead, these extreme imbalances can become the potential

for violent socio-political conflicts within and between the chronically underprivileged majorities and the privileged market-dominant minorities, particularly the Chinese in Indonesia and SEA (A. Chua 2004).

Due to the lack of job opportunities, a large number of Indonesians from resource rich areas, such as Sumatra and Kalimantan, and in urbanized islands, including Bali and Java, resort to becoming part of Indonesia's cheap labour exports. Between 6.5 and 9 million out of Indonesia's total population of over 240 million work overseas, making Indonesia one of the biggest suppliers of unskilled and low-paid labourers to developed countries, particularly Saudi Arabia, Malaysia, Singapore, Hong Kong, Macau, and Taiwan. In these foreign lands, they serve as workers and "servants" in private homes, factories, and plantations. An estimated 700,000 labourers leave the country each year. 69%-75% of these exported workers are women. While remittances constitute an important part of Indonesian economy—more than \$6,617 million in 1999 and \$8 million were remitted to Indonesia in 2008, these workers are not well protected and recognized well by the authorities and their communities. The state has no specific regulation to legally and politically protect the rights of household workers (Amnesty International 2011). In the society, these migrant workers are positioned as economically, politically and socially "less-important" as they are not part of high-tech and vigorous industries. Instead, Indonesian migrant workers suffer from rights abuses. The International Organization of Migration (IOM) and NGOs estimate that about 43%-50%, or between 3 and 4.5 million, of Indonesian expatriate workforce get sucked into human trafficking. These workers are in conditions of forced labour and debt bondage (Billo 2011). The SBY government has recently responded to the media

and rights activists' call for the government to provide protection towards Indonesian exported labourers. The SBY government has prioritized diplomatic discussions with foreign officials. However, from the perspective of the labourers, diplomatic intervention often occurs after the fact when labourers have been badly humiliated and injured. Moreover, labour unions and the media believe that diplomacy is not enough, especially as Indonesian diplomats do not aim to provoke strong reactions from their neighbouring countries and strategic and economic partners. Also, diplomacy is not sufficient in addressing structural problems, i.e. extreme inequality and injustice, of these disadvantaged migrant workers and citizens, and corruption involved in the transnational enterprises of exported workers and human trafficking. For these reasons, there is a pervasive sense of public distrust toward the government's response to challenges facing Indonesian migrant workers. Remarkably, facts and myths about the Chinese holding economic and political power over non-Chinese Indonesians have continued from one generation to another among Indonesian labourers who serve upper- and middle-class Chinese families at home and overseas. As work opportunities and life conditions for the non-elite labourers do not improve, it is not easy for these labourers to change the ways they view themselves and other CIs.

The details above suggest that in the context of Indonesia, economic boom co-exists with high levels of power asymmetries and socio-economic inequalities. Proponents of market liberalization may argue that inequalities exist in all capitalist countries. In the market, some individuals and groups are better able to compete and exploit the opportunities and resources than others. In order to mitigate the gap between the

haves and have-nots, the best the state, entrepreneurial community, and the advantaged groups of citizens can do is to establish social welfare initiatives and legal rights favouring the disadvantaged citizens (Luxemburg 2006). Unfortunately, these pacification mechanisms do not effectively work in Indonesia.

What makes Indonesia's stories about inequality different from other societies is that the gap between (a) the educated, wealthier, and powerful elites, including CI entrepreneurial families and indigenous bureaucrats, and (b) other citizens has been too extreme. The latter has not been able to compete with the former for many generations. At the same time, exclusive interests as opposed to collective interests are a reality in policy-making and implementation in the Westphalia system (Hobbes 2009; Marx and Simon 1994b). Thus, regardless of their regional and ethno-religious identities, top decision-makers, as the Indonesian well-known novelist Pramoedya Ananta Toer Premoedia described in *House of Glass*, the final chapter of *Buru Quartet* (1988), often masquerade as defenders of fair and humanely state-building and globalization, and yet they do not consistently and genuinely actualize this noble goal. In the archipelago, defensible rights to land, healthcare, education, and other means of survival, as well as institutional support mechanisms, such as free and qualified education for the most marginalized groups, exist as a lip-service only. In addition, shares in the free markets have continuously been located with a few CI entrepreneurs, central, provincial and local officials, and foreign companies, but not with lower class indigenous Indonesians and other minorities. Thus, lives of the

disadvantaged groups continue to be difficult, if not unbearable in economic recession periods.

As an example, in February 2013, Indonesia experienced a significant trade deficit in that exports were weaker and merchandise imports were much stronger. This trade deficit put pressure on the Indonesian currency, rupiah, and making it one of Asia's worst-performing currencies. These issues inevitably backfired on food and fuel prices and thus the livelihoods of the population. In the same month, the price of garlic skyrocketed 31%, and became a heavy burden for households with less than \$2 per day. Garlic is a daily important food consumed by all Indonesians, and has been produced domestically. But Indonesia has recently imported 95% from China as part of Indonesia-China trade relationship (CSIS 2013). This trend implies that made-in-China garlic can take over domestic garlic at some point. The 2013 garlic crisis followed the soaring rice and cooking oil costs, making lives very challenging for the poor. These circumstances motivated lots of people to question Indonesia's economic policy-making, and even to join strikes and protests against the trade regime. The poor hoped that the authorities and the advantaged minority groups could do something about their difficult lives. Yet the best the government, economists, and wealthier Indonesians and investors could do was to fix inflation statistics, adjust fuel subsidies, and escalate their rice distribution and charity activities. Unfortunately, these pacification methods are short-term, and are not sufficient in addressing underlying concerns, including the growing inequality of income and opportunities and macroeconomic mismanagement.

After all, Indonesia's \$2 dollar trouble alone does not jeopardize economic growth stories in the country. However, this trouble does not help verify the sustainability of Indonesia's state-building template. Vikram Nehru, senior associate at the Carnegie Endowment for International Peace emphasized that "the last several years of "robust" six to seven percent annual growth in the gross national product (GNP) have not yet led to job growth" and the transformation of life quality for the majority of Indonesian people (Nehru and Bulkin 2014). Stories about Indonesia's remarkable transformation and its ability to lead SEA, Asia, and the world in the 21<sup>st</sup> century, therefore, are not entirely persuasive to critical learners of Indonesia's state-building process.

### **Pitfalls In The Resolution Of Indonesia's \$2 Trouble**

Levelling the playing field through social entrepreneurs and empowerment programs seems easier said than done for any number of reasons. First, "social responsibility" is still a lip-service for many groups in both public and private sectors. Doing so requires them to give up lots of privileges and power; and yet, this is something that many ruling elites resist. Some billionaires still believe that distribution and fairness are entirely the government's obligations, and that the private sector should not directly get involved in these matters (T. L. Fort 2011). In the same fashion, many government officials expect domestic and foreign companies to do more for the public, especially the most marginalized groups, partially because the private sector has more resources than the government (Berthelsen 2012; Neumann 2012). The outcome of these conflicting claims, expectations, and also blame-games between the

private sector and the government, on the issue of social responsibility is unclear. But what is apparent is that inequality and unfairness have increased sharply in Indonesia's democratization process (Kurlantzick 2013; Nehru and Bulkin 2014)

Second, "favouritism" is pervasive, contributing to the problems of inequality and unfairness in the country (A. Chua 2004). For instance, Chinese tycoons tend to first empower their children, relatives, and strategic allies at the central and provincial levels to become newer tycoons. Similarly leading indigenous Javanese and Balinese businesses prefer to broker deals with officials and influential CI entrepreneurs, and at the same time promote and empower their own family members, friends, and close allies to become key decision-makers in their firms. Foreign investors have more confidence in educated employees and elites operating in the capital and urban areas, while avoiding dealing with poorly trained Indonesians in the remote and underdeveloped areas.

In short, political and industrial decision-makers' interventions have not effectively addressed the extreme gaps between the haves and the have-nots. These gaps have endangered Indonesia's dream—which is the future peace, stability, and prosperity of the archipelago. If inequalities in education, job, and political and economic opportunities continue to widen, at some point, this situation will strengthen public backlash and portend future identity-based conflicts potentially mixing with aggressive economic and ethno-nationalisms.

## **Democracy In Retreat: Democracy Without Democratic Principles**

### ***Moneyed politics and corruption on the rise, and democratic values in decline***

After the transition from the Suharto era, successive governments embarked upon the economic and political re-distribution of power from the capital of Jakarta out to provinces and cities. This decentralization seems inevitable for an archipelago of more than 14, 000 islands and one of the most diverse populations in the world. Furthermore, advocates of good governance understand that giving the broader populace more of a stake in policy-making is a legitimate way to mitigate conditions for violent conflicts, while enhancing collaboration and transparency across the archipelago. The actual operation and outcome of Indonesia's decentralization have, however, defeated this conventional wisdom.

Corruption, in particular, has become “the new weapon of choice” among political parties at national and local levels (RSIS 2014). Almost all parties involved in the 2014 elections are accused of corruption and using corruption as a way to discredit their opponents. These parties can exploit, and can be exploited by, the media to generate and circulate certain corruption and anti-corruption stories that embolden their political campaigns at the expense of the oppositions (RSIS 2014). These developments are severe attacks to what Indonesia aims to promote—democracy, while at the same time, confusing the public's trust in elections and democratization. They also contest the dominant narrative of Indonesia's rise which Indonesian diplomats have promoted.

Indonesia's track record implies that corruption, as a perennial challenge to democratization process, will not completely go away in the near future. According to global anti-corruption watchdog Transparency International, perceptions of corruption in Indonesia are worsening. In the 2012 Corruption Perception Index, Indonesia had the highest level of corruption in Asia, ranked at 118 (out of 180 countries, with the first country being the least corrupt), below Cambodia and the Philippines. In 2011, Indonesia was ranked at 110 (Control Risks 2012). Over a decade ago, graft or corruption was heavily controlled by Soeharto, his family and allies alone. But in today's era of democracy and decentralization, nearly a quarter of the Indonesian decision-makers alongside businesspersons of different ethnic and regional identities have been charged with corruption (Kurlantzick 2012).

As an example, there has been public discussion about Aburizal Bakrie, the Chairman of Indonesia's Golkar Party. Bakrie has been considered one of the wealthiest Southeast Asian and Indonesian indigenous conglomerate and an influential politician who will run for Indonesia's presidency in 2014. Over the past years, about 40 companies bribed Bakrie as he was able to help these companies avoid paying multi-million-dollar taxes. When Bakrie served as the Minister of Social Welfare, the Bakries were involved in the world's largest mud volcano disaster in eastern Java in 2006. This incident occurred as a consequence of safety and resource mismanagement as opposed to a natural disaster. The incident resulted in the loss of thousands of local residents' properties and homes. Due to the corruption involved, Bakrie's firm covered only 2.9 trillion rupiah (\$302 million) of an agreed 3.8 trillion rupiah (\$391

million) in compensation for families that had been affected by the incident. In response to Bakrie's inadequate way of handling the 2006 mud volcano, well-known Indonesian activists, artists, and intellectuals avoided dealing with Bakrie's philanthropic networks, including the Bakrie University and Bakrie for the Nation. Between 2007 and 2012, renowned writer Seno Gumira Ajidarma, former Education Minister Daoed Joesoef, poet Sitor Situmorang, religious leader Franz Magniz-Suseno, and *Tempo* founder and writer Goenawan Mohamad have rejected or returned Bakrie achievement awards. Some of these awards were about \$26,000 (Hodal 2012a). These details demonstrate that celebrities are willing to resist the normalization of corruption in the country, and that their votes cannot be easily bought by wealthy and influential leaders, including Bakrie.

In elections, there are many more political parties and campaign donors; each party utilizes their campaign money alongside political power to influence voters and the media into supporting them. These changes provide room for the establishment of alliances between politicians and businessmen. Some of these people have been charged with corruption, exacerbating governance and trust deficits in the country.

For instance, a key financial contributor of President SBY's Democratic Party is Siti Hartati Murdaya Poo, a top elite businesswoman in a CI tycoon, an influential lawyer, Chair of (Jakarta Globe 2013) Indonesian Buddhist Association, and more importantly one of the largest financial donors of President SBY's campaigns during 2004-2009. Siti has been imprisoned for 32 months as she attempted to give \$310,000 bribes in the form of "donation" to officials in central Sulawesi in exchange for the rights to

establish her new palm oil plantation in the resource-rich area (Jakarta Globe 2013). Siti had previously been accused of failing to pay business taxes and using her economic and political power to influence bureaucrats in East Kalimantan into giving her permissions to extract resources in the area (Jakarta Post 2012). Although there is no clear link between Siti's Sulawesi bribery, these details show that powerful politicians do not hesitate to foster relationships with controversial tycoons, and vice versa.

This example above suggests that some influential leaders in the public and private sectors seem embrace the rhetoric of democracy but they have not actualized democratic principles, such as equity, social responsibility, and fairness. Money has dominated their work to the extent that it has placed the principle of fairness in governance at risk. Both examples above illustrate that corruption is not located with the Chinese only—or with only particular ethno-religious group—in the society. Rather, corruption involves by various political parties, businesses, and media channels. It has been decentralized to the extent that anti-corruption efforts have become a challenging task.

### ***The limits of Indonesia's anti-corruption efforts***

In order to combat corruption, the SBY government created the National Anti-Corruption Commission (KPK) in 2004. KPK functions as a semi-independent agency able to deter corruption. Members of this commission report directly to President SBY, and collaborate with the National Police and other government agencies throughout their investigation phases (KPK 2004). The KPK as a whole has obtained

a relatively high level of public and social media support as it has made remarkable impact on the state and the society. It has helped send dozens of powerful policemen, politicians, and businessmen who have been on charges of receiving and offering bribery and corruption money to jail. It has raised awareness that although corruption is pervasive, it is more difficult for an official or an entrepreneur to be involved in corruption in Indonesia today than in the past. Currently, anti-corruption is considered as a long-term and top national security task for Indonesia.

However, the KPK cannot entirely root out the impunity and pervasiveness of corruption in the country for the following number of reasons. First, there are extreme power imbalances among corrupt elements and counter-corruption forces. In fact, many individuals on corruption charges are still holding political and economic decision-making power; some are very close to the President, the Cabinet, and security forces. These individuals can find ways to prevent, deny, or even distort evidence of their corruption scandals. In fact, top political and economic elites, and their allies or protectors, can weaken the KPK if this commission poses a threat to their interests.

For example, in 2012, the National Police removed 20 out of 78 KPK investigators, and proposed 20 other unqualified investigators as replacements. Simultaneously, some politicians in the House of Representatives proposed a bill aiming to contain the KPK and hold back funding for its activities. These happenings may be power-holders' responses against the KPK during and after the KPK conducted corruption

scandals involved by central bank leaderships, such as: Bank Century and Bank Indonesia, as well as top figures, such as the former chief of the National Police Traffic Corps, Djoko Susilo (Bayuni 2012). As a consequence of the top-down containment against the KPK, its members have become more cautious in their efforts. They have found it challenging to carry out investigations during and after the 2014 election. This is the opportunity for politicians to court companies and tycoons that can sponsor their campaigns. In return, politicians can help prevent these sponsors from being tracked down by the KPK. Possibilities for doing cannot be ruled out, especially as there are rumors that political parties are able to infiltrate into the KPK and influence this commission's process and outcomes (RSIS 2014).

Second, corruption has been decentralized in post-Soeharto era, such that it becomes difficult to track. Boundaries between legitimate and illegitimate actors and interests are blurry. Bribes and corruption interests can be disguised in, or be transferred into, business opportunities, infrastructure-building (e.g. roads, schools, religious homes, and hospitals), education, research, or seminars, scholarships and fellowships, and charity in and across national borders. In addition, political and economic elites related to corruption are too big to fail, judging from the fact that these elites continue to hold important resources for Indonesia's economic development and stability.

For instance, Sukanto Tanoto, a CI tycoon, has been criticized by the media and public on tax avoidance and illegal logging enterprises (Ravi 2013). However, the Tanoto Foundation International which was established in 2001 seeks to offer

scholarships, reduce poverty and gaps in education, and provide assistance to Indonesia in natural disasters. Tanoto himself has been a big donor of many well-established universities in the Asia-Pacific region (including University of Pennsylvania and Singapore's National University) that focus on sustainable development, medicine, healthcare, sciences, and Southeast Asian studies. He has also served as an important advisor of Indonesia-China relations (Tanoto Foundation 2001).

Another example are the Bakries, a successful non-CI dynasty. Three generations of the Bakries, including Aburizal Bakrie who is running for the 2014 presidential election, have big shares in media outlets, life insurance, mining, agriculture, construction, trade, and property development across SEA and the Asia Pacific region. While members of the Bakries are well-known for their wealth and leverage power, they also have an abysmal reputation due to their trans-national and national business and political misconduct. In 2006, the Bakrie firm was involved in the world's largest mud volcano disaster. This disaster resulted in the disappearance of the entire town in East Java, Sidoarjo, causing losses of thousands of people's homes and businesses; the locals have not received sufficient compensation (Hodal 2012b). Since 2012, London has accused the Bakries of disappearing \$1 billion from their joint London-listed company. The media and corruption investors criticized the Bakries for their remarkable abilities to avoid paying international debts and local taxes. Aburiza Bakrie himself was accused of paying a \$7 million bribe through a corrupt official to avoid a much larger settlement, and of manoeuvring Indonesia's popular and

competent former finance minister, Sri Mulyani Indrawati, out of Indonesia's power circle in 2010 (Bachelard 2013). Despite these controversies, the Bakrie Foundation has pioneered philanthropic, educational, and research efforts, including the establishment of Indonesia's Bakrie University, as well as of the Indonesian and Southeast Asian studies programs in Singapore (e.g. S. Rajaratnam School of International Studies and National University of Singapore) and in the United States (e.g. Carnegie Endowment for International Peace, and Harvard and Pennsylvania Universities).

Considering the role of tycoons and politicians in strengthening and hindering Indonesia's state-building efforts, a total war against corruption involved by these powerful Indonesian tycoons and politicians may be risky. It may lead to the bankruptcy and instability of Indonesia, causing consequences for Indonesia's partners across the world. In addition, high-level corruption involves upper- and middle-class Indonesians who can afford fleeing Indonesia at any time and even before anti-corruption squads can reach them. Taking these circumstances into account, anti-corruption units, including the KPK, have to actualize anti-corruption with limits. For instance, they may have to delay some corruption cases and wait for the 'right' time to expose and follow up with these cases. While it may be necessary to do so sometimes, but this conduct does make anti-corruption officials look weak in the eyes of the concerned public. It is unclear as how far the Indonesian public can stomach all these ambiguities and dilemmas with respect to corruption and anti-corruption issues.

Third, there is no one-size-fits-all way of understanding and actualizing the so-called “war against corruption” in Indonesia. The public advocate for anti-corruption so as to promote equitable development and justice in Indonesia’s state-building. Investors want to remove bribery and corruption money because these are undesirable additional costs for them. Top elites, however, use anti-/pro-corruption rhetoric as a means to secure the people’s votes for their elections and power, while at the same time weakening the legitimacy of the oppositions. Indeed, there is no consensus among Indonesians, their allies, or their competitors on: (a) what are the indicators of corruptions and anti-corruption, (b) whether or not and in which contexts corruption and anti-corruption can be political means and/or political ends, and (c) which agencies should examine corruption risks, and how to best mitigate the strategic, political and economic impacts of corruption. In addition, Indonesia has grappled with corruption and anti-corruption campaigns even before independence in 1945. In the pre-colonial era, merchants who came to Indonesia’s Java to trade had to pay tributes to rulers of the land these merchants visited. This norm passed on to the Dutch colonial and post-colonial governments, and has continued to date (Arifianto 2013). Considering these factors, it may take Indonesians some generations to overcome corruption problems—if a corruption-free society is at all possible for Indonesia.

In short, Indonesia has obtained more opportunities to promote power decentralization, freedom, and equity in the post-Soeharto era. These are democratic principles and values that people in Indonesia and elsewhere have longed for. However, the way in which the dominant minorities—indigenous bureaucrats at all

levels, CI industry leaders and their non-CI strategic partners, and transnational and national companies—influence Indonesia’s decentralization has led to some uncertainties and negative outcomes. This process has given room for the rise of free riders and populists who primarily focus on exclusive profits and power but not on their commitments to the democratic principles listed above. Thus, ordinary Indonesians feel that politics and socio-economic reforms have served the interests of state elites, i.e. political and economic power holders, only. This understanding has sustained frictions within and between the state and society. A risk facing Indonesia is that even in the post-Soeharto era, policies appear to be worsening the discrepancy between what reformists in the government, the private sector, and the society are expected to do (e.g. a corruption-free and equal society) and what these reformists have done (e.g. escalating corruption and inequality). If new policies cannot effectively reverse this situation in the next few years, the most affected groups in the society, i.e. the chronically underprivileged indigenous Indonesians, will completely lost interest in reforms. They will possibly seek solutions on their own or with support from the oppositions of these state leaders, e.g. anti-liberalism and anti-market fundamentalists. By ignoring the people’s worsening quality of life, distrust in the politics of reform, and abilities to make political choices, Indonesia’s power holders are setting a time bomb for themselves.

## **National Cohesion At A Critical Point**

### ***Indonesia’s occupy-street movements: goals, claims, and impacts***

Many Indonesians take advantage of the rise of democracy to form more political parties, ethno-religious associations, and social movements in big cities and remote areas, in order to make their claims on rights and power heard widely. Groupings that are geared toward collective problem-solving among the public, private, and civil society sectors, however, are rare in an era of economic uncertainty and elections.

Protestors have some similar and different objectives and outcomes. What separate protestors from each other is their ways of making their claims appealing to policy-makers and the broader public. What unites the protestors, however, is a belief that they are speaking in one voice against injustice which has been driven and exacerbated by Indonesia's political, socio-economic, and religious-moral power holders.

For instance, Indonesia's protests believe that they are important part of global movements promoting people's power in Tunisia, Egypt, Spain, Greece, the U.K. and the U.S. Whether or not this is true is not very important; and yet, such a belief empowers protestors, especially when they meet face-to-face with security forces and capitalists on the streets in Indonesia. What is not discussed widely, however, is that interactions within and between the occupy-street groups, the authorities, and private sector do perpetrate tensions and confusion, and do not lead to any concrete solution to the multifaceted challenges facing them.

In November 2012, over two millions factory workers went on a one-day strike across Indonesia, threatening Indonesia's policy-makers that workers could do worse to

Indonesia if policy-makers and policy-implementers continued to ignore the worsening quality of life among workers. In October 2012, tens of thousands of factory workers of about 700 companies took part in national strikes across 80 industrial estates and 24 cities in Indonesia, demanding better benefits and social and job securities. The SBY administration responded by promising these workers that the government would further pressure foreign companies to change their policies. These policies could be that companies would cover higher labor costs and raise wages between 10% and 50% in 2013, and give the locals permanent contracts as opposed to temporary ones (Lim and Ismar 2012).

SBY's response, as such, angered transnational and domestic capitalists who understood that the SBY administration's promises of wage increase and business regulation reforms were unrealistic. Some of these reforms are politically motivated, but they are not geared toward the betterment of Indonesia's socio-economic and political conditions. Representatives of the American chamber of commerce in Jakarta expressed that Indonesia's business environment has become "very difficult and tricky" (Anonymous Policy Analyst 2012). A reason for this confusion is that populists as opposed to experienced political economists have increasingly been in charge of economic development arena. These populists can further—or reduce—protectionist measures and regulation changes in ways that embolden their political interests (Hiebert and Ramage 2013). The recurrence of Indonesia's economic nationalism, expressed in a common slogan "Indonesia for Indonesians," in the 2014 presidential elections, has been pervasive in Indonesia's mainstream media and public debates

despite that such a slogan stands in stark contrast to what Indonesia's policy-makers have claimed in public: a business-friendly environment. Meanwhile, the public's responses to populism have not fundamentally changed Indonesia's confusing political and business landscape. There are several examples to illustrate these points.

Prabowo Subianto, an indigenous businessman as well as a politician who is running for the 2014 election is a good example of this point. Prabowo has blamed foreign companies for the cause of exploitation, poverty, and injustice in the country, while avoiding the fact that his companies are too part of these structural and social problems (Bland 2012). In addition, politicians in the country are mostly conventional realists who find it normal to pursue Realpolitik and inconsistent acts. On one hand, they appear to welcome good relationships between themselves and investors. On the other hand, they can stimulate—or pacify—tensions among workers, investors, and the oppositions. The military, police, and private security forces are the biggest winners in joint development projects because companies have to pay these forces millions dollars. These companies hope that with big incomes, security forces will help fulfil protect the enterprises and homes of investors and local elites, and control violent strikers. In other words, there is a hope that by challenging to these security forces, capitalists can weaken these forces' will to play companies and the society off against each other in times of economic turmoil and/or over time.

Union members employed in factories, schools, and bureaucracies play a significant role in promoting justice. However, in some situations, they are the biggest losers as

they have lost wages and jobs the days they go on strike. Without alternative sources of incomes, these Indonesians find it challenging to cope with the rising prices of essentials and foods. Remarkably, some workers realized that even after their salaries were increased, they still have to struggle hard to survive rapidly increasing food prices in the country. These situations motivated some protestors to question the outcomes of strike against exploitative capitalists and efficacy of policy change on minimum wages. According to Vikram Nehru of the Carnegie Endowment for International Peace, “invisible” biggest losers are labourers in Indonesia’s informal economy who constitute about 90% of Indonesia’s workforce (Nehru 2013). Informal economy is sustained by labourers work without safety, healthcare, and prospects for formal contracts. These informal Indonesian workers labour in make-shift businesses, such as road-side tea stalls, or in factories or enterprises where top employers and human resource managers did not demonstrate their will to keep record. Meanwhile, government officials conveniently failed to check on the existence of informal labourers and employers’ responsibility to protect the interests of these labourers. Indeed, protesting demanding minimum-wage hikes has raised barriers to the transition of informal workers to formal workers. Employers find it not wise for them to formally hire labourers and empower low-skilled informal workers to become formal high-skilled workers. As the Indonesian government requested companies to raise minimum wages up to 50%, companies find it not advantageous for them to generate formal jobs and fully actualize empowerment programs with the most marginalized and informal labourers. After all, both strikes and counter-strike campaigns do not attack the escalating structural and social problems of income and

opportunity inequalities. Instead, these campaigns perpetrate governance and trust deficits—which will not enable Indonesia’s economic growth and stability in the long term (Nehru 2013).

There is a perception that as long as campaigns against corruption involve religious and moral leaders, positive outcomes (e.g. the absence of corruption and inequality) will prevail. However, realities on the ground may contest this perception. Moderate Muslim leaders of the Nahdlatul Ulama (NU), for instance, threatened to call for a national boycott and to stop paying taxes unless the SBY government made significant progress on the national “war on corruption.” NU even demanded death penalties for all individuals, locals and non-locals alike, on charges of corruption in Indonesia (Bayuni 2012). The SBY government addressed this concern by promising more investigations into controversial officials, tycoons, companies, and banks. But the government was unable to make progress as fast as NU wanted, and did not agree on NU’s death penalty proposal. As a result, young conservatives in NU branches launched campaigns on Facebook and Twitter and other social media platforms, claiming that they would stop supporting the SBY administration and search for an alternative and more decisive leader that they believed could make Indonesia a “corruption-free” society. Eventually, these actions and reactions between NU members and the SBY government have provoked a critical concern if these Indonesians aim to welcome a comeback of dictatorship that may not be interested in protecting and promoting human rights.

In the same way with NU, human rights campaigns, particularly the “without Islamic Defenders Front” (or FPI) movement, threatened to file a lawsuit against the National Police (NP) if NP did not disband this group in “two weeks.” Many Indonesians increasingly see FPI members not only as hardliners and criminals who are against minorities, including CIs and moderate Muslims, but also as strategic “allies” with some NP personnel (Sidjala 2012). NP and this movement were in intensifying conflicts as NP did not meet the deadline set by the “without FPI” movement.

Furthermore, NP believed that utilizing a hard approach alone was counter-productive and would only trigger negative reactions from radicals (Hermawan 2013). This explanation was not persuasive to some analysts within the SBY government, especially as FPI was exploiting divisions within and between the authorities and the people for its survival and political interest. In fact, members of FPI claimed that both the NP and the anti-FPI movement violated their “rights” to freedom of speech and association. They also denied all accusations about their violence against minorities and intentions to discredit or alter Indonesia’s ideology—*Pancasila* (Hermawan 2013). This ideology recognizes a “belief in one and only God,” rejecting to embrace only Islam the way FPI defines. Nobody knew exactly where these “rights” arguments and counter-arguments would take, but their consequences for the society were obvious. Street debates among members of NP and the anti-FPI and pro-FPI movements intensified traffic, causing schools, businesses, and some bureaucracies to pause their activities for hours. These details explain that while street debates in public spheres on governance issues (e.g. corruption, rights, and inequality) are an

inevitable part of Indonesia's state-building, their processes and outcomes, as described above, are desirable for some, but are not for all Indonesians.

### ***A political side-effect of the mass politics***

Nevertheless, the escalating manoeuvrings and counter-manoevrings between and within the people's occupy-street movements and the oppositions over ways to improve or re-structure the established socio-economic, political, or cultural institutions suggest that Indonesia's national cohesion has been under stress. At this point, tensions over what the government the private sector and the people of different social identities should and should not do in Indonesia's state-building have been evolving. It is uncertain if these tensions would foster a positive or negative change in the country. Still, the rise of social movements has been significant. Their implicitly early warning—*solve it now; or else something [revolution] might happen again*—has entered the consciousness of the concerned bureaucrats, businesses, and citizens.

These warnings are important as they are revealed at the right time when Indonesia's reforms have started conveying their downsides more clearly. In particular, Indonesia's disproportionately unequal worlds exist. In one world, the "haves" have access to better education in and outside the country, and live in fenced and even flood-proof houses guarded by government and private security forces. In another world, the "have-nots" live with floods and pollutions, illiteracy, underemployment, frustration, and poverty. Remarkably, Indonesia's post-Soeharto democratization which allows the continuity of Indonesia's predatory form of capitalism and the

discontinuation of overtly anti-Chinese policies has placed CI tycoons and some indigenous capitalists in a position to significantly influence present and future socio-economic and political directions (C. Chua 2008b). The growing power of these capitalists is inevitable, and yet, it has not been totally accepted by the majority of struggling Indonesians who perceive that they have no stake in the economy and in political decision-making even in post-Soeharto Indonesia. Indeed, the existence of these disproportionately unequal worlds and classes, coupled with the suppression or rationalization of escalating tensions within and between these worlds, do not guarantee the sustainability of Indonesia's democracy and prosperity, as well as Indonesia's positive images in international relations.

If corruption, inequity, and national cohesion are not handled effectively by the SBY administration and the successors, these troubles will become the potential for the return of the almost "Balkanization" of Indonesia in the wake of the Asian financial crisis (1997-98) which triggered the fall of the Soeharto regime. This presumption or anticipation is in line with Indonesian politicians' deep memories of the traumatic and uncontrollable political and socio-economic crises of the same period of time. For this reason, many Indonesian politicians acknowledge that the development of occupy-street movements are worth noting, and that for the survival of Indonesia's modern nation-state, the leadership must tread more carefully on governance matters in the years to come.

## **The Impact Of Indonesia's Disunity On Socio-Political and Investment Issues**

In the run-up to the 2014 Presidential election, regular protests and escalating tensions over systemic and social problems have made Indonesia's socio-political and investment environments unpredictable and confusing.

Some protests and tensions escalate into confrontation between the majority of struggling Indonesians and the privileged minority. There is a fear that power of the majority can take precedence over institutions and the rule of law in ways that embolden anti-Other sentiments and mobs (A. Chua 2004). This phenomenon has nothing to do with Indonesia's culture. Rather, the feeling of injustice that the chronically underprivileged Indonesians harbour and the fear that the opponents, i.e. privileged minorities of indigenous bureaucrats and CI conglomerates, can fuel and bring tensions between these groups up to a higher level. In chaotic situations, there is often no guarantee for the survival and interests of CIs. Learning from their past experiences, these conglomerates feel that they cannot always depend on the authorities and their neighbours for protection. The latter groups can give CIs protection except when CIs' services as scapegoats are needed (Suryadinata 2008; Zenner 1991). For this reason, CIs have to come up with diverse survival strategies.

For example, CI families can seek to deny their Chinese identities when their survival is threatened by anti-Chinese groups; but they can highlight the re-orientation toward Chinese identities in seeking better opportunities in the context of China's rise as a

global superpower (Suryadinata 2005). Most big capitalists who happen to be CIs—alongside other privileged Indonesians—conduct business in Indonesia, and yet, place their long-term investments more in places that can provide safe havens for businesses, such as Singapore, Hong Kong, Taiwan, and Australia. A reason for these businesses to pursue short-term deals at home and longer-term investments overseas is that they aim to reduce uncertainties. If their businesses collapse in Indonesia because of political and social instabilities, their interest losses will not be very substantial. In addition, it is said that CI tycoons have indirectly or directly sponsored candidates of the 2014 presidential elections regardless of the politics of these candidates. This is a wise decision that helps sustain the interlocking relationships between CI tycoons and new leaders. CI tycoons can use their capital to address the need for political power of politicians, and politicians can use their political power to help address the need for security and protection of CIs.

Although CIs' image management tactics are necessary, these tactics do not always promise positive outcomes. In fact, there are paradoxes and uncertainties associated with CIs' survival. On one hand, there is a hope that tensions between CIs and the indigenous population can be mitigated by CIs' interlocking relationships with diverse actors in different sectors in and outside the government. This is true when CIs' services as scapegoat are not needed by Indonesia's state elites. On the other hand, the historic relationships between a few CI entrepreneurs and the ruling groups and big CI capitalists' disengagement from Indonesia in crises make all CIs suspected of treason in the eyes of ordinary, struggling majority Indonesians (Zenner 1991). The state elites skilfully exploit these contradictory issues for their advantage, such that they

occasionally using CIs as a buffer between them and the indigenous majority. In critical moments, populists and opportunists half-heartedly engage CIs. For instance, they may stimulate the polarization of indigenous capitalists versus CI businesses included, while at the same time exploiting Chinese-controlled capital and skills for their interests. These details explain why many Indonesians and mainstream media pay more attention to CI tycoons than other indigenous actors when it comes to the relationship between money and politics.

Foreign companies are drawn in Indonesia's domestic money-politics nexus in a negative way. For instance, according to the Jakarta Globe, in January 2013, the Energy and Mineral Resources Ministry influenced or pressured ExxonMobil Indonesia to fire Richard J. Owen, its chief executive. Some powerful personnel in this Ministry criticized Owen's performance did not contribute to the promotion of Indonesia's national interests, but to the advancement of his own interests and foreign partners. This judgement was based on the fact that under Owen's leadership, ExxonMobil Indonesia refused to sell its asset in northern Sumatra to Indonesian state-owned energy companies. The clash between the Indonesian state elites and Owen made multinational companies, confused about the future of their relationships with Indonesia. This confusion escalates as Indonesia is taking protectionist stances, side-lining foreign investors who have fuelled Indonesia's prosperity. Indonesian policy-makers justify their protectionist stances that Indonesia has realized its potential to count on its steady growth and large domestic market to sustain wealth.

However, critics of these protectionists claim that underneath Indonesia's new investment regulations in the name of national interests are opportunities for rent-seeking and corruption at local and national levels. The politics of resource nationalism is not new in the history of Indonesia. In order to win the public support, the Soekarno, Soeharto, and Habibie governments claimed that they resisted foreign businesses in order to allow the indigenous population to claim ownership to Indonesia's economy. But, in reality, the economy and other sectors have been dominated by Indonesia's state elites, but not the many ordinary, struggling Indonesians.

Confronting uncertainty and the return of Indonesia's nationalism, foreign investors and big CI capitalists hesitate to make long-term commitment to Indonesia. These investors and capitalists understand that if Indonesia's internal politics in general and (economic and resource) nationalism in particular go bad, they would be deterred or scapegoated by indigenous capitalists, hardliners, populists, or even the ordinary people. In order to reduce this uncertainty, multinationals, especially extractive industries, have begun to reconsider alternatives to Indonesia. Thus there was little surprise when Finland's Fraser Institute Survey ranked Indonesia the least popular destination on earth for mining and exploration industries in 2013 (Cervantes, McMahan, and Wilson 2013). The decline of Indonesia's chances for attracting these industries provides a justification for many Indonesians to express their resentments that CI and foreign businesses are the 'same' in that these entities extract wealth from Indonesia but do not aim to contribute to Indonesia's state-building in the long term.

The escalation of this feeling imply that there are frictions within and among the Indonesia state, business community, and the ordinary people.

In brief, this chapter suggests that the socio-political and business environments in Indonesia are not entirely conducive to economic development activities in the long run. Indonesia's socio-economic reforms have emphasized changes in form but not in substance. As a result, the gaps and tensions among the upper, middle, and lower class Indonesians has continued. To make this matter worse, ethnicity and class issues are mixed with economic and political tensions in sophisticated ways. For instance, although not all CIs are powerful, and not all the powerful are CIs, individuals with the highest economic power and resources to be used to influence economic development's policy-making are CI cronies and tycoons. This phenomenon reinforces false perceptions among many Indonesians that all CIs are and will be more influential than other groups in Indonesia, and that economic success opportunities must be linked to Chinese identities. In addition, the landscape of the 2014 national election does not seem to address the problem of socio-political divisions. Corruption and the misuse of power and natural resources have been debated more openly in the media and in public spaces. While these discussions are necessary in determining the future directions of Indonesia, many of them are not geared toward problem-solving and solidarity-building. Rather, they are about blame-games and nationalism politics and thus polarization. Many CI tycoons and foreign investors are concerned that they are being used as convenient scapegoats for many entities in times of election and over time. For this reason, they are not ready to make any strong and long-term

commitment to Indonesia's state-building efforts the way Indonesian state elites and the society like. Hence, big businesses can be in the country physically to influence business negotiations and political processes; but their capital and well-trained human resources are not in Indonesia over time. Given these uncertainties and paradoxes, the future of peace, stability, and prosperity of Indonesia remains unclear.

**CHAPTER V: CHINA'S TRANSFORMATION FROM A PEACEFUL RISE TO  
AN AGGRESSIVE RISE AND THE IMPLICATIONS FOR INDONESIA'S  
INTERNATIONAL AND DOMESTIC AFFAIRS**

*Abstract: The transformation of China from a benign regional superpower to an unpredictable regional power has increasingly concerned its Southeast Asian neighbours, including Indonesia. The latter perceives that Beijing has used its joint development rhetoric to rationalize its exclusive interests in the realms of trade, economics, and maritime security in ways which Indonesia finds it exceedingly difficult to accept. As a result, frictions in the military-political relations between two countries occur even though their economic relationship appears [emphasis added] to continue smoothly. In addition, China's increasingly hegemonic behaviours in international relations plays a role in changing interactions among Chinese and non-Chinese Indonesian peoples. There emerges an assumption that Beijing's rising power may lead to all ethnic Chinese groups' rising power and vice versa, especially as Indonesia's Chinese communities who still have strong family, socio-economic and political contacts in China form a solid bridge between Indonesia and China. As a result of power imbalance between Indonesia and China, there is a fear that China's Chinese investors and government officials are able to leverage over Indonesia's Chinese communities for China's strategic interests. In fact, many Indonesians already feel the Chinese multidimensional power over them considering that China has been manoeuvring around Indonesia's waters, i.e. the Natuna Islands in the South China Sea, and that two thirds of retail trade in Southeast Asian countries is*

*dominated by diverse Chinese groups. Although Indonesia's Chinese account for only about 3% of Indonesia's population, Chinese Indonesian enterprises account for a disproportionately high proportion of capital. These realities allow suspicions among Chinese and non-Chinese Indonesians at all levels, and thus an unpredictable political and business atmosphere in Indonesia. If Indonesia-China relationship and Indonesia's internal stability entirely break down, the Indonesian state and public would direct their frustrations at Chinese Indonesians. It remains to be seen if and how these frustrations might occur and transform into crises. Still, it is in the interests of Indonesia's decision-makers to calculate and forestall potential security, trade, and economic risks associated with the changing interactions among the Chinese and non-Chinese in Indonesia and across SEA.*

## **Introduction**

Indonesian decision-makers have recently felt uncertain and confused about the future of Indonesia-China relations. This is a consequence of People Republic of China's (PRC) evolving hegemonic behaviors in international relations. Since 2009, China has showed its increasingly aggressive and assertive maneuverings in the Asia-Pacific region (Storey 2013). While emphasizing a win-win cooperation rhetoric, China has acted unilaterally to protect and advance its interests at the expense of its neighbouring countries, including Indonesia. In particular, China has flooded Indonesia with Chinese goods, and Indonesia's smaller companies (except multinational companies owned by Chinese Indonesian tycoons) are unable to compete with PRC's giant companies. PRC's maneuverings around Indonesia's territorial waters, i.e. the Natuna Islands in the South China Sea (SCS), have made

Indonesia nervous as the latter has not been clear if China aims to contest Indonesia's sovereignty (Womack 2013). These events show that China has become more than merely good and peaceful neighbour with Indonesia and other neighbours, and that China has demanded others to recognize its power to dictate terms of international relations in the Asia-Pacific region. China's aggressive gestures have provoked nationalistic sentiments and serious debates on policy-making in Indonesian. In the 2014 presidential elections, there has been a perception that if highly nationalistic and/or radical groups become dominant in Indonesia's political theatre, these groups may exacerbate trans-national, national, and communal conflicts. These conflicts may involve the Chinese people from Indonesia, China, and elsewhere who have served as intermediaries in Indonesia-China bilateral relations (Suryadinata 2008).

Although not all Chinese Indonesians are rich, they nevertheless form a major component of the Indonesian upper and middle classes (Suryadinata 2008, 14). Due to their strong capital, resources, and mobility, CI entrepreneurs, in particular, lead national initiatives geared toward fostering trade and economic development in Indonesia, China, and their neighbouring countries. CI business executives, officials, and intellectuals, are important assets to both Indonesia and China. They can provide multiple channels for political and industrial leaders in Indonesia and China. They supply on-the-ground insights into how the host countries may perceive China, and how China may perceive the host countries. However, a disadvantage for CI middlemen is that non-Chinese fellow countrymen often question CIs' political and loyalty to Indonesia, especially as CI middlemen have increasingly served as intermediaries for policy and business communities across borders (Sukma 2009;

Suryadinata 2008). Already, there is a (false) assumption that Beijing's rising power may lead to the rising power of Southeast Asia's (SEA) Chinese groups, and vice versa. In addition, non-Chinese population in Indonesia (and across SEA) feel uncertain about the pervasiveness of Chinese economic dominance in the region. Two thirds of retail trade in SEA countries is dominated by SEA's ethnic Chinese. In the context of Indonesia, CIs account for only about 3% of Indonesia's population, and yet upper and middle class CIs accumulate a high proportion of wealth and capital (Suryadinata 2008; Zenner 1991) These gaps trigger suspicions and complex interactions among these populations, while at the same time constituting an unpredictable political and business climate in Indonesia.

Learning from their past experiences, many CIs understand that if IC relationship breaks down and if Indonesia's stability collapses, the Indonesian government and/or public frustrations would direct their frustrations to CIs (A. Chua 2004; Suryadinata 2008). It remains to be seen if and how these frustrations may escalate, or be escalated, into physical violence. Still, it is in the interests of governments, private sector, and societies in Indonesia (and SEA) and China to assess and forestall potential geo-strategic, security, and business risks associated with the changing interactions between Jakarta and Beijing, as well as the changing interactions between the Chinese and indigenous populations.

## **Unequal Economic Relationship Between Indonesia and China**

## ***Economic cooperation for the export of China's domestic problems to Indonesia***

Since 2004 China has exported its own troubling domestic problems, including labour and human rights violations, to Indonesia; whereas Indonesia has found itself too weak to resist (A. Chua 2000; Kurlantzick 2006). For this reason, political, social, and class-based tensions among Indonesian low-wage workers, Indonesian policy-makers, and Chinese companies have escalated in ways that the SBY government finds exceedingly difficult to fix.

Many Indonesians vocally criticize the so-called “Chinese tsunami” in Indonesia. In 2010, 70% of products in small- and medium-sized shops in Indonesia were imported from China. These products include electrical equipment, metal products, plastic goods, garments, automotive spare parts, packaged fruits, and even agricultural products (Chandra and Lontoh 2011; Parameswaran 2010; Storey 2009). Despite some local businesses’ resistance against Chinese products, some made-in-Chinese vegetables and fruits do meet the needs of low-income ordinary Indonesians. These Indonesians wish to support local high-quality products, and yet, they cannot afford doing so. Some local products which are essential to Indonesians’ daily cooking culture, including garlic, have become far more expensive than made-in-China products. “If we, Indonesians, boycott Chinese food and fruits, what else can we buy (*apa lagi yang bias kita beli*)? Local garlic and fruits are more expensive (*bawang putih lokal dan buah-buah lokal lebih mahal*) these days,” said local sellers (Interview with Fruit Sellers 2012). This expression implies that the Chinese-product tsunami in

Indonesia does cause nuanced and unequal impacts on different Indonesian families, and that anti-Chinese products may involve only some particular groups of businesses and customers—but not all Indonesians. What is most important about locals' responses to the so-called Chinese tsunami in Indonesia is not entirely about pro-local-products or anti-Chinese-products per se. The local people's esteem, feelings of connecting with the Chinese, and perhaps even the shared values between the Chinese and indigenous Indonesians have been questioned hard due to the ways trade and the markets operate. These institutions have continuously favoured the market-dominant non-indigenous minorities—the Chinese capitalists, giving no stake to the chronically underprivileged ordinary majority Indonesians.

One might argue that the free trade agreement is a double-edged sword for Indonesia. It benefits Indonesia because it makes the country further integrate into the global economy; at the same time, it forces Indonesia to increase the competitiveness and efficacy of Indonesian companies. A question remains: which Indonesian capitalists and how far these capitalists can compete with PRC's giant companies? Historically, Chinese capitalists quantitatively and qualitatively outweigh Indonesian capitalists. Only a few CI-owned multinational corporations are able to compete with PRC's giant companies (Suryadinata 2008). In the context of China's rise, power imbalance between these forces is more sophisticated. Some CI-owned multinational corporations are willing to, and are encouraged by Indonesia's government, to partner with PRC's companies to pursue win-win development deals. An unintended outcome, however, is that the biggest losers are Indonesia's small and middle-sized

businesses that are not able to compete with PRC's companies, multinational companies owned by CI tycoons, and businesses co-invested and co-managed by PRC's companies and CI tycoons. These trade and market dynamics have escalated tensions between China and Indonesia and between Indonesia's Chinese and indigenous populations.

A few nationalistic labour union and civil society leaders have regarded Chinese companies not as ambassadors of good will from PRC, but as new global imperialists and even business invaders. These individuals perceive that Beijing and PRC's giant companies have used a combination of political and economic power to buy off, influence, or leverage Indonesia's local bureaucrats, so that these bureaucrats would allow Chinese companies to obtain operational licences and gain commercial profits at the expense of the majority of Indonesians. There are rumours that with support of local bureaucrats and business partners, Chinese companies have brought "tens if not hundreds of thousands" of labourers from mainland China to Indonesia with tourist visas each year (A. Chua 2004). Proponents of this policy may argue that the rise of Chinese tourists in Indonesia demonstrates Beijing's will to promote people-to-people interactions. A critical challenge facing Indonesia-China relations, however, is that tensions between Chinese labourers-tourists and Indonesians have become severe in some places. Many Chinese tourists have been encouraged to over-stay and work in Chinese-owned extractive areas, infrastructures, and services in Indonesia (A. Chua 2004). The locals find it hard to compete with Chinese tourist-workers for job opportunities and wage increases in Chinese-owned firms. Over time, China's going-

global policy has backfired on Indonesia's locals. Tensions among Chinese tourists, local bureaucrats, including CI intermediaries, who facilitated contracts between the Chinese and local businesses, and the ordinary Indonesians, have intensified.

For instance, Huawei Tech Investment, a Chinese telecommunications giant, had about 4,000 workers across Indonesia in 2012. Yet, only 2,500 were locals and many of these workers were not supported to obtain full-time employment status. Out of 1,300 foreign employees in Huawei, at least 1,000 illegal foreign workers were from China (Bland and Hille 2013). These Chinese workers suffered from poor work and safety conditions and low-paid wages as much as Indonesian workers. It was unclear to the public's eyes if all workers at Huawei in Indonesia really had formal contracts, so that these workers could obtain their rights to be protected by the company and/or by the host community.

Although Beijing has condemned these practices, some officials in Beijing may have ignored the export of Chinese labourers to other countries—with or without bribery involved. These policy-makers may have done a favour for Chinese companies that have reinforced China's going-global priority. That is to foster trans-national contracts and exports (Chellaney 2010). Utilizing international relations realism discourse, one may argue that the exportation of Chinese labourers overseas may be good for Beijing's political interests. Beijing's legitimacy is partially defined by its ability to generate jobs for its own people. Unfortunately, Beijing has been unable to effectively fulfil this task due to the big number of about 1.3 billion population and other internal constraints. Moving unemployed and disadvantaged citizens overseas to work in

Chinese-owned firms, therefore, can be a solution to China's worsening unemployment problem. Job creation, as such, is a pacification tactic, as it helps weaken the will and possibilities of the Chinese underprivileged and unemployed people to hang together to challenge Beijing's legitimacy. The question whether or not PRC has actually used this tactic is debatable. What is clear to the eyes of the concerned public includes two trends: (a) due to power imbalance and the weak law enforcement in both Indonesia and China, Indonesia's policy-makers will find it challenging to take any decisive action against Chinese illegal labourers/tourists who are working in Indonesia; and (b) the use of illegal labourers on overseas projects has damaged the reputation of China and its relationships with Indonesia. While Indonesians sympathize with the plight of Chinese tourists/workers in Indonesia, they find it hard to keep silent about this issue. Some Indonesian media prints argue that it is "not fair" that Chinese companies can exploit disadvantaged tourists/workers, while at the same time, avoiding the utilization of local workforce and transference of managerial skills and knowledge to the locals. After all, the actualization of Chinese-led collaborative development deals has led Indonesia to further improve the competitiveness and efficacy of Indonesian companies. Meanwhile, without rules-based and equal interactions between China and Indonesia, these deals have exacerbated Indonesia's problems of unemployment, corruption, and human and labour rights violation. These problems have spilled over to other issues, such as bilateral relationships between China and Indonesia and communal relationships between the Chinese and indigenous Indonesians.

Indeed, the export of China's domestic and international problems to Indonesia remains a thorn in the relationships between Indonesia and China. Indonesians expected to see win-win gains for the governments and peoples of both countries. In reality, however, these relationships have been characterized by hegemonic and objectionable behaviours on the side of some Chinese entrepreneurs and non-Chinese policy-makers. Furthermore, joint ventures between members of transnational Chinese entrepreneurs and local bureaucrats have reinforced invidious stereotypes, tensions, and distrust between ethnic Chinese and others who protect and closely interact with ethnic Chinese in Indonesia and elsewhere. It should be noted that some Indonesian indigenous capitalists too violate workplace and safety laws, and some policy-makers tolerate such violations in exchange for bribes and kickbacks (A. Chua 2004). Ironically, however, a common narrative among Indonesians is that disproportionately wealthy outsider minority groups, particularly CI elites and Western and local strategic and business partners, have disregard Indonesia's laws and have exploited the ordinary Indonesian people (Suryadinata 2008). This perception has kept ambiguous interactions between Chinese and indigenous Indonesians and between Indonesia and China alive over time.

### ***A potential trade war between Indonesia and China, and Indonesia's internal divisions***

The operation of the Association of Southeast Asian Nations (ASEAN)-China Free Trade Area, or ACFTA, has increasingly been unpredictable for Indonesia and SEA as a whole. Indonesia has gone from having a trade surplus with China in 2006 of \$1.1 billion to a deficit in 2011 of \$3.2 billion. China has successfully taken a heavy toll on

Indonesia's massive footwear industry, and Indonesia's textile industry is going in a similar direction (Storey 2013). The Indonesian Textile Association (*Asosiasi Pertekstilan Indonesia*) has alerted the SBY government that cheap textile imports from China have been over 50% of the local markets in West Sumatra (Chandra and Lontoh 2011, 5). Low-income locals have turned to Chinese cheap products as opposed to the expensive made-in-Indonesia ones. As a consequence, Indonesian local textile enterprises have undergone crises—if not devastating bankruptcy. A domino effect has evolved in that owners of domestic textile firms have moved their factories to other countries where the workforce is cheaper and productivity is higher, such as Cambodia and Vietnam (Bisnis Indonesia 2013). This relocation of textile factories means that about one to two million Indonesians have lost their jobs in textile factories. Without alternative sources of income, many of these locals have found it extremely difficult to sustain their families. In addition, there are no guarantees that these locals will successfully find different jobs either in formal or in informal economies, despite that the SBY government has introduced policies focusing on higher wages for workers. Companies have become more reluctant to sign permanent contracts for Indonesians, especially the marginalized and untrained rural poor groups, because the costs for contract cancellation and business in general, according to new regulations, have been too high to be covered. The net result of the worsening trade deficit has been the escalation of zero-sum debates and protests between pro-ACFTA and anti-ACFTA forces within and among government officials, business and intellectual communities, and the society at large. These intensifying polarizations

have made Indonesia's environment more uncertain in the eyes of foreign and domestic investors.

In an attempt to address these uncertainties, especially the ACFTA, the SBY government keeps renegotiating with China, hoping to reduce the grassroots' distrust of the ACFTA as well as Indonesian officials and entrepreneurs who played a key role in the initial ACFTA process. Ironically, in the process of fixing unfairness in ACFTA, Indonesia's internal politics seems messy and further polarized.

An example of Indonesia's divisions is related to Indonesia's debates as to whether or not the SBY administration should keep Mari Pangestu in power. Pangestu is now the Minister of Tourism and Creative Economy; she was Indonesia's Trade Ministry. These debates occurred because under her leadership, Indonesia-China trade activities flourished, and yet, benefits have located more with China rather than Indonesia. On one hand, opponents and competitors of Chinese and non-Muslim professionals in Indonesia's government may have attempted to exploit the situation to weaken Pangestu, and to promote more indigenous Muslim professionals in the government. On the other hand, supporters of Pangestu argued going against Pangestu would provoke conflict recurrence between Indonesia's Chinese and indigenous populations and between Indonesia and China, especially as Pangestu is popular in regional foreign affairs theatre. More importantly, a total war against her would be disadvantageous for Indonesia, especially as there had not been many officials with the high expertise and leverage power in international diplomacy that Pangestu had.

The outcome of the clash between these two forces is ambiguous in that the SBY administration has weakened Pangestu in one bureaucracy in order to give her strength in another bureaucracy. SBY promoted her to become the Minister of Tourism and Creative Economy and Indonesia's Candidate for Director General of the World Trade Organization (WTO). Her candidacy has reinforced Indonesians' dream of Indonesia going global in the 21<sup>st</sup> century (Suwastoyo 2012). This even has made Pangestu an invaluable asset to the Indonesian government and society, while mitigating the scandal about her inability to handle Indonesia's trade issues.

After all, there are some lessons from this example. First, as the current and the near future of global economy favour China that remains to be a major trade and economic partner with Indonesia, it is in the interest of the Indonesian government to take in talented negotiators. Many of these negotiators in Indonesia are happen to be CIs. This choice provokes mixed feelings and responses from indigenous communities toward indispensable CI human capital. Some indigenous groups empower particular CI professionals, while others hope to compete against or discredit them in policy-making. Importantly, both these responses are non-violent, displaying a departure from the past history where the politics of CI was escalated by populists and radicals and/or escalated by itself into crisis that spilled over into other aspects of Indonesia's domestic and international affairs. Because of this change, it is possible to assume that Indonesia's current tensions and disagreements over the CI issue are not necessarily disastrous. In fact, as far as they do not provoke violence, these tensions and disagreements provide opportunities for Indonesia as a whole to develop nuanced

approaches to understanding and handling the relationships between Indonesia's Chinese and indigenous populations and between Indonesia and China.

Brantly Womack, an Asian studies expert at the University of Virginia, highlighted that changes in human resources in Indonesia's government system may not be entirely sufficient in addressing the unfairness principle in ACFTA and other inter-government relations matters involving China. One of these causes and conditions is the extreme unequal Indonesia-China relations. Some questions remain: (a) who will decide the future of bilateral relations and regional stability?, and (b) how will these matters be decided? With its small and less sophisticated economy compared to China, Indonesia cannot bargain with disproportionately powerful China in a fair and equal manner. While interacting with smaller and middle-sized Indonesian business and strategic partners, Chinese companies from PRC might see it as "normal" to utilize the ACFTA for advancing their interests at the expense of Indonesia, flooding Indonesia with Chinese low-quality and cheap goods as well as Chinese tourists/workers. Indeed, power asymmetries are a huge and long-term challenge in the IC relationship, and Indonesia find it not possible to entirely resolve these asymmetries. If the trade deficit continues to worsen, and job losses eventuate, these situations might raise the prospect of the Indonesian government erecting non-tariff barriers and implementing anti-dumping duties on Chinese goods. The utilization of these protectionist measures could spark a trade war between China and Indonesia, and thereby Indonesia's Chinese communities becoming the center of criticism. This effect is possible, in part because top CI tycoons (e.g. Sofian Wanandi, Tomy Winata,

Pradjogo Pangestu, Anthony Salim and Sukanto Tanoto) have served as advisors and facilitators in the front line and closed-door discussions on trade and economic relations between Indonesia and China (C. Chua 2008b).

## **South China Sea's Turmoil And Its Implications For Indonesia**

### ***The significance of the South China Sea for Indonesia***

Territorial disputes are threatening to spark deadly clashes which could have worldwide repercussions between China and all of its neighbours in the South China Sea (SCS), most specially: Vietnam, the Philippines, Indonesia, Malaysia and Brunei. SCS' peace is extremely important, especially as one-third of the world's shipping and energy trade transits through the SCS (CFR 2013). Therefore, any threat to the well-being and stability of the sea could cause consequences for shipping and trade activities across nations. Furthermore, the SCS is believed to hold oil, gas, and diverse fish species that all claimants want to exploit and control, in order to boost their economic growth and maintain fish/protein supplies for the local, regional, and global populations (Buszynski 2012; Rosenberg 2008). Hence, should the sea lanes be threatened, disputes among claimants and the effects of these disputes could be translated into internal and cross-border instabilities.

The SCS has two significant meanings for Indonesians. First, resources in the SCS sustain the livelihoods and incomes of coastal communities. Fish coming from the SCS accounted for only 5.2% of Indonesia's GDP, but it provided 72% of daily protein consumption among Indonesians in 2011 (Larsen 2013). In addition to legal and reported fishing, illegal, unregulated, and unreported vessels from distant nations

in Indonesia's open-access waters are estimated to create a minimum loss of \$3 billion to the Indonesian economy each year. About 63 million out of 240.3 million citizens live in Indonesia's coastal areas, mainly households below poverty line of \$1.5-\$2 per day, rely on fish as their daily source of protein and on fishing in the SCS waters as the only occupations available for them (Larsen 2013). These facts imply that if the fisheries collapse, not only will there be food shortages, but the livelihood of millions of Indonesia / SEA will be destroyed (Rosenberg 2008). In other words, any unintended violent clash in the SCS will disturb the freedom of navigation, commerce, food security, and traditional way of life of the coastal fishing communities. Second, the SCS plays a significant role in the construction of Indonesians' shared memories and national pride (*kebanggaan nasional*). The SCS waters witnessed the battles between the founder of Java's Majapahit Kingdom, Singasari, and the Great Khan's navy in 1293 took place. Indonesians understand that their ancestors successfully pushed back Khan's ambition to invade and conquer Java and to add Java to the map of the once Chinese empire (Dellios 2007). Based on the past lesson, it is possible to anticipate that a foreign entity's attempt to challenge Indonesia's status quo in the Natuna Islands in the SCS can be interpreted by Indonesians as an assault against their survival and national values. This external assault will force Indonesians to delay their internal frictions in order to pull themselves together and to hand together with other SEA countries against a common security challenge. This security challenge is now the PRC which plays different and even contradictory roles in Indonesia's state-building. On one hand, the PRC is, and will continue to be, an important regional trade and economic partner with Indonesia.

On the other hand, it has posed a maritime threat to Indonesia's sovereignty in ways that potentially cause spill-over effects to other areas, including Indonesia-China bilateral relations and Indonesia's domestic affairs (Storey 2013; Sukma 2009; Womack 2013).

### ***China's South China Sea disputes***

China has been in the position to dictate the dynamics in the SCS based on its disproportionately powerful defence capability, trade, economic power, and population size, compared to its smaller SEA neighbours, including Indonesia. Chinese nationalist officials since 2009 have iterated in the media and international conferences on the SCS that "China is the biggest country in the region, and SEA countries are small ones" and thus "what is mine (ours) is mine (ours), what is yours we shall negotiate" (Wu et al. 2012). These blunt messages are in line with Thucydides' conventional international relations realism: the strong do what they can, and the weak bear what they must. The PRC's message asserts that China is strong enough to dictate the terms in international relations, e.g. trade and the SCS, and the survival of Indonesia and SEA as a whole is at the mercy of China. In other words, China's peaceful rise and win-win thinking does not mean symmetrical and conflict-free relationships between China and others. Instead, this win-win discourse does contain China's politics of domination—which Indonesia and SEA have finally come to understand.

Indonesia's Natuna Islands in the SCS as a whole can be one of the venues of choice for Beijing to exploit, in order to demonstrate its power by teaching a lesson to

Indonesia in case Indonesia fails Beijing's interests or possibly the Chinese communities' interests. This actualization of realism would probably occur if: (a) the bilateral relationship between Indonesia and China and multilateral relationships between ASEAN and China entirely collapsed, and (b) Indonesia were unable to defend its sovereignty on its own and/or with support of ASEAN. This calculation is based on a classic lesson learned from the past with regard to China-Vietnam relations. In the final phase of the Vietnam War, when both North and South Vietnam were obsessively engaged with the United States, Beijing exploited the chaos in order to aggressively crush South Vietnam's navy and eventually to occupy Vietnam's Paracel Islands in the SCS. In 1979, Chinese troops invaded Vietnam, claiming that Beijing aimed to "teach a lesson" to Hanoi which failed to protect and promote justice for the Chinese who lived in Vietnam. The PRC defined justice as the Vietnamese government's responsibility to save Vietnam's Chinese minorities who had been harmed and discriminated against by non-Vietnamese Chinese radicals. Beijing's justification of invasion and aggression caused shock not only in Vietnam but also in other SEA neighbours (Storey 2013). Remarkably, the 1979 Sino-Vietnam war lesson implies that Beijing successfully displayed the politics of domination. It disciplined only one neighbouring country--Vietnam, but it caused anxiety to the remaining SEA neighbours. Indonesia's government, in particular, was alert because: (a) Indonesian state elites believe that Indonesia is the biggest country and the biggest police of SEA (RSIS 2007; Storey 2013), and (b) Indonesian state elites aim to use Vietnam as a buffer against their geo-political competitor—the PRC. Indonesia and SEA have since then internalized the Chinese-*Realpolitik* deterrence lesson, and have tried to engage

China carefully. Although there are no obvious signals from the PRC that it would repeat what it did to Vietnam in Indonesia, Indonesia's policy-makers are cautious of China's unilateral behaviours in the SCS and the Natuna Islands. Critical and still-unresolved questions for these policy-makers include: (a) if the PRC can take control of these international waters, will this new global superpower turn SEA to its "strategic backyard"?, and (b) how can Chinese Indonesians balance their relationships with Indonesia and China if the PRC is strong enough to influence Indonesia's international and domestic politics? (Sukma 2004, 2009) China's increasingly assertive and aggressive postures in the SCS, coupled with its unilateral gains in ASEA-China free trade activities, seem to escalate Indonesian policy-makers' confusion and anxiety. It is unfortunate that China's recent postures have become significant barriers to the still-fragile trust-building between China and Indonesia / SEA and between Indonesia's Chinese and indigenous populations.

### ***Escalation in the South China Sea and the risks for Indonesia***

China has deployed powerful forces of civilian paramilitary and naval vessels and, recently, tourist cruise boats, to back up what China considers as its non-negotiable and historic rights and sovereignty to about 80% of the waters and seabed of the SCS, including hundreds of tiny islands and reefs scattered across thousands of miles. Many of the areas claimed by China are well inside the exclusive economic zones (EEZ) which extend 200 miles into the SCS from Vietnam, the Philippines, Indonesia, Malaysia, and Brunei (Storey 2012, 2013). Beijing has ensured that it would never undertake conflict with Indonesia over the SCS issue because China has benefited from friendship with Indonesia. However, Beijing's actions have proved otherwise. In

2010, when Indonesia detained 75 Chinese nationals and their finishing boats off the contested and resource-rich Natuna gas fields, China immediately warned Indonesia to release the Chinese fishermen or else the Indonesia-China (IC) friendship might be impacted (Parameswaran 2010). The message is clear to Indonesia that China's friendship-building with Indonesia does not mean equal power and gains for both countries – as Indonesians may expect. Instead, China uses joint development rhetoric to accumulate greater leverage against Indonesia's national and geo-political interests in the Natuna Islands and in the SCS.

In response to the assertive and aggressive postures of the PRC, Indonesian policy-makers have pursued a combination of coalition-building and nuanced self-defence strategies. Indonesia has fostered relationships with all SEA neighbours and global and regional superpowers, such as: the United States, Japan, Australia, India, Russia, and South Korea (Buszynski 2012; Emmers 2009). There is a hope that these actors join Indonesia in order to speak in one voice to persuade and influence China to reduce its rigid approach to handling the SCS dispute. In March 2013, Indonesia's Foreign Minister, in media and diplomatic forums, Marty Natalegawa, overtly protested against Beijing's publication of Chinese passports which have China's nine-dash line claim to almost the entire SCS, including Indonesia's Natuna Islands (Barber, Pilling, and Bland 2013). In 2012, Indonesia launched military exercises around the Natuna Islands, explaining that it aimed to improve service interoperability in addressing non-traditional and transboundary security threats in the sea, e.g. piracy, human trafficking, and maritime terrorism (McArdle 2012). However, Indonesia's

military exercise was a political message to China, the world, and the Indonesian domestic public that Indonesia has been ready to handle all scenarios and to defend its national interests in the Natuna Islands. Indonesia's 2012 military exercise, furthermore, was not a totally new phenomenon. In fact, it was the continuation of Soeharto's and Soekarno's way of engaging the PRC whenever this superpower's manoeuvrings in the SCS posed a significant threat to Indonesia's national interests and sovereignty. In December 2010, Indonesia's national oil company, Pertamina, in partnership with several influential transnational oil and gas companies, such as ExxonMobil, Total, and Petronas, explored the East Natuna Block with first production estimated to start by 2021 (Supriyanto 2012). This conduct aimed to reinforce Indonesia's right to manage the Natuna Islands in the SCS. In addition to economic and diplomatic measures, Indonesia has rapidly built up its defence capabilities and budget, demonstrating to the world that Indonesia should be ready to respond to China's aggression (Bitzinger 2011).

The Indonesian government's continued resistance against China's unilateral behaviours and China's insistence on its claims in the SCS have pushed the Indonesia-China relationship to a tipping point. At this stage, an armed clash in the international waters would cause significant spill-over effects into Indonesia (and its neighbouring countries, e.g. Malaysia and Singapore). Such an armed clash would destabilize the open fishing grounds in the sea. This development would jeopardize the livelihoods of Indonesians living along the coastal areas, particularly the marginalized and low-income households who rely on fish as a major source of their protein supplies and

fishing as the only occupation available for these people (Larsen 2013). An open conflict in the SCS would disturb the shipping of oil and gas, and hence, commodity imports and exports, as well as the prices of these commodities (CFR 2012). Resource market price volatility would be dangerous for Indonesia, as resource industries remain the core of its economic development agendas. Immediately, market instability would cause trade and investment disputes while triggering diplomatic tensions—and possibly even military responses—among trading nations.

In these scenarios, the credibility and interests of CIs who have served as intermediaries in Indonesia-China relations would be greatly impacted. Although CIs on their own are not the cause of tensions or peace between the governments and the nations of Indonesia and China, there is a perception, exaggeration, or fear among Indonesian nationalists that China is powerful enough to manipulate Indonesia's Chinese communities for China's exclusive interests (Sukma 2009; Suryadinata 2008). While concerned CIs pay attention to the changing interactions between Indonesia and China in the SCS, they avoid engaging deeply in public conversation about this critical issue. Based on lessons learned in the past, these CIs may have harboured a fear that if their insights into the SCS issue are politicized and distorted by populists and radicals in and outside the Indonesia's government, this situation would escalate diverse and overlapping tensions involving the Chinese.

In order to mitigate these scenarios, the SBY government and religious leaders have emphasized the need for fostering Indonesia's cohesion as opposed to divisions in

Indonesia's internal and external affairs. Still, these policy-based attempts alone are not enough to entirely eliminate conflicting public perceptions and ambiguous attitudes about each other between the Chinese and indigenous Indonesia and between China and Indonesia. While there are no obvious signs of violent conflict recurrence between these players, the events and scenarios discussed above show that their interactions are not totally predictable and positive.

In sum, this chapter examines how Beijing's changing position from a peaceful rise to an aggressive rise has transformed the internal and external affairs of its neighbouring countries, including Indonesia. First, as PRC's government and giant Chinese corporations are operating in an asymmetrical cooperation, or realism paradigm: China's interactions with Indonesia, a militarily and economically weaker international player, in trade and joint development projects, do not promote power-sharing and fairness. The biggest winners of joint development in Indonesia are, therefore, Chinese corporations and their local partners, such as Indonesian bureaucrats and giant CI enterprises who allow and facilitate these corporations to operate in Indonesia. The biggest losers are Indonesia's small enterprises which are unable to compete with Chinese corporations (Suryadinata 2008). In the same way, due to military power imbalances, the happenings in the SCS and the Natuna Islands are in favour of China, but not Indonesia and its SEA neighbours (Storey 2012). A side-effect of China's unilateral policies, as well as of Indonesia's inability to fully resist, in an era of economic and strategic uncertainties is that relationships between and within the Chinese and Indonesians are negatively impacted. This is particularly true, especially as conflicting perceptions about each other between the Chinese and

indigenous Indonesians have not radically changed in spite of legal reforms. In other words, in critical times, non-Chinese groups may view the Chinese in general as a challenge to their socio-economic success; the Chinese may perceive indigenous population as a challenge to their prosperity and stability (Suryadinata 2008). It remains to be seen under which circumstances ambiguous interactions among states, the private sector, and the publics of Indonesia and China might be transformed into crises, and what consequences these crises might cause for regional cooperation and for Indonesia's state-building. It is, however, in the interests of Indonesia's decision-makers to carefully examine and prevent potential multidimensional risks associated with the changing interactions between Indonesia's Chinese and non-Chinese communities, and between Indonesia and China.

## CHAPTER VI: LOOKING BACK AND FORWARD

### Summary

The present thesis argues that Indonesia's political landscape in the post-Soeharto era has provided the conditions for: (a) neutralizing the uneasy relationship between the Chinese (*orang Tionghoa*, or *Cina*) and indigenous Indonesians (*pribumi*, or *asli*), and (b) broadening the roles of Chinese Indonesians (CIs) in all matters of Indonesia's state-building. There are two reasons for these phenomena: first, after the 1997-98 Asian financial crisis and the fall of the Soeharto regime (1966-1998), Indonesia's leadership has actively lessened the strain between the Chinese and indigenous Indonesians by improving the rule of law and accelerating economic recovery and growth agendas. This policy change is possible as more Indonesians come to understand: (a) the irreversible socio-economic, political, and trans-national risks associated with violence against CIs, particularly CI entrepreneurs, and (b) the benefits of fully engaging CIs in Indonesia's state-building. Second, upper- and middle-class CIs have played a greater role in connecting governments, corporations, and the peoples of Indonesia and China than they previously did. The broadening roles of these CI middlemen has reflected the Indonesian state's choice of improving comprehensive relationships between the Chinese and indigenous Indonesians (domestic politics), and between Indonesia and China (foreign policy). This choice is strategically wise, especially as China has become a new global superpower and the biggest trading and a long-term economic partner with Indonesia.

Even though their interactions have become comprehensive in the post-Soeharto era, asymmetries in political and socio-economic power between Indonesia's Chinese and indigenous populations persist. This state of affairs is due to historic and policy-making matters as opposed to identity and cultural differences. Although not all Chinese people in Indonesia are powerful and influential, CIs have been pioneering actors in many sectors of Indonesia's economy, including natural resource industries, trade, banking, technologies and sciences, and education. This phenomenon is widely known as a social fact in the country (A. Chua 2000, 2004; C. Chua 2008b, 4).

Although they constitute less than 3% of the population, CI entrepreneurs control a very large amount of the nation's wealth and the private sector (C. Chua 2011; Suryadinata 2008). In the New Order regime (1967-1998), wealthy CIs controlled 73% of the publicly listed companies on the 1995 Jakarta Stock Exchange, and 68% of the top 300 conglomerates. These CI entrepreneurs continue to be the biggest winners in Indonesia's free-market system, especially as the market conditions favour the already competitive capitalists (C. Chua 2008a). Because of their position in the structure of Indonesia's society—economically strong and militarily and politically vulnerable, CI middlemen are not able to survive and thrive without connecting with Indonesia's government officials, the military and police, and foreign investors. Indonesian state elites in particular do protect CI capital and skilled human resources that are vital to the development of Indonesia's political economy—except when CIs' service as scapegoats is needed (Zenner 1991). The chronically underprivileged indigenous majorities are frustrated with the alliances between these few privileged minorities as they understand that Indonesia's marketization and democratization that

these alliances promote only exacerbate—but do not resolve—the structure of inequality and the politics of domination in Indonesia. Their frustration does not automatically lead to violence. Yet, the frustration can be exploited by multiple parties, including indigenous populists and the opposition, who aim to pursue political power by promising to change the status quo and to turn Indonesia's economy back to the majority of Indonesians (A. Chua 2004). While the promises of change are in line with the chronically underprivileged indigenous majorities' quests for fairness and opportunities, it is unclear if and how these promises can be fulfilled. What is clear is that despite changes in leadership, the efficacy of governance has not been totally changed.

New political conditions and rapid economic growth benefit the already privileged CIs, such that their economic dominance has become more robust and trans-national. Their role as middlemen in Indonesia's internal and external affairs is more visible (C. Chua 2008b; Fuller 2006; Suryadinata 2008). There are three reasons for these trends. First, Indonesia's transition from dictatorship to free-market and democracy does not mean the end of inequalities within and between social groups. Indigenous Indonesians still dominate politics and security, whereas CIs dominate economic development; and bureaucrats and capitalists still have power over the majority of struggling Indonesians. Second, Indonesia is unable to sustain and further develop the country without CI capital and capitalists due to their indispensability to the Indonesian economy re-emerging from the 1997 Asian financial crisis. Third, Jakarta finds it necessary and useful to foster and strengthen its relationship with Beijing (and

with China's Chinese investors, in particular). In order to achieve this goal, Jakarta uses CI businessmen and other professionals as middlemen between the two governments. For these reasons, CIs' roles in socio-economics and politics are expanding and deepening in post-Soeharto Indonesia.

In the new political environment, CI entrepreneurs are able to extend their autonomy to build business connections across Indonesia and the Asia-Pacific region. CI tycoons, encouraged by the Indonesian government, have accelerated Indonesia's economic growth by initiating, coordinating, or leading joint development projects with China and other countries that have strong interests in Indonesia and CI businesses, e.g. Singapore, Hong Kong, and Taiwan (C. Chua 2008b). This economic growth has caused a spill-over effect into politics. Strong capitalists—mostly CI tycoons and some indigenous capitalists—acquire great political influence; politicians foster relationships with capitalists that can advance politicians' political power and capitalists' economic interests. These relationships do generate mutual gains for these political and economic power holders which seem to have spilled over to the entire country.

Under the leadership of Susilo Bambang Yudhoyono (SBY), the first popularly elected president of Indonesia (2004), Indonesia has been considered by the world policy community as a success story because of its reforms focusing on a free-market economy and democracy. Indonesian diplomats have explained this point by asserting that free-market and democracy are effective in Indonesia, making the country the

fastest growing economy with the biggest middle-class, multi-ethnic society, and largest democracy in Southeast Asia. In 2013, Indonesia's economy grew 5.8%, second to China and above India in the G20 group of large economies (Nehru and Bulkin 2014). This phenomenon has made Indonesia a rising star in international relations. According to a recent United Nations survey, Indonesians consider themselves happier than many peoples, including the Turks, the Chinese, and the Portuguese. Upper- and middle-class, urban Indonesians associate happiness with Indonesia's vibrant consumption engine, and forward-looking foreign policy with the neighbouring countries, particularly China (Financial Times 2013). The success story regarding Indonesia's reforms has reinforced the important role of CI middlemen in Indonesia's internal and external affairs, emboldening their power in Indonesia's society.

Despite these remarkable achievements, Indonesia's state-building has some significant challenges ahead. The country still faces messy internal and external peace and security challenges. These challenges relate to Indonesia's Chinese concern and/or opportunity. It remains to be seen how well Indonesians can address these challenges.

Inequality and social injustice have become more serious despite Indonesia's strong economic growth. Social assistance and philanthropic programs led by the Indonesian government and domestic entrepreneurs are necessary; and yet, these programs do *not* effectively address the underlying structures of these problems. Even in the post-

Soeharto era, a few privileged CI and non-CI entrepreneurs, bureaucrats, military, police, and foreign businesses disproportionately accumulate and monopolize socio-economic opportunities and profits. As a result of distribution problems, over 50% of the Indonesian population live on less than \$2 per day, and many of them do not have adequate access to jobs, education, and social support. They also find it increasingly difficult to cope with skyrocketing food prices in urbanized areas (A. Chua 2000; The Economist 2011a). Because of the state's inability to effectively address these challenges, over time, many Indonesians feel that post-Soeharto reforms benefit a few privileged groups only, while further marginalizing the chronically underprivileged majorities (A. Chua 2004). The escalation of this resentment suggests that Indonesian leaders have failed to manage the public's expectations that Indonesia's free-market economy and democracy would quickly bring about prosperity and equality. As Indonesia's economic growth model has not significantly improved the quality of life of the majority of Indonesians, conditions for the recurrence of communal and political tensions are taking hold. Possibilities for the resumption of violent clashes between the privileged Chinese and other Indonesians can be contained, but these possibilities cannot be totally ruled out.

Indonesia's democratization is not a panacea for the problem of money in politics. In the past, corruption was centralized in Jakarta with Soeharto's family and a handful of CI tycoons. In the context of power decentralization, corruption is worse, occurring at all levels and across cities and the countryside (Arifianto 2001; Control Risks 2012; RSIS 2014). Counter-corruption campaigns led by the SBY administration, social

media, civil society organizations, and the Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*) have exposed corruption cases and raised broader public awareness. Yet, these actors do not have the power needed for holding accountable all high-profile but corrupt bureaucrats, military officials, and businesses (Arifianto 2001). Another obstacle to countering corruption is the strong belief that corrupt officials and businesses are too big to fail. This belief is based on the fact that while these elites are part of the problems facing Indonesia, they are also part of the solutions to these problems. For instance, Indonesia's Chinese tycoons and some indigenous capitalists are the key drivers of Indonesia's political economy. They are also managers and donors of philanthropy, social welfare programs, and other public services in and outside Indonesia (Hoon 2010). Hence, even if some power-holders do not seem legitimate in the eyes of the public, it is not easy and possible to totally remove them from Indonesia's policy-making, especially as there are no obvious alternative models of national leadership in the country. With these matters in mind, it is practical for Indonesia to revisit the expectation that democratization can solve all critical and sometimes even trans-generational challenges facing Indonesia, including corruption and inequality.

Concerning the broader geo-political environment, China's rise as a global superpower in an era of economic uncertainty has made an impact on Indonesia's domestic affairs, particularly the interaction between the Chinese and indigenous Indonesians. Many Indonesians fear that the over-reliance on Chinese capital and human resources in Indonesia's development projects and in Indonesia-China

relations may encourage highly unequal competition between/within Chinese and non-Chinese blocs in Indonesia. These Indonesians state that every Indonesian has a stake in Indonesia's domestic and international affairs, and thus, these affairs should call for diverse human capital, but not one privileged group, or a few groups, against others (Soebagjo 2011). As Indonesia's history shows, favouritism is a different name for the Realpolitik of divide and conquer (*divide et impera*), and the normalization of this policy has only exacerbated social divisions. It has triggered anti-other violence and aggressive responses in the name of ethno-religious differences and economic nationalism. The Batavia 1740 massacre in the colonial era, anti-communism under the Soeharto regime, and anti-Chinese and anti-state riots and violent responses in 1997-98 are examples of this point. Nationalists in and outside Indonesia's government are concerned that networks among the Chinese of different nationalities are necessary and helpful for Indonesia's economic growth agenda, but these networks can also be exploited by Beijing to advance its strategic-economic interests at the expense of Indonesia. Although it is unclear if, when, and how Beijing may do so, Beijing often promotes the greater role of CIs in Indonesia's state-building, while engaging Jakarta in diplomatic negotiation (Sukma 2004). Jakarta is unable to effectively handle direct competition and confrontation with Beijing because of the power imbalances between the two countries (Parameswaran 2010). These perceptions and concerns do not lead to aggression, but they incrementally make interactions between Indonesia's Chinese and indigenous populations and Indonesia-China relations ambiguous and messy.

An immediately challenging situation for Indonesia as a whole is that, in times of leadership transition (e.g. the 2014 presidential election), the public can use the multidimensional uncertainties involving the issue of Chinese opportunity and/or challenge discussed above to test possible responses of Indonesia's leaders. The current President of Indonesia, Susilo Bambang Yudhono, and his successors, therefore, must demonstrate their abilities to unite the country to confront and address these uncertainties.

### **The Future**

The next few years will be critical for Indonesia, given that frictions and tensions between those who benefit, i.e. political and socio-economic power-holders, and those who do not benefit, i.e. the ordinary struggling people, from Indonesia's reforms continue. These frictions exist in both domestic and international affairs. Many Indonesians describe these affairs, utilizing a 'mutual-gain' template: the Chinese do well in economic development, whereas indigenous Indonesians do well in other areas, such as politics and security. Despite their different roles, the Chinese (from Indonesia, China, and elsewhere) and indigenous Indonesians are engaging each other in order to move Indonesia's state-building forward.

An outcome of this template is that in the post-Soeharto era, Indonesia has emerged as a stable democracy and growing market with forward-looking foreign policy with the neighbors and global superpowers, including China. Indonesia's decision-makers believe that this outcome partially pushes back the negative stereotype of Indonesia as

a country with anti-other sentiments and acts (e.g. anti-Chinese, anti-market, and anti-state), while constituting a sense of self-esteem among Indonesians. Without self-esteem, it is not easy for these decision-makers to unite the country and move the country forward.

One of the challenges for Indonesia, however, is that this template is not entirely risk-free, inclusive, and sustainable. It is shaking, and is being shaken, by diverse and contradictory forces from within and outside Indonesia. Internally, the ordinary Indonesians (the majority) would like to renegotiate the social contract with Indonesia's state elites (the minority): who has the right to lead socio-economic, political, and security domains – and Indonesia's state-building in general? Do state elites (i.e. political and economic power-holders) always act on national interests as opposed to their exclusive interests? In the eyes of the majority of Indonesians, even in the post-Soeharto era, these state elites continue to monopolize the decision-making and disproportionately benefit from reforms. Decentralization policies that indigenous Indonesian decision-makers initiate have not fundamentally changed governance issues, including corruption, rent-seeking, and resource mismanagement. Similarly, many trans-national and national development contracts and empowerment programs that elite CI middlemen help generate have not effectively addressed the basic human needs of chronically underprivileged groups. These groups are of different ethnic identities living in big cities and rural areas. These details lead many Indonesians to interpret that the mutual-gain template strengthens, but does not weaken, the dominance of a few power-holders over the majority. Hopefully, the 2014 election

gives Indonesians the opportunity to confront this important issue in a straightforward manner.

Externally, the rise of China at the expense of Indonesia in the South China Sea and the Natuna Islands, as well as in trade, contests the relevance of the conventional template. How far are tensions and power asymmetries between Indonesia and China (foreign affairs) and between the indigenous and Chinese Indonesians (domestic affairs) manageable or managed given the changing external environment that favors the Chinese? While there is no clear answer to this important inquiry, there have emerged many discussions around it. Some Indonesians are concerned that due to military power imbalance, Indonesian decision-makers, including indigenous and Chinese Indonesian politicians and diplomats, are unable to directly confront or weaken China's aggressive maneuverings in the South China Sea. Similarly, in trade and joint development, 'bigger' Chinese capitalists from China may be powerful enough to leverage 'smaller' Chinese capitalists from Indonesia and elsewhere for the pursuit of their and China's exclusive economic and geo-strategic interests. In other words, CI capitalists together with indigenous capitalists and bureaucrats cannot be successful in negotiation with bigger capitalists from China on matters related to Indonesia-China relations. Furthermore, based on their past experience, the Chinese in Indonesia have wondered if the majority of Indonesians would alienate them when the competition between China and Indonesia escalates to a crisis. If there is a violent clash between the Chinese and indigenous Indonesians which spills over to neighboring countries, these countries will consider intervening in order to protect

their strategic and economic interests and stabilize Indonesia. Indeed, Indonesians of different social groups do not hope to see this scenario happen because it undermines Indonesia's sovereignty.

After all, even though it encourages Indonesians who may have different and unequal opportunities, social capital, and skills to work for one goal—state-building, Indonesia's mutual-gain template *the Chinese foster economic development, while indigenous Indonesians focus on politics and security* is not a panacea. It cannot guarantee permanently peaceful and neutral interactions between the indigenous and Chinese and between Indonesia and China. This is inevitable considering the fact that these interactions shape, and are shaped by, the changing domestic and external environments. These changing environments allow these peoples to further connect—or clash—with each other.

One of the ways to effectively prevent crises is for Indonesia's policy-makers and people to deliberately, collectively, and continuously confront and evaluate the nuanced and contradictory myths, realities, opportunities, and risks associated with the conventional template of mutual gain. This task is essential and practical for two reasons: first, the quality of Indonesia's domestic and foreign policy-making depends upon the reasoning qualities of those who are engaging in it. Second, the process of evaluation encourages decision-makers not to take anything for granted, while providing them with the opportunities to imagine new ways to adjust the mutual-gain template in ways that fit Indonesia's state-building circumstances. Ultimately, the

2014 presidential election is the right time for Indonesia as a whole to actualize this task.

### **A Step Toward A Mutual Dialogue And Conflict Resolution**

It is indeed in the interest of all Indonesians to recognize and address the need for a stakeholder dialogue about Indonesia's past and future state-building 'contract'. This should include issues related to the Chinese and non-Chinese relationship (domestic affairs) and Indonesia and China relationship (international affairs). This dialogue is considered as a step toward conflict resolution, especially as it aims to give all stakeholders a stake in the process and outcome. The dialogue can take place in Indonesia or elsewhere as long as the dialogue setting is acceptable to all stakeholders and the quality of the dialogue is guaranteed. It should encourage stakeholders, i.e. the government, business community, and civil society organizations (of individuals of different social identities and status), to express their diverse and even contradictory needs, goals, and concerns, while at the same time collectively confronting a hybrid of Indonesia's international and domestic affairs:

Immediate questions: how to balance international and domestic affairs? In particular, how can policy-makers prevent a clash in the Natuna Islands in the South China Sea and ameliorate the escalating trade conflict between Indonesia and China (international affairs)—without causing the latent conflict between the Chinese and indigenous Indonesians over distribution *and* recognition issues to explode (domestic politics)? Who are the strategic change-agents that can lead and facilitate this

prevention process? The goal of these questions is to encourage politicians, entrepreneurs, and leaders of civil society organizations to assess the risks associated with these overlapping and escalating conflicts. The questions also give a warning that potential consequences of policy-making and implementation can be minimized only if all stakeholders engage one another in a timely, collaborative, and smart manner.

Long-term questions: what are the promise and performance of the mutual gains template in the relationships between the Chinese and indigenous Indonesians (domestic politics) and between Indonesia and China (international affairs)? How to improve this template in ways that benefit all stakeholders, including the chronically marginalized Indonesians? The goal of these questions is to encourage all stakeholders to go beyond conflict-as-symptoms (i.e. differences or economic, maritime, and trade conflicts) in order to effectively address conflict-as-root-causes and the unaddressed inherent problem in policy-making and implementation (e.g. *who controls or gains what?*).

Some of these questions are not entirely new in public and intellectual debates. However, many decision-makers and experts may have mis-framed these questions as separated and separable issues as opposed to interrelated and paradoxical issues and processes in the broader context of Indonesia's state-building. As a result of the politics of exclusion, exclusive problem diagnoses and problem-solving prevail. While building a country requires collective efforts of the public, private, and civil

society sectors, the existing decision-making system includes only the first two, and actors in these two sectors are not necessarily engaged each other collaboratively. For instance, the Indonesian navy takes care of Indonesia's sea waters, trade and economic officials fix trade and economic policies, businesses lobby for better investment policies, and diplomats concentrate on foreign policy issues. Decision-making in both the realms of foreign policy and domestic affairs has been state elite-centric. A few big Chinese tycoons may be able to influence some steps in the process, but these steps do not equal the whole process. In all cases, political and economic decision-makers have not demonstrated the will to genuinely embrace the perspectives of the ordinary civilians. These civilians play an important role in Indonesia's state-building. They also bear the consequences of many problematic reforms even though they were not included in the decision-making.

The thesis anticipates that resistance to its call for a stakeholder dialogue may occur. Some decision-makers and constituents may perceive that inclusive conflict resolution is wishful thinking or even an unnecessary enterprise because stakeholders always have "different" interests, needs, perceptions, and resources. The thesis contends that although differences inevitably occur in any family, community, and country, differences themselves do not cause violent conflicts. More importantly, differences are not and should not be an excuse for not confronting shared values and responsibilities, and for not having inclusive decision-making. In fact, the argument rationalizing differences as the stumbling block to inclusive decision-making is contested for two reasons: first, state elites, capitalists, and civilians of diverse and

even competing identities and belief-value systems do live on a shared planet; they are impacted by a global economic system; and in principle, their decision-making and acts are governed by the universal human rights regime. Second, no single group, leader, or school of thought is able to provide analyses and solutions for Indonesia's broader security challenges (a synthesis of non-traditional and traditional security threats) that all stakeholders find acceptable. As the thesis demonstrates, actors, issues, problems and opportunities overlap and clash within and between national borders in complex ways, such that one mind cannot effectively recognize, analyze, and address. For these reasons, building Indonesia or any country requires many different minds, and not one single mind.

For instance, conflicts between CIs and other Indonesians are not all about economic inequality only. These interactions are linked to the limitations of the existing state-building and development models (including neoliberalism) in fulfilling basic human needs, short-term thinking of some policy-makers, deepening socio-cultural divisions, and the deterioration of citizens' freedom to make progress based on their God-given potential. The revival of Chinese cultures and identities, the greater role of the Chinese in decision-making in Indonesia, and China on the brink of war with Indonesia and Southeast Asia in the Natuna Islands and in the South China Sea do not occur on their own. Instead, they occur in the contexts of China's rise in global affairs and the Indonesia-China comprehensive bilateral relations. These intertwined dynamics impact all Indonesians regardless of their politics and identities. These dynamics are highly unpredictable for Indonesia and the Asia-Pacific region,

especially as nobody knows: how well the Chinese can contest, reform, or change the existing rules and norms in global, regional, and domestic institutions; and, how non-Chinese groups in Indonesia and elsewhere would respond.

After all, these examples illustrate that the broader security challenges facing Indonesia do not call for unilateral and quick fixes, but for multi-sector and long-term interventions. At some point, all stakeholders ought to be at the same table of discussion, exploring one another's wisdom. This practice would hopefully encourage these stakeholders to realize more practical ways to revisit their shared past and imagine their shared future. On the contrary, decisions made by a few elite minorities at the expense of other stakeholders are not acceptable in the long term.

### **Can Chinese Businesses Help Pull All Stakeholders Together?**

Indonesia's private sector, which is still dominated by CI entrepreneurs, may be in the best position to initiate such a stakeholder dialogue. This is due to CI entrepreneurs' competence in negotiation and diplomacy, their resources, their unique position in the structure of society, and flexibility to engage with different sectors. Public sector actors may not be an ideal option because these actors often blindly strengthen the status quo without paying adequate attention to the needs and concerns of other stakeholders. Many officials are reluctant, or unable, to discuss conflict prevention and resolution from a socio-economic point of view. Indonesia's growing civil society organizations have helped build awareness about the need for good governance and corporate social responsibility, and yet, they are not in a powerful position to

effectively influence policy-making and implementation. For these reasons, socially engaged top businesses can serve as change-agents and messengers within and across sectors.

In particular, experienced negotiators and facilitators from the CI business community can work with the business class from China and other countries, and with change-agents of the public and civil society sectors. They can work as a conflict resolution team, utilizing their knowledge and skills to facilitate and enhance a mutual dialogue about Indonesia's past and future state-building directions. Also, as CI entrepreneurs explicitly embrace the task of pulling all sectors together to try conflict resolution, they can help mitigate the conditions for scapegoating politics against businesses and other minorities in the future. As Indonesia's May 1998 riots demonstrate, when the ordinary people believed that they could not change the conditions of their life and their personhood has not been fully recognized by others, they themselves and/or with support of other radicals and populists struck out rationally and irrationally. They searched for scapegoats (e.g. CIs) and become destabilizing forces of Indonesia's domestic and international affairs. This situation has been a bad memory for the business community. For this reason, it is in the interest of influential CI entrepreneurs to persuade other stakeholders to work together in order to strategize Indonesia's conflict resolution standards that are acceptable to all.

One might argue that the feasibility of this initiative is unclear as it does not eliminate historically ambiguous feelings between the Chinese (from within and outside

Indonesia) and non-Chinese citizens, and distrust among the state, the private sector, and the ordinary people. This is true considering the fact that there are no quick fixes for long-standing distrust and the deep sense of the Other. Yet, Chinese businesses' voluntarily working with other stakeholders to foster a mutual dialogue about Indonesia's past and future directions can be one of the practical ways to build an effective working trust between the Chinese and non-Chinese groups in the long term. This type of trust-building is indispensable for the realization and performance of inclusive state-building. Ultimately, while the potential of Chinese businesses to initiate conflict resolution starting with a stakeholder dialogue is huge, it remains to be seen if and when they can take on the task.

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## **BIOGRAPHY**

Miss Nhina Le grew up and worked in the countries of Southeast Asia as a policy analyst. Prior to coming to the United States, she attended the University of Social Sciences and Humanities in Ho Chi Minh City, Vietnam, where she received her Bachelor of Arts in English Linguistics and Literature in 2004. She went on to receive her first Master of Science in Strategic Studies from Nanyang Technological University in Singapore in 2008. She then received her second Master of Science in Conflict Analysis and Resolution from George Mason University in 2014. She will continue to serve the University as a PhD student and a research analyst focusing on peace, development, and conflict resolution from an interdisciplinary perspective.