

# Democratizing Indonesia: Reformasi Period in Historical Perspective

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## Decentralization in Nation State Building of Indonesia

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### Introduction

Today, many countries, regardless of developed or developing, are trying to promote decentralization. According to Manor, as his quoting of Nickson's argument, decentralization stems from the necessity to strengthen local governments as proxy of civil society to fill the yawning gap between the state and civil society (Manor [1999]: 30). With the end to the Cold War following the collapse of the Soviet Union rendering the cause of the "leadership of the central government to counter communism" meaningless, Manor points out, it has become increasingly difficult to respond flexibly to changes in society under the centralized system.

Then, what benefits can be expected from the effectuation of decentralization? Litvack-Ahmad-Bird cited the four points: attainment of allocative efficiency in the face of different local preferences for local public goods; improvement to government competitiveness; realization of good governance; and enhancement of the legitimacy and sustainability of heterogeneous national states (Litvack, Ahmad & Bird [1998]: 5). They all contribute to reducing the economic and social costs of a central government unable to respond to changes in society and enhancing the efficiency of state administration through the delegation of authority to local governments.

Why did Indonesia have a go at decentralization? As Maryanov recognizes, reasons for the implementation of decentralization in Indonesia have never been explicitly presented (Maryanov [1958]: 17). But there was strong momentum toward building a democratic state in Indonesia at the time of independence, and as indicated by provisions of Article 18 of the 1945 Constitution, there was the tendency in Indonesia from the beginning to debate decentralization in association with democratization. That said debate about democratization was fairly abstract and the main points are to ease the tensions, quiet the complaints, satisfy the political forces and thus stabilize the process of government (Maryanov [1958]: 26-27).

What triggered decentralization in Indonesia in earnest, of course, was the collapse of the Soeharto regime in May 1998. The Soeharto regime, regarded as the

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epitome of the centralization of power, became incapable of effectively dealing with problems in administration of the state and development administration. Besides, the post-Soeharto era of “reform (*reformasi*)” demanded the complete wipeout of the Soeharto image. In contraposition to the centralization of power was decentralization. The Soeharto regime that ruled Indonesia for 32 years was established in 1966 under the banner of “anti-communism.” The end of the Cold War structure in the late 1980s undermined the legitimate reason the centralization of power to counter communism claimed by the Soeharto regime. The factor for decentralization cited by Manor is applicable here.

Decentralization can be interpreted to mean not only the reversal of the centralized system of government due to its inability to respond to changes in society, as Manor points out, but also the participation of local governments in the process of the nation state building through the more positive transfer of power (democratic decentralization) and in the coordinated pursuit with the central government for a new shape of the state. However, it is also true that a variety of problems are gushing out in the process of implementing decentralization in Indonesia.

This paper discusses the relationship between decentralization and the formation of the nation state with the awareness of the problems and issues described above. Section 1 retraces the history of decentralization by examining laws and regulations for local administration and how they were actually implemented or not. Section 2 focuses on the relationships among the central government, local governments, foreign companies and other actors in the play over the distribution of profits from exploitation of natural resources, and examines the process of the ulterior motives of these actors and the amplification of mistrust spawning intense conflicts that, in extreme cases, grew into separation and independence movements. Section 3 considers the merits and demerits at this stage of decentralization implemented since 2001 and shed light on the significance of decentralization in terms of the nation state building. Finally, Section 4 attempts to review decentralization as the “opportunity to learn by doing” for the central and local governments in the process of the nation state building.

In the context of decentralization in Indonesia, deconcentration (*dekonsentrasi*), decentralization (*desentralisasi*) and support assignments (*tugas pembantuan*; *medebewind*, a Dutch word, was used previously) are defined as follows. *Dekonsentrasi* means that when the central government puts a local office of its own, or an outpost agency, in charge of implementing its service without delegating the administrative authority over this particular service. The outpost agency carries out the

services as instructed by the central government. A head of a local government, when acting for the central government, gets involved in the process of *dekonsentrasi*. *Desentralisasi*, meanwhile, occurs when the central government cedes the administrative authority over a particular service to local governments. Under *desentralisasi*, local governments can undertake the particular service at their own discretion, and the central government, after the delegation of authority, cannot interfere with how local governments handle that service. *Tugas pembantuan* occur when the central government makes local governments or villages, or local governments make villages, undertake a particular service. In this case, the central government, or local governments, provides funding, equipment and materials necessary, and officials of local governments and villages undertake the service under the supervision and guidance of the central or local governments. *Tugas pembantuan* are maintained until local governments and villages become capable of undertaking that particular service on their own.

## 1. Historical Developments of Local Administration

The function of local administration in Indonesia had long been deconcentration, or the agency function for the central government, since the colonial days under Dutch rule. Particularly under the colonial rule by the Netherlands until the early years of the 20<sup>th</sup> century, central government officials (*pamong praja*) dispatched from Batavia (present-day Jakarta) kept the control and surveillance over local residents. In other words, the government (*pemerintah*) was synonymous to the institution for the rule and control over local residents.

Instead of the local deployment of central administration by central government officials, the emergence of local administration by local organizations on their own in relation to decentralization dates back to the 1903 Law on Decentralization for the East Indies (*Desentralisatiewet 1903*). The Dutch colonial administration introduced the Ethical Policy out of consideration for social welfare of local residents. But the true motive of the introduction of decentralization was to lighten the fiscal burden on the colonial administration by having localities take it over. Along with decentralization, the control and surveillance over local residents by central government officials continued, and thus local administration was placed under the

two-tier system that directly involved both central and local governments. The two-tier system was abolished, in name, by the 1957 Basic Law on Local Administration (Law No. 1/1957), but its legacy had been found in the concomitance of central government outpost agencies (*kanwil/kandep*) and local government departments (*dinas*) until 2001 when the latest laws on decentralization enacted.

### 1.1. Local Administration in the Soekarno Era

The Republic of Indonesia (RI) proclaimed independence in August 1945. But troops of the Republic controlled only key portions of Java-Madura and Sumatra, with the rest of the territory having little consciousness about independence. After the defeat and withdrawal of the Japanese Military, meanwhile, the Dutch returned with the intention of reestablishing colonial rule, and tried to retain the influence by establishing the Republic of the United States of Indonesia (RUSI, *Republik Indonesia Serikat [RIS]* in Indonesian) in 1949, which would include the areas under control of the RI.

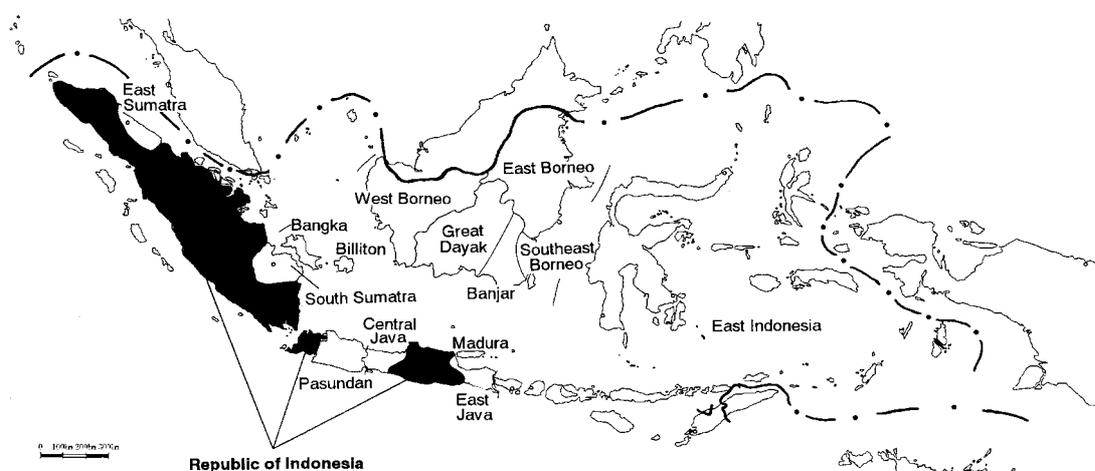
The 1945 Constitution of the RI had Article 18 on local administration, which provided that “the division of the territory of Indonesia into large regions and small regions with administrative organizations is stipulated under law that takes into account and pay heed to the principle of consultations at state administrative organizations as well as inherent rights of areas with distinct characteristics.” The provisions of Article 18 are generally interpreted as based on the idea of decentralization, not deconcentration<sup>2</sup>, and on the basis of the article, the Local National Committee (*Komite Nasional Daerah*) under the law for the establishment of the Local National Committee (Republic Law No. 1/1945). The Local National Committee was later reorganized into the Board of Local Resident Representatives (*Badan Perwakilan Rakyat Daerah*) to serve as the foundation of local administration. In that sense, some regard the law as the first law concerning local administration written after the independence (Gie [1993]: 58). Both the Law No. 1/1945 and the 1948 Basic Law on Local Administration (Republic Law No.22/1948), which was designed for full-blown decentralization in the wake of the enactment of the Law No. 1/1945, were applicable only to Java-Madura under effective control of the RI. The

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<sup>2</sup> The provisions of Article 18 of the 1945 Constitution state: (1) Indonesia, a unified state, is divided into provinces, and provinces are divided into smaller regions; (2) autonomous regions and simple administrative regions are set up under law, and autonomous regions are to have chambers of deputies. Regions with distinct characteristics mean villages, inherent rights of villages (understood to mean common law) are to be respected. Based on these provisions, Soejito [1984] and others believe that “the 1945 Constitution is conscious of the need for decentralization.”

Republic troops were losing ground in the independence war against the Netherlands. After the Linggajati Agreement and The Hague Roundtable Meeting, Indonesia officially became independent in December 1949 as the RUSI, which included the RI (see Map 1).

Map 1. United States of Indonesia (1949-1950)



Source: Processed by Author with referring to Reid (1974: 137).

Under the RUSI, the modality of local administration was left to the discretion of each area. The Republic Law No. 22/1948 was applicable only to Java-Madura and other areas under control of the RI, and the kind of local administration totally different from Java-Madura was in place in other areas. For example, the East Indonesia State (*Negara Indonesia Timur: NIT*) set up in 1947 with the support of the Netherlands, remained as a component of the Federal Republic and provided for its own local administration in the East Indonesia Law, No.44/ 1950<sup>3</sup>.

The Republic Law No. 22/1948, applicable in Java-Madura and the areas under control of the RI, shows distinct marks of its attempts to incorporate measures more democratic than decentralization steps seen in Western Europe to counter the

<sup>3</sup> East Indonesia Law No. 44/1950 was abolished with the enforcement of the Republic of Indonesia Law No. 1/1957.

Dutch ambition for re-colonization, including the direct election of local assembly members by residents, separation of the head of the local government and the chairperson of the local assembly, and the recognition of extensive autonomy by making all regions of the republic autonomous regions. The republic government also tried to integrate separate decentralization laws and regulations applied to respective regions under the colonial rule. But efforts to abolish regional offices of central government officials dispatched by the central government, one of the objectives cited by the Republic Law No. 22/1948, met extreme difficulty due to the cloggy practices of long years. The law failed to be enforced effectively and sufficiently also because the central government did not allocate enough budgets to implement local autonomy.

Component states of the RUSI decided one after another to be integrated into the RI, with the single RI established in 1950. With the launch of the new republic, the 1950 Provisional Constitution was adopted. In the absence of new legislation concerning local administration, however, the existing Republic Law No. 22/1948 was adopted as laws and regulations governing local administration for the time being. But, as mentioned before, the law was written originally on the assumption of decentralization for Java-Madura, with little regard to the situation of other regions, which had different kinds of local administration. Other regions that came under pressure to conform to the way of life in Java-Madura rapidly grew discontent with the central government, and as described in Section 2, even attempted regional rebellion to threaten the disintegration of the Republic. In response to the situation, the Law No. 1/1957 was enacted to implement Article 131<sup>4</sup> of the 1950 Provisional Constitution.

The Law No. 1/1957 recognizes “as extensive autonomy as possible” (*otonomi seluas-luasnya*) for regions concerning all powers that the central government does not have, and the head of a local government was made responsible to a local assembly, separating the head of local administration from the head of local legislature for the first time ever. Local residents through a direct election chose local assembly members, while local assembly members could dismiss at any time the head of a local government who they elected. The central government, in effect, was no longer in a position to keep tabs on what local governments may decide.

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<sup>4</sup> Article 131 stipulates: (1) the division of the territory into large regions and small regions with the function of autonomy backed by administrative organizations is stipulated under law that takes into account and pay heed to the principle of consultations and the principle of representation at state administrative organizations; and (2) regions are granted as extensive authority as possible to implement autonomy. The article is more clearly oriented toward decentralization than Article 18 of the 1945 constitution, and all it provides for on deconcentration is that the central government “can by law have regions undertake services that are not included in matters of jurisdiction in their own regions.”

Meanwhile, decentralization in fiscal matters got behind far more significantly than in decentralization in administrative matters. Until the 1956 Balanced Finance Law (Law No. 32/1956) was enacted, the local finance system dating back to the colonial days was preserved intact. It was the adjustment accounting (*sluitpost*) system under which fiscal deficits of local governments were covered with subsidies from the central government. Local governments had only limited sources of revenue of their own, with the ratio of revenue from own sources to total revenue standing at less than 30% in general (Gie [1994]: 68-69). But the central government kept unilateral power to decide amounts of subsidies, and as estimated subsidies were decided in accordance with prevailing conditions of the finances of the state on the basis of previous-year disbursements, subsidies usually fell short of amounts necessary to cover the deficits of local governments. The Law No. 32/1956<sup>5</sup> sought to improve the adjustment accounting system, and to boost local governments' independent revenue sources by transforming a total of eight national taxes into local taxes. In reality, however, the combined revenue from the eight national taxes fell far short of the amounts of subsidies the central government had previously granted to local governments (Gie [1994]: 83-84). While the severe fiscal conditions of the central government were behind all this, the delay in fiscal decentralization further intensified regional dissatisfaction with the central government.

While it was true that the central government, after the shift to the unified state in 1950, tried to move toward decentralization, the progress in decentralization in administrative and fiscal aspects, expected to come in the 1950s, failed to materialize due to the combination of many factors, including the destabilization of the central government, its fiscal plight, the lack of human resources, funding and experiences at regional governments, and the transfer of economic interests to the central government. With the simmering opposition to the enforcement of the Republic Law No. 22/1948 combining with discontent with what regions received from the central government in exchange for regional contributions to the finances of the state<sup>6</sup>, the dissatisfaction

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<sup>5</sup> Since Law No. 32/1956, was put into force on January 1, 1957, it is referred to as the "1957 Balanced Finance Law." The official title is the "Law concerning Balanced Finances between the State and Regions with the Right of Self-government" (*Undang-Undang tentang Perimbangan Keuangan antara Negara dengan Daerah-Daerah, yang berhak mengurus rumah tangganya sendiri*).

<sup>6</sup> For example, the value of exports from Sumatra in January-September 1956 accounted for 71% of Indonesia's total exports, 75% of Sumatra's imports during the same period came from Java (Gie [1994]: 231-232). Sumatra believed that much of the income earned from exports from Sumatra was transferred to Java to purchase imports into Java, and demanded the right to engage in trade directly with foreign countries without going through Java. Other non-Java regions rich in export commodities felt the same way, and as later described in a passage regarding a rebellion in the

entertained by non-Java regions against the region of Java (the central government) occasionally led to regional rebellions. Under these circumstances, the Law No. 1/1957, apart from the content of it, was far from sufficient to wipe out the sense of mistrust prevalent in regions against the central government.

In the face of the incapability of decentralization on the part of local governments and their strong discontent with the central government, President Soekarno in 1959 declared the reversion to the 1945 Constitution from the 1950 Provisional Constitution. Thus, Indonesia returned to the system of centralized power so familiar since the colonial period, and began the era of “Guided Democracy” with broad presidential powers. In local administration, the central government appointed the heads of local governments, and local assemblies were deprived of the power to dismiss the heads of local governments, giving rise to the administration-led local autonomy. The head of a local government thus had the dual function of local autonomy (decentralization) and proxy for the central government (deconcentration), but it was quite clear that the latter far outweighed the former. This formula of local administration in line with the centralization of administrative power was given the legal basis by the 1965 Basic Law on Local Administration (Law No. 18/1965), and was inherited by the Soeharto era, with the strengthened function of control and surveillance over local residents involving security authorities as well.

## 1.2. Local Administration in the Soeharto Era

Initially, Soeharto, who took over from Soekarno, tried to restore the “as extensive autonomy as possible” to local governments as stipulated by the Law No. 1/1957<sup>7</sup>. The Decision No. 16/1966, by the Provisional People’s Consultative Assembly (MPRS) embraced this policy. But the new People’s Consultative Assembly (MPR) that was formed after the 1971 General Election revoked this decision with its own MPR Decision No. 4/1973, and the provision for decentralization was also changed to

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*PRRI/Permesta* region, some regions, including Minahasa in North Sulawesi, openly started to engage in contraband trade.

<sup>7</sup> It is not necessarily clear whether the attempt to restore the provision for “as extensive autonomy as possible” to local governments simply represented Soeharto’s lip service in reward to Islam forces and non-Java regions that help on to the anti-communist camp in confrontation with President Soekarno who was considered to be sympathetic to communists or his move reflected the intentions of Western countries which backed the establishment of the Soeharto government. But it is hard to believe that Soeharto was serious about the promotion of decentralization, because his national administration policy was founded on the 1945 constitution and the five principles of the state philosophy (*Pancasila*), both of which deny a federal state.

“realistic and responsible local autonomy” (*otonomi daerah yang nyata dan bertanggung jawab*). Accordingly, the Soeharto government enacted the 1974 Basic Law on Local Administration (Law No. 5/1974) after a short period of debate of only 44 days<sup>8</sup>.

While the old law allowed “as extensive autonomy as possible” to all the three tiers of local governments<sup>9</sup>, the Law No. 5/1974 clarified that the priority in local autonomy was given to the second-level local governments (*daerah tingkat II [Dati II]*, equivalent to districts [*kabupaten*] and cities [*kota*]). The reason for removing the first-level local governments (*daerah tingkat I [Dati I]*, equivalent to provinces [*Propinsi*]) from the focus of local autonomy was that the Soeharto regime, based on the experiences of regional rebellions in the 1950s, wanted to forestall the possibility of independent-minded *Propinsi* going for separation and independence and uphold the unified state. Further, decentralization under the Law No. 5/1974 meant the transfer of authority from the central government to local governments, not the transfer of authority from *Propinsi* to *Kabupaten/Kota*. Rules for implementation of the local autonomy in *Kabupaten/Kota* were not issued until 1992 (Government Regulation No. 45/1992). It means that *Kabupaten/Kota*, the focus of local autonomy, had been unable to implement that autonomy for as long as 18 years since the enforcement of the law. Given this, the Law No. 5/1974 was far more oriented toward deconcentration than the law’s text suggested. It was skewed heavily toward the centralized way of local administration, having local governments take over the implementation of various services without transferring the powers of the central government to them.

The centralized formula of local administration in the Soeharto era did not stem only from the shortage of human resources and capabilities on the part of local governments. Marking a clear break with the Soekarno era, when activities of the Indonesian Communist Party (PKI) were tolerated, the Soeharto regime was inaugurated amid the Cold War as an anti-communist government within the U.S.-led capitalist camp. As soon as the Soeharto government was installed, multinational enterprises started exploitation of natural resources in Indonesia, and for this, political stability was regarded as very important.

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<sup>8</sup> According to Gie, a bill for the law was submitted to parliament in April 1974. The bill was accorded top priority status in deliberations and won parliamentary approval on July 2, 1974 (Gie [1995]: 108). The time required was even shorter than the time required for the enactment of two decentralization-related laws in April 1999.

<sup>9</sup> Local governments were classified into the three levels of first-level local governments or provinces (*propinsi*), second-level local governments or districts and cities (*kabupaten/kota*), and third-level local governments or counties (*kecamatan*). Little had been done with the local autonomy for third-class local governments.

Following the Law No. 5/1974, the Soeharto government enacted the 1979 Law on Village Administration (Law No. 5/1979), embarking on the control of traditional village communities left intact since the years of Dutch colonial rule. Under the new law, the central government effectively dismantled village communities that had ruled themselves on the basis of common law (*adat*), and instead uniformly built administrative villages called “*desa*,” a term originating in Javanese, across the country<sup>10</sup>. The law, on the face of it, allowed *desa* autonomy, but in reality, established the system that ensured the central government’s directive be carried to *desa* at the furthest end of the administrative line. In parallel with the administrative reorganization, the military established the territorial security system from the central government all the way down to *desa*, substantially strengthening the function of control and surveillance over local residents<sup>11</sup>. This system was established bearing in mind the fact that communism spread from the levels of villages in Java during the Soekarno era. In addition, the Soeharto regime clamped down hard on Holy War Command (*Komando Jihad*) and other radical Muslim groups seeking the establishment of an Islamic state, and has all political and social organizations recognize *Pancasila* as the only principles for their existence by 1985, elevating the system of centralization to a near-perfection<sup>12</sup>.

However, the end of the Cold War in the late 1980s made it necessary to redefine the *raison d’etre* of the Soeharto government as an anti-communist regime. Responding to growing domestic developments calling for the political openness and

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<sup>10</sup> This measure gave rise to conflicts between administrative villages and traditional villages based on common law across the country. Particularly noteworthy is the frequent eruption of confrontation and disputes between villages (administrative villages) of trans-migrants who moved there under the government’s transmigration program and traditional village communities of indigenous residents. Since the implementation of the new approach to decentralization in 2001, the trend has been clearly toward dismantling administrative villages and restoration of traditional village communities.

<sup>11</sup> In parallel with the realignment of administrative organizations, the military also established the regional army commands (*Kodam*), area army commands (*Korem*) and district army commands (*Kodim*), while stationing army officers (*Babinsa*) in villages for the surveillance of residents. Also, at the levels of *propinsi* and *kabupaten/kota*, the military organized the Councils of Local Leaders (*Muspida*) comprising local government heads, local assembly speakers, chiefs of local courts, local prosecution heads, commanders of area army commands, and local police chiefs. At the guidance of the military, the councils performed the function of security adjustment.

<sup>12</sup> Under the Law on Political Parties and Golkar, enacted in February 1985, and the Law on Social Organization, enacted in May 1985, all political organizations and all social groups were regarded as unlawful organizations unless they embraced *Pancasila* as the sole basis for the existence of their organizations. Muslim organizations that refused to accept *Pancasila* were branded as extremist groups by the security authorities and eventually crushed. After the collapse of the Soeharto regime in 1998, the MPR Decision No. 18/1998, effectively abolished the requirement to accept *Pancasila* as the only principles, and any organizations that had once embraced *Pancasila* were allowed to renounce it and embrace Islam as the principles of their existence.

economic deregulation from the latter half of the 1980s, the Soeharto government issued implementation rules for the Law No. 5/1974 at last in 1992, as previously mentioned, to implement the local autonomy by *kabupaten/kota*. Then, under the Minister of Interior Decree No. 8/1995, one each of *kabupaten* or *kota* from 26 provinces across the country, except for Jakarta, was designated as a model local government for a two-year experiment on decentralization from April 1995.

In the experiment, some administrative powers were transferred from the central government to *propinsi* as well as *kabupaten/kota*, and from first-level governments to second-level governments. In reality, however, the transfer of powers was mostly from *propinsi* to *kabupaten/kota*, with not much of the authority ceded by the central government. In the end, the experiment undermined the powers of first-level local governments and effectively reinforced the links between the central government and *kabupaten/kota*. Contrary to the stated objective of decentralization, *kabupaten/kota* had the impression that for them, the centralization became even stronger. At the same time, *propinsi* had pent-up frustration after they lost a range of administrative powers to *kabupaten/kota* through the experiment. Without evaluating on the results of the experiment, the central government moved toward discussion on full-blown decentralization immediately after the collapse of the Soeharto regime in May 1998.

### 1.3. Local Administration in the Post-Soeharto Era

After the collapse of the Soeharto regime, under the banner of “*reformasi*” (reform), the sentiment for unqualified denial of the Soeharto regime quickly spread throughout the Indonesian society. Soeharto’s successor, President B.J. Habibie, the last vice president under the Soeharto regime, was regarded as a Soeharto protégé, and as such under heavy pressure to get rid of anything reminiscent of Soeharto from around him. For this and other reasons, Habibie announced a string of democratization measures, including election reform and abolition of restrictions on the freedom of speech, and conducted a review of the centralization of powers. The Law on Local Administration (Law No. 22/1999) and the Law on Balanced Finance between the Central and Local Governments (Law No. 25/1999), both prepared by senior Ministry of Interior official Ryaas Rasyid with the support of Germany’s GTZ, were enacted in April 1999, put into force in January 2001.

The new decentralization initiative under these two laws on decentralization has the four distinct features: (1) greater weight to decentralization than

deconcentration; (2) the line of responsibility turned horizontal from vertical; (3) clear provisions for the allocation of funds from the central to local governments; and (4) authorization of the re-application of common law (*adat*) in village administration.

First, only the *propinsi* take the “proxy function for the central government,” or the function of deconcentration under the new law, while the old law required not only *Propinsi* and *Kabupaten/Kota* but also the third-level county (*kecamatan*) to act for the central government. The new laws thus enable *Kabupaten/Kota* to devote them totally only to local autonomy. Furthermore, outpost offices of central government ministries and agencies (*kanwil/kandep*) were abolished, with their functions and personnel taken over by *propinsi*. Except for foreign affairs, national defense, judiciary, monetary and finance, religion and others<sup>13</sup>, the central government administrative authorities were all transferred to *kabupaten/kota*. *Propinsi* are empowered to adjust matters that involve several *kabupaten/kota*, and supervise and guide *kabupaten/kota* as proxy of the central government.

Second, the heads of local governments now must primarily be responsible to local assemblies, while previously only to the president through Minister of Interior. The heads of local governments must submit annual progress reports to local assemblies, and if these reports prove insufficient and cannot satisfied with local assemblies twice, they can dismiss the heads of government (in case of governors in provinces, provincial assembly can propose it to central government because province governments are proxy of central government). Under the old law, executive offices overwhelmingly had an upper hand over legislative. But the new laws have introduced a factor of tension between the executive and the legislative.

In the allocation of funds from the central to local governments, detailed arrangements were made for the passing on to local governments of revenues from oil and other natural resources, and the system of General Allocation Funds (*Dana Alokasi Umum: DAU*) was introduced<sup>14</sup>. This system was introduced to rectify the allocation of

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<sup>13</sup> Among “others” of the central government’s administrative authorities to be retained are national macroeconomic plans, fiscal equalization funds, state administrative and fiscal systems, guidance and training of human resources development, utilization of natural resources, strategic sophisticated industries, preservation of the environment, and standardization policy.

<sup>14</sup> According to the Law No. 25/1999, revenue sources of local governments are divided into independent sources of revenue (local taxes, local retributions, etc.), equalization funds, loans, and others. Of these sources, equalization funds are further divided into the local allocation of revenue from the land and building tax and other taxes (the central government takes 10 % and local governments 90% of the land and building tax revenue; the central government takes 20% and local governments 80% of revenue from the land and building acquisition fees, with the central government redistributing all of its take to *kabupaten/kota*); the local allocation of revenue from natural resources (the central government takes 20% and local governments 80% of revenue from

funds between regions unevenly endowed with natural resources, for an annual determination of funds to be distributed under the formula based on such indexes as the population, area and economic strength. In addition, the category of Special Allocation Funds (*Dana Alokasi Khusus: DAK*) was created to meet specific needs of funding.

Village administration can now be reorganized according to local characteristics, meaning that common law-based village administration, in place before the enforcement of the Law No. 5/1979, can be restored. This is because the system of administrative villages (*desa*) introduced in the Soeharto era did not fit in well with the diverse characteristics of traditional villages to give rise to a variety of social problems. The term “*desa*” does not have to be used any longer<sup>15</sup>. Also, village assemblies (*Badan Perwakilan Desa: BPD*) are created in villages with arranging the name as quasi-legislature.

The decentralization initiative under the new laws allows decentralization more substantially than that under the Soeharto regime, but also keeps the aspects of deconcentration and support operations. Based on the experiences of the 1950s, the central government underscores the principle of “decentralization within the scope of the unified state, and the implementation rules for decentralization issued in the past two years appear to be trying to put some brakes on the rampant self-centered pursuit of interests by local governments as well as potential threats of separation and independence movements. In an extension of these efforts, work is under way to revise the Law No. 22/1999<sup>16</sup>.

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forestry, mining and fisheries; the central government takes 85% and local governments 15% of revenue from crude oil; the central government takes 70% and local governments 30% of revenue from natural gas); general allocation funds (*DAU*) equivalent to a minimum 25% of state revenue (the rate of allocation is 10% for provinces and 90% for *kabupaten/kota*; the distribution of general allocation funds to local governments is weighted against fund needs and potentials of respective regions that are expressed in numerical figures); and special allocation funds (funds are allocated to specified regions to meet specific funding needs that cannot be covered by general allocation funds. Funding for Special Allocation Funds (*DAK*) comes partly from the reforestation fund). Funding rules have been eased in favor of Aceh and Papua, for which the special autonomy law was enacted.

<sup>15</sup> The term “*desa*” meaning villages are mainly used in Java and Bali. Villages are called “*nagari*” in West Sumatra, “*marga*” in South Sumatra, and “*lembang*” in Tana Toraja, South Sulawesi. In other places, indigenous names for villages have been restored, such as “*kampung/kampong*,” “*huta*” and “*boli*.” In West Sulawesi and Tana Toraja, the number of villages is on the decline with the revival of indigenous names.

<sup>16</sup> According to Soedarsono Hardjosoekarto, director-general of local autonomy at the Ministry of Interior, key points in the proposed revision of the Law No. 22/1999 are: (1) by striking out the expression that there is no hierarchical relationship between *propinsi* and *kabupaten/kota*, adjustments between *propinsi* and *kabupaten/kota* are normalized; (2) provisions are added to resolve the conflicts between local governments over territorial waters; and (3) provisions are revised to prevent the heads of local governments from arbitrarily appointing or dismissing government employees (Remarks in an interview with the writer at the Ministry of Interior on

## 2. Central-Local Rivalry over a Distribution of Natural Resources Profits

There are different interests in the nation state building between Java, densely populated but poor in natural resources, and non-Java, thinly populated but rich in natural resources. The rivalry between the central government based on the Indonesian capital of Jakarta located in Java, and local governments, especially which are located outside Java, leads to the discussion over a distribution of natural resource profits between the users and the suppliers in a country where natural resources are quite unevenly distributed. Meanwhile, as Indonesia mostly lacks the ability to exploit natural resources on its own and has to depend on foreign firms for the exploitation of resources it has, the issue of the distribution of natural resource profits is also affected by what foreign countries that actually undertake natural resource projects think or by international resources markets.

### 2.1. Background of Regional Rebellions in the 1950s

As described in Section 1, Indonesia did not become an independent state with all regions of the territory coming together with a true sense of unity. Even when Soekarno and Mohammad Hatta proclaimed independence in August 1945, many regions of the East Indies under Dutch colonial rule had little self-awakening to independence. The Republic of Indonesia (RI) that declared it independent and other regions formed the unified state only through the establishment of the Republic of the United States of Indonesia (RUSI), a federal state, in 1949, while still maintaining their respective systems of governance with totally different historical backgrounds.

But the federal state lasted only eight months. Nationalists backing the RI regarded the RUSI as a puppet of the Netherlands, and sought to establish the unified state to wipe out the legacy of Dutch rule. There was no trace of calm debate conducted over which form of the state, the federal system or the unified system, was more appropriate. In non-Java regions, groups that had a part in sustaining colonial rule even after the establishment of the RUSI kept their government positions, but nationalist activists did not like it at all and acted in concert with nationalist movements in the RI<sup>17</sup>. Thanks to their activities, Indonesia was able to shift from the

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August 22, 2001).

<sup>17</sup> In Aceh, where the resistance against the suzerain Netherlands was most fierce, Muslim groups waged social reform movements since the early years of the 20<sup>th</sup> century against the region's

federal republic to the unified republic in such a short period of time.

Indonesia introduced a uniform local administration system for the whole country within the framework of the unified state. Mostly, what it did was the application of the system the RI implemented in Java-Madura to other regions of the country. Preoccupied with laying the foundation for the unified state, the central government could not afford to give full heed to the circumstances of other regions where different system of local administration had been in place. In addition, the parliamentary cabinet system helped intensify the jockeying for power between political parties within the central government, and the resultant succession of short-lived cabinets destabilized the foundation of the central government. Meanwhile, nationalist activists in regions, who flattered themselves that they greatly contributed to the shift to the unified state, felt increasingly discontent with the way the central government treated them, which they thought failed to correspond to their contribution. The level of their discontents was rising so high that some nationalist leaders in regions began to seek separation from the unified state, RI, or even called for a return to the federal system which they once rejected.

The regional discontent in the 1950s culminated in the Muslim revolutionary movement, called *Darul Islam (DI)*, and the anti-central regional rebellion as the Revolutionary Government of the RI (*PRRI: Pemerintah Revolusioner Republik Indonesia*) rebellion and the Universal Struggle Charter (*Permesta: Piagam Perjuangan Semesta Alam*) rebellion (see Map 2). The *DI* is the armed struggle to establish an Islamic state with Islam as nation-building principles against *Pancasila*, the five principles of the state philosophy included in the 1945 Constitution. In 1949, toward the end of the independence war, S. M. Kartosoewirjo declared the establishment of an Islamic state in West Java, where a vacuum of power was created, followed by the rebellion of Abdul Qahhar Mudzakkar in South Sulawesi, the rebellion in Aceh under Muhammad Daud Beureu-EH, and others. These and similar developments spread and came to be called the *DI* as a whole.

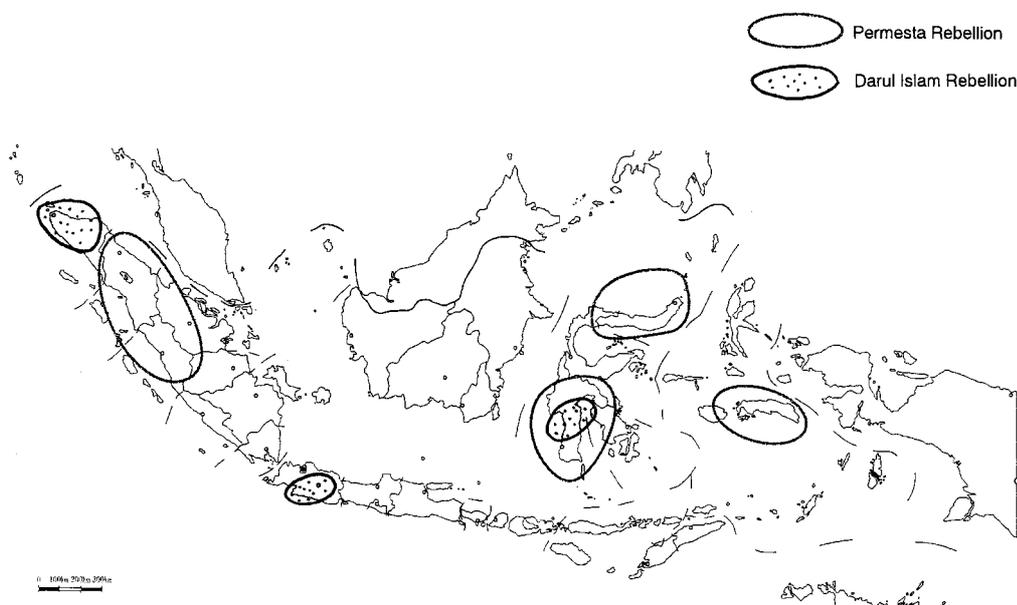
The *PRRI/Permesta* rebellions were regional rebellions that spread in non-Java regions such as Sumatra and Sulawesi in 1956-1960. After the first nationwide general election in 1955, political party and military leaders in Sumatra in late 1956 set up a “council” to seize control of local administration. In Jakarta, where

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aristocrats who served as local officials for the Dutch colonial government, under the leadership of the All-Aceh Ulama League (*Persatuan Ulama Seluruh Aceh: PUSI*). In Sulawesi, Bugis/Makassar indigenous aristocrats and Muslim forces revolted against Christian groups Minahasa and Ambon, whom the Netherlands recruited for colonial administration, taking up the initiative in regional movements toward the unified state.

the central government was located, rivalry grew intense between the alliance of the Soekarno-led Indonesian Nationalist Party (*Partai Nasional Indonesia: PNI*) and the Indonesian Communist Party (*PKI*), which rapidly increased its presence, and the Islamic *Masyumi* Party. After Vice President Hatta resigned, the *Masyumi* Party and the Indonesian Socialist Party (*Partai Sosialis Indonesia: PSI*) rose in revolt against the central government, and the *PRRI* was set up in Bukittinggi of West Sumatra, led by the *Masyumi* Party's Sjafruddin Prawiranegara<sup>18</sup> and Muhammad Natsir. In March 1957 in Sulawesi, armed forces officers in region and local politicians declared the *Permesta* and demanded broad provincial autonomy.

Map 2. Main Rebellion Areas in 1950s



Source: Processed by Author.

Economic factors played a significant role in the *PRRI/Permesta* regional rebellions. Regions strongly opposed to the economic interests they had being siphoned off their regions to the central government. For example, Sulawesi earned huge profits from copra trade since well before the independence. Profits, which were

<sup>18</sup> Sjafruddin Prawiranegara, an activist of the *Masyumi* party, had headed the Emergency Government of the RI established in Bukittinggi, West Sumatra, in 1948 at the instruction of President Soekarno and Vice President Hatta in order to turn around the fortunes of the Republic troops which at the time were losing ground in the independence war.

pooled in the Copra Foundation, were made available profligately for infrastructure construction and funding activities of political organizations. After the independence, however, the head office of the Foundation was moved from Makassar in Sulawesi to Jakarta, and the central government in 1954 revoked the monopoly of the Foundation over copra exports. Protests by local politicians and military officers against these measures were inseparably linked to the regional rebellions.

The *DI* and the *PRRI* set up in West Sumatra shared the objectives of opposing to the introduction of the uniform method of local administration based on the Java-Madura model and seeking to establish the federal state of Indonesia. Their federal state schemes were different, but shared the idea of limiting the central government's authority to a narrow range of diplomacy, national defense and some others while substantially expanding the scope of local autonomy. The *PRRI* made contacts with *DI* movement leaders, such as Qahhar Mudzakkar and Daud Beureu-EH, and cooperated in expanding the fronts of the regional rebellions.

In the background of the regional rebellions lied the growing strength of the *PKI* and as a counterweight to this, the growing influence of the armed forces in the national political arena. Internationally, amid the intensifying Cold War, the United States in 1955 organized the Southeast Asia Treaty Organization (SEATO) to counter the Soviet Union and the People's Republic of China, which were stepping up support for communists in Asia. At this point, Indonesia was not a member of SEATO, and which way Indonesia would go was a matter of grave importance for the security of the whole Southeast Asian region. Wary of the growing influence of the *PKI* in Indonesia, the United States had high expectations placed on the *DI* and the *PRRI/Permesta* regional rebellions as factors that would stem the rise of communist forces in Indonesia. The United States not only publicly voiced support for the *PRRI/Permesta* rebellions, but also aided the regional rebellions through the Central Intelligence Agency (CIA) (Kahin & Kahin [1995]: 120-142).

As described above, the regional rebellions in the 1950s involved an array of factors behind them. Regional leaders did not like Jakarta's implementation of local administration. They were stung by the way how the economic interests were taken away by the central government, and they were unhappy about what they got from the central government for what they did in the independence war against the Netherlands and for the unified republic. Qahhar Mudzakkar and Daud Beureu-EH, leaders of the *DI*, also fought alongside the Republic troops in the war against the Netherlands. Then, amid the tense international environment of the Cold War, the United States entered the scene with the intention of preventing the communization of Indonesia and supported

the regional rebellions. And the U.S. support was not only the response to the Cold War but also the move designed to improve the basic environment for natural resources exploitation by foreign firms.

The central government viewed the regional rebellions as a serious threat to national unity and used the armed forces to crush them. What has to be emphasized here, however, is that neither the *DI* nor the *PRRI/Permesta* rebellions hoisted the banner of “separation and independence” from Indonesia. What they wanted was not the building of a state separate from Indonesia, but the rebuilding of the state of Indonesia, that is, the reorganization of the centralized system into a federal system of states. On the other hand, in Jakarta, the armed forces came to carry a lot of political weight as the force to counter the rise of the *PKI*. The United States, in a bid to block the communization of Indonesia, tried to approach the armed forces without carrying through the support for the regional rebellions. Activists who led the regional rebellions were disillusioned by the “change of heart” by the United States, on top of the simmering grumbles against the central government.

## 2.2. Center, Region, and Foreign Firms in Natural Resources Exploitation

The Netherlands, as the suzerain of Indonesia, was well aware of the existence of vast natural resources in the country before Indonesia’s independence, and many Western nations, via the Netherlands, had information about natural resources within the territory of the Dutch East Indies. In fact, Royal-Dutch-Shell had been established in the Netherlands as far back as in 1885 for the purpose of oil exploitation in Sumatra. Oil was one of the natural resources that had been under exploitation since the colonial days, and major Western oil companies with the drilling rights were earning huge profits. Needless to say, the primary purpose of Japan’s occupation of Indonesia in World War II was to have access to the resource.

Development of natural resources other than oil got into full gear after the Soeharto anti-communist regime was installed in 1966. During the years of the parliamentary cabinet system or the era of the guided democracy under Soekarno, when the domestic political scene was never stable, it was just too risky to embark on the exploitation of natural resources that would require vast amounts of investment. For this reason, foreign-affiliated mining and exploitation companies got involved in all the phases of exploitation, from the surveys on reserves of natural resources and exploration to commercial production (see Map 3).

The Indonesian government, so soon after achieving independence, lacked funds,

technologies and human resources to undertake natural resources exploitation on its own. Well aware that oil exploitation was profitable operations since the colonial days, the government established state-run oil development firms in North Sumatra, South Sumatra and Java in the 1950s, and, and set up the state oil corporation *Pertamina* by integrating these firms in 1957. Under the 1960 Oil and Gas Law (Law No. 44/1960), foreign firms were required to conclude service contracts with *Pertamina*, and the government let foreign firms produce oil and received a portion of the output. After the Soeharto regime was launched in 1966, foreign firms concluded production-sharing agreements with *Pertamina*, under which the government acquired 35% of the total oil output minus costs of production. During the oil boom in the 1970s, the government's oil revenue zoomed, and *Pertamina* also expanded itself to be called "the state within the state."

Through this process, the perception spread among people that "resources exploitation by foreign firms brings in massive profits." Besides, the sites of natural resources exploitation are mostly not in densely populated Java or urban areas, but thinly populated regions outside Java Island, such as Sumatra, Kalimantan, and Papua (Irian Jaya). The exploitation sites are isolated from their surrounding areas as sort of "enclaves" and as such can be operated in an environment to earn maximum profits efficiently. Those "enclaves" provided space where foreign employees of foreign firms could spend life just the way back at home. Since all natural resources belong to the state under Article 33 of the 1945 Constitution, the central government and foreign firms primarily undertook exploitation of resources, with no room left for the direct participation by local governments or local residents of the regions where natural resources exist. Compared with the world of the "enclaves," there was no change or improvement in the life of local residents. Local governments had received no direct benefits from foreign firms, either.

Local governments or local residents are not necessarily seeking life with the same conditions as those found in the "enclaves." They simply want the central government and foreign firms to return a small portion of profits they earn from natural resources exploitation to local communities in a visible way, such as the employing of local residents, subsidies to improve infrastructure for everyday life, and the open use of facilities within the "enclaves." Foreign firms respond to these demands to a certain extent. But when foreign firms' responses are considered insufficient and short of their demands, local governments and local residents criticize the "plundering of resources by foreign firms and the central government," getting quite emotional against the central government and foreign firms. Even when initial demands are satisfied, their

demands are going to escalate with no limits as long as they assume the high profitability of resources exploitation, reinforcing the tendency to bum money from foreign firms<sup>19</sup>.

The battle over natural resources between the central and local governments becomes most acute when it involves regions abundantly rich in resources, because resources-poor regions have no choice but rely on fund allocations from the central government. Apart from such regions as Aceh and Irian Jaya where the central government does not mind using armed force, the decentralization drive in 2001 triggered a chorus of strong opposition to the exploitation of natural resources led by foreign firms and the central government in such resources-rich regions as Riau and East Kalimantan. The true question being raised by these developments is how regions can participate in resources exploitation, in other words, how foreign firms and the central government can involve regions in the allocation of profits from natural resources exploitation that has so far been monopolized. From here, it is a long way to go before the separation and independence from Indonesia looms as a serious issue.

### 2.3. What Triggered the Blowout of Calls for Separation/Independence?

In natural resources exploitation projects in most regions in Indonesia, though to differing degrees, natural resources are being taken out without any benefits to regions, job opportunities are denied to local residents, and even when jobs are made available to local residents, they are placed in positions under outlanders. The central government justifies these practices by citing the shortage of skilled workers and technical expertise on the part of regions or intense international competition. Forced into the position of “by-standers,” local residents, as they become aware of how profitable resources exploitation is, begin to seek reasonable rewards from the central government. In some cases, local people intentionally cite anti-central government (anti-Java) feelings in local communities as a tactics to draw out as many concessions as possible from outlanders. When outlanders fail to read such a signal and offer no concessions, local people’s dissatisfaction could turn into more radical movements. Once set afire, what started as a scheme to obtain only small economic benefits could escalate into movements over which even those who initiated them lose control.

If the central government responds to such developments with the oppression

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<sup>19</sup> The Free Aceh Movement (*GAM*) in the 1970s tried to extract funds for its activities from foreign firms developing oil and gas in Aceh. After foreign firms turned the demand down, the *GAM* grew increasingly hostile to them.

by force, local residents, whose houses were burned down and relatives were killed, out of the sorrow over the victims, arouse hatred against central government organizations that actually committed horrendous actions against them (the armed forces and police). On the other hand, the central government, for which the most important thing is to ensure the environment for foreign firms to keep exploiting natural resources without worries, hardens its stance to prevent local residents from causing disruptive and destructive actions. Local residents react with hardened attitudes, too. In a vicious circle of such developments, the central government, out of fear for local residents' hatred directed against them, start arresting and torturing suspects, further fueling local residents' ill feelings toward the central government (the armed forces and police) and prompting some to take up arms for retaliation. Some back groups or forces that are capable to fight back the central government (the armed forces and police), and still others volunteer to join such groups themselves.

Separation and independence movements in Aceh and Papua have presumably gone through these processes. If the situation has not deteriorated that much in other regions, it is only because either the central government has yet to resort to high-handed means to stoke hatred among local residents or the function of adjustment is still at work between the central government and regions.

#### (1) Aceh

The kingdom of Aceh fought against the Netherlands most fiercely in the independent war, and readily became a part of the RI when the republic gained independence. In Aceh in the years immediately following the independence, rivalry was intense between local aristocrats who were taken into confidence by the Dutch during the colonial days and the All-Aceh Ulama League (*Persatuan Ulama Seluruh Aceh: PUSI*). Despite Aceh's outstanding contribution in the independence war, the central government of the RI did not grant it the status of province, and instead made it a part of North Sumatra Province. The central government also appointed local aristocrats with administrative experiences under colonial rule as administrators of local governments. The *PUSI*, which contributed to the republic's independence and wanted to be an independent province for its uniqueness, was deeply disappointed by the central government's responses, and Daud Beureu-EH, the *PUSI*'s chairman, initiated the *Darul Islam (DI)* movement, aiming to turn Indonesia into a federal state built on Islam. The central government separated Aceh from North Sumatra Province as a special province in 1959. But this did not totally mitigate the province's distrust in and repulsion against the central government, and the *DI* continued until 1965 in Aceh.

Leading the separation and independence movement in Aceh at present is the Free Aceh Movement (*Gerakan Aceh Merdeka: GAM*)<sup>20</sup>. *GAM*'s top leader, Hasan di Tiro, was one of the junior staff of Daud Beureu-EH who led the *DI*. Originally, they were not seeking separation or independence from Indonesia, or were not aiming to establish a separate Islamic state. They simply wanted to be a part of the federal state. In 1976, however, Tiro unilaterally declared Aceh's independence, calling "the Islamic State of Aceh."

In a campaign to raise funds for their activities, *GAM* activists, around the time when exports of liquefied natural gas (LNG) began through Lhokseumawe in the latter half of the 1970s, demanded foreign firms in Aceh to pay business levies, and when they refused to make the payments, started attacking foreign residents as well as local lumbers. Escaping the pursuit by the armed forces, Tiro and his supporters left Aceh in 1979 and have been appealing for international support for Aceh from Sweden, where he sought asylum. Beginning in 1986, after the Soeharto regime made *Pancasila* the only principles to be embraced by any political or social organizations, *GAM* began sending young Acehnese to Libya for military training. These young Acehnese started coming home from around 1988, and launched operations to take weapons from the armed forces and police, and to attack policemen and military officers on duty in Aceh.

In response to those developments, Indonesia's armed forces designated Aceh as the military operation region (*Daerah Operasi Militer: DOM*) in 1988, and began rounding up *GAM* activities and their sympathizers, launching military operations, during which some 6,000 people were reportedly killed. The *DOM* designation was lifted in 1998, partly in the face of international criticism against the military operations as human rights violations. But the armed forces continued with clearing operations in Aceh, despite the policy of dialogue adopted by the Habibie government and the succeeding government of President Abdurrahman Wahid. At the insistence of the armed forces, the Abdurrahman Wahid government in April 2001 issued Presidential Decision No. 4, 2001, approving the armed forces' support for police to restore public order in Aceh<sup>21</sup>.

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<sup>20</sup> Based in Sweden, *GAM* members are seeking international support for the cause of Aceh's independence. *GAM* has been split into two groups: the Aceh-Sumatra National Liberation Front (ASNLF) under direct control of Hasan di Tiro, and the Free Aceh Movement Government Assembly (*Majelis Pemerintah GAM: MP-GAM*) that renounces armed struggles. The former started military training in Libya in 1986, and sent Acehnese who finished training courses back to Aceh one after another in 1988-1989.

<sup>21</sup> Before the presidential decree was issued, the armed forces already sent the security forces into Aceh, including *Kopassus*, the Army special units, which led the campaign against pro-independence forces in East Timor.

Aceh is the home to one of Indonesia's largest concentration of natural gas fields, and development of natural gas has been under way there since the 1970s. Exxon-Mobil of the United States, which exploited the gas fields, suspended operations in March-August 2001, citing the deteriorating security conditions, and actually the facilities were blasted in April of that year. Exxon-Mobil has been heavily relying on the Indonesian police and armed forces to guard the natural gas exploitation facilities, but has also been criticized that heavy guards around the facilities harmed local residents around the facilities. In his connection, suspicions surfaced that heavy equipment and barracks Exxon-Mobil made available to the police and armed forces were used to suppress local residents, and a newspaper report said a human rights group filed a lawsuit against the head office of Exxon-Mobil in the United States<sup>22</sup>.

In order to bring the protracted confrontation with *GAM* to an end and calm the separation and independence movement in Aceh, the central government introduced to parliament a bill for special autonomy for the Aceh Special Province apart from the two 1999 decentralization bills. Meanwhile, the government of the Aceh Special Province submitted its own version of a bill for special autonomy to parliament. As the MPR Decision No. 4, 1999, demanded an end to debate on the bills for special autonomy for Aceh and Papua by May 1, 2001, the government first sought to deal with the issue with an alternative government decree. But the government decided against the idea of alternative government decree on April 27, and by extending the debate schedule with the backing of MPR, decided to take up only the bill introduced by the Aceh Special Provincial government. In the end, on August 9, 2001, the special autonomy law for the Aceh special province as the 2001 *Propinsi Nanggroe Aceh Darussalam* (the Aceh Special Autonomy Law: ASAL) was enacted (Law No. 18/2001).

The ASAL provides for the application of Islamic law in Aceh, direct elections of local government heads, and a large increase in provincial revenue under special autonomy arrangements (in the coming eight years, the province is given 70% of revenue from oil and natural gas, with the provincial take being reduced to 50% in the ninth year onward). Compared with the local take of 15% for oil and 30% for natural gas as stipulated under the Law No. 25/1999, the arrangements under the ASAL represent substantial concessions on the part of the central government. But it is premature to speculate whether the enactment of the ASAL will directly lead to a final settlement of the Aceh problem. The security conditions in Aceh have not improved

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<sup>22</sup> Banerjee, Neela, "Lawsuit Says Exxon Aided Rights Abuses," *New York Times*, June 21, 2001.

since then, with the assignations of influential local politicians and senior government officials still reported.

## (2) Papua

When the RI declared independence, West Irian (Irian Jaya, now Papua) was still under Dutch colonial rule as the Dutch New Guinea. While other regions joined the RI by 1950, the Netherlands refused to let the territory to be incorporated into Indonesia. After Indonesian troops carried out the military campaign to free West Irian in 1961-1962, the sovereignty over West Irian was transferred from the Netherlands to Indonesia via the United Nations, and West Irian was incorporated into Indonesia in 1963.

The separation and independence movement in Papua can be traced back to the legitimacy of the 1963 incorporation of West Irian into Indonesia. Like *GAM* in Aceh, the Free Papua Movement (*Organisasi Papua Merdeka: OPM*), which has an armed organization, is continuing its anti-government activities in Papua, mostly in the mountain regions, with sporadic incidents such as the kidnappings of Westerners. In the 1980s, there were frequent clashes between *OPM* and security troops over the hoisting of the rebel flag (Morning Star).

The Habibie government, in an effort to stem the rise in Papua's movements toward separation and independence, enacted a law in 1999 to divide the Irian Jaya Province (at that time and now Papua Province) into the three provinces of West, Central and East Irian Jaya, and appointed governors for the three provinces. But the new measure did not work and now exists in name only. President Abdurrahman Wahid, as he did with Aceh, adopted the approach of dialogue with Papua, and when he visited Jayapura, the provincial capital, on January 1, 2000, he accepted the change of the province's name from "Irian Jaya" to "Papua" as well as the raising of the Morning Star flag if it is lifted together with the Indonesian national flag, giving the impression that the central government has made substantial concessions. Since then, as if to provoke the central government, incidents of the raising of the Morning Star flag without the Indonesian flag going up together occurred frequently, and in one incident in Wamena in central Papua, Indonesian security troops fired on residents who hoisted the Morning Star flag, leading to the major rioting there. Amid the rising tide of sentiment against Javanese and Buginese from South Sulawesi, many outlanders and their families were forced to leave Papua. The security forces believe President Abdurrahman Wahid's irresponsible remarks caused the situation in Papua to deteriorate.

As seen in Aceh, the Indonesian armed forces and police kept the tight grip over residents in Papua. The high-handed attitude of the armed forces and police led to frequent troubles with local residents. Also, the armed forces and police occasionally intervened into residents' organizations for economic benefits, another sources of local residents' antipathy toward them. As in Aceh again, security troops usually take preemptive forceful measures before local residents' frustration erupts into concrete action of protest, helping to escalate the mutual distrust.

In May 2000, the Papua Conference was convened in the provincial capital of Jayapura to discuss the future of Papua, and President Abdurrahman Wahid's donation of one billion rupiahs to cover the cost of the conference did not help prevent an overwhelming majority of participants calling for separation and independence from Indonesia. In a seminar on a bill for the special autonomy for Papua held in March 2001, a majority of participants rejected the local autonomy formula and insisted on separation and independence. The Presidium of Papuan Leaders (*Presidium Dewan Papua*), that hosted the Papua Conference, has no particular links with *OPM*, and the separation and independence movement in Papua is not necessarily monolithic.

The bill for the Papua Special Autonomy, jointly prepared by the Papua Provincial Government, the provincial assembly and scholars from Cenderawasih University, called, among other things, for the permission to raise the ethnic flag and sing the ethnic anthem, and the allocation of 80% of revenue from natural resources to the province. The government had already submitted its own version of the special autonomy bill to parliament, but President Abdurrahman Wahid asked parliament to consider the provincial version as well. President Megawati Soekarnoputri, who succeeds Wahid, scrapped the central government's bill on her own responsibility to give precedence to the provincial bill. After some amendments, it passed parliament on October 22, 2001, and was enacted on November 21 as the Law on Special Autonomy of the Province of Papua (the Papua Special Autonomy Law: PSAL) (Law No. 21/2001).

Under the two decentralization bills promulgated in 1999, the focus of local administration was placed on *kabupaten/kota*. But the PSAL, as with the case of the ASAL, effectively targets the provincial level. The basis for the renewed focus on provinces in local administration is that the provincial governments in a position to adjust for the wide gaps in fiscal positions between *kabupaten/kota*. However, relatively wealthy *kabupaten/kota*, such as *Kabupaten Sorong* and *Kabupaten Merauke*, opposed the PSAL over a loss of administrative powers to the provincial government.

In fact, when the PSAL is enforced, the provincial government's fiscal

revenue will increase dramatically (for example, in the coming twenty-five years, the province is given 70% of revenue from oil and natural gas, with the provincial take being reduced to 50% in the twenty-sixth year onward). As in Aceh, the provincial government in Papua now has a legal basis to participate in the fair allocation of profits from the exploitation of natural resources. But the provincial government has yet to develop a strategy for regional development that takes this new factor into consideration. As Aceh has foreign firms exploiting its natural gas resources, in Papua, U.S. mining firm Freeport-McMoran Copper & Gold through the subsidiary PT Freeport Indonesia is producing copper ore and gold. In the 1990s, local residents began to ask the company to promote the hiring of local labor and support social development. In response, Freeport seems to be responding to these requests positively<sup>23</sup>.

Within the provincial government, tribalism still persists, with important posts dominated by certain tribes. As this trend indicates, the local environment has yet to ripen to generate a sense of unity, or something like a Papuan nationalism, that may be needed as the foundation for any attempt to seek separation and independence from Indonesia. Given the far greater weight given to tribal identity, the current political conditions in the province perhaps do not support any sustained movement toward separation and independence. Indonesia's policy and methods for security maintenance in Papua have been consistent under the Megawati government, and the improvement in security conditions in the province also seem to owe much to the fact that the heads of *propinsi*, *kabupaten* and *kota* governments, local assembly speakers and other key posts are dominated by key tribal persons.

### (3) Summary

As discussed above, the circumstances and backgrounds of separation and independence movements in Aceh and Papua have several things in common. These movements were apparently triggered by the exploitation of natural resources in their provinces by foreign firms and the central government that provided the protection for exploitation work. In the eyes of local residents, the central government that is acting as the security guard of foreign firms is no different from the Dutch colonial government and local governments working as its servants. The government was the

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<sup>23</sup> Under the agreements with two local tribes, Kamoro and Amungme, PT Freeport since 1996 has been providing an amount equivalent to 1% of its annual profit to them through LPMI, a local NGO. The payment amounted to 175 billion Rupiahs in 2000 alone, and is expected to reach almost the like amount in 2001. There are views that the local residents are not making full and efficient use of these payments (the electronic edition of *Gatra*, November 5, 2001).

organization to supervise and control local residents, and was never the organization for the autonomy by local residents.

The situations in Aceh and Papua seem to have been aggravated by posterior factors, rather than by specific historical or cultural backgrounds. Both provinces went through the fundamentally common process where the amplification of mutual distrust and the intervention by force prevented rational dialogue, caused the intensification of mutual hatred and ultimately led to movements for separation and independence. In fact, this process can largely be applicable to other regions as well. In its efforts to maintain national unity, if the central government fails to deal with these posteriori factors properly, it could risk creating an irreparable situation.

The ASAL for Aceh and PSAL for Papua provide for a bigger piece of the pie of profits from natural resources exploitation previously monopolized by the central government and foreign firms. The central government used the special autonomy laws as a means of preventing the separation and independence of Aceh and Papua and keeping them in the RI. On the other hand, the provincial governments of Aceh and Papua, by occasionally showing off the rise of separatist sentiments in their provinces, succeeded in wringing big concessions out of the central government over the allocation of profits from resources development. In exchange, however, the provincial governments have now taken on much bigger responsibilities for maintaining security and social stability within their provinces.

### 3. Current State of Decentralization and Problems

#### 3.1. Worrisome Developments

In the process of decentralization, there is much talk about the possibility of local governments, the principal players in local administration, displaying self-centered behaviors going after narrow regional interests. For example, upstream local governments may clash with downstream local governments in river basin management, or there might be disagreements between local governments of regions supplying natural resources and raw materials and local governments of urban regions where they are processed and exports.

One of the features of the Law No. 22/1999 is the call for the separation of administration and legislature at local levels in favor of the check-and-balance function between the two institutions. In reality, however, there have already arisen problems involving collusive ties between local assemblies and heads of government. The

transfer of a host of administrative powers from the central to local governments could help facilitate the race for undue interests among local political elites. In particular, local assembly members, who have newly acquired the enhanced function of checking the performance of the heads of local governments, may seek to substantially raise their own salaries in debating the fair allocation of budgetary expenditures. There have been not a few instances where the salaries paid to assembly members accounted for more than half the budgets. Local assembly members may also press the heads of government to accord them various other benefits including the official vehicles for them, and when they are not treated well, may “threaten” to reject annual responsibility speeches the heads of government have to present for approval or not support their reelection bids. In order to calm things down, the heads of government have no choice but to concede to assembly members. Indonesia’s local politics has a long way to go in shaking off the structure of scrounging, with new types of cozy ties being formed under the new system.

Furthermore, as seen in the case of Papua, there are a growing number of instances across the country where only “local sons” (*putera daerah*) can get elected the heads of government or hold important posts of local governments. Some localities are even giving a legal basis to such practices by adopting ordinances to that effect. But the definitions of *putera daerah* vary among local governments<sup>24</sup>, and the jockeying for powers among local political elites tend to determine such definitions to serve their interests.

There also are problems with local taxes and local retributions. Under the weight of heavy external debts, both the central and local governments in Indonesia face serious fiscal deficits. Under the fiscal decentralization arrangements, the central governments transfer general allocation funds (*DAU*) to local governments, but the bulk of these funds are used for current expenditures, such as salaries to government officials transferred to local offices and positions. Since it is not easy to increase the amounts of *DAU* and the borrowing of funds from external sources by local government is still banded in principle, local governments have to find their own sources of revenue and invite private-sector direct investment.

The biggest obstacle to local governments’ efforts to expand the base of own revenue sources was the 1997 Law on Local Taxes and Retributions (Law No. 19/1997),

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<sup>24</sup> For example, the Papua Special Autonomy Law stipulates that only Papua aborigines of Melanesia origin (*orang asli Papua*) can hold the post of the head of local government, relying on the concept of dividing residents into Papua aborigines and Papua residents living in the province (*penduduk provinsi Papua*). In the new province of Gorontalo on Sulawesi Island, meanwhile, local residents are defined as “those who are born and raised” in the province, rejecting tribalism.

that limits the kinds of local taxes and retributions local governments are allowed to collect. The enactment of the law reflects the different ways of responses shown by the central and local governments to the sharp falls in oil prices in the mid-1980s. As the state coffers on oil- and natural gas-related revenues for about 70% of its total revenue, the falls in oil prices immediately resulted in the serious shortfall of revenue. In a bid to grow out of the heavy dependence on oil and gas revenue under the structural adjustment policy guided by the World Bank, the Indonesian government carried out drastic tax reform, including the introduction of the value-added tax and the sales tax on luxury goods and achieved a change in the state's revenue structure. But local governments failed to make similar responses. The tax reform focused on national taxes, and did not touch on local taxes or local retributions. To cover their revenue shortfalls, local governments created an array of new local taxes and retributions. While the structural adjustment policies pursued by the central government helped encourage private-sector vitality and privatization and contributed to the liberalization of economic activities, the sharp rises in local taxes and retributions hampered the efficiency in economic activities sought under structural adjustment policies. In view of such developments, the central government enacted the Law No. 19/1997 to limit the kinds and scope of local taxes and retributions that local governments are entitled to collect.

Local governments argued that the smooth implementation of decentralization requires the revision of the Law No. 19/1997, because without the discretionary right to impose taxes, they should not be able to boost their fiscal resources (fiscal independence). The central government was reluctant to comply, but eventually agreed to revise the Law No. 19/1997 and enacted the 2000 Law on Local Taxes and Local Retributions (Law No. 34/2000), allowing local governments to create new local taxes and retributions at their own discretion, though only when certain conditions are met<sup>25</sup> and with the approval of local assemblies. In the wake of the new law's enactment, local governments rushed to create a number of new taxes and retributions, including the surcharge on agricultural products being shipped out of their regions, the traffic

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<sup>25</sup> The conditions cited here include: (1) the object of taxation is in the region; (2) not against public interests; (3) not contradict other taxes or retributions; (4) the object of taxation has full potential as such; (5) not give a negative economic impact on the regional economy; and (6) give heed to fairness and the capacity of residents. But local governments are not required to conduct scientific preliminary surveys on potential impacts of the introduction of the proposed local tax or local retribution, allowing a plenty of room for unreasonable taxes or retributions to be easily introduced. When local taxes or local retributions legislated by local governments are judged to have negative impacts, the central government is authorized to order local governments to retract those taxes or retributions.

surcharge on long-haul trucks going through their regions, the traffic surcharge on heavy-load trucks, and the tax on use of ground water.

While well aware of the importance of direct investment by the private sector, few local governments had the experience of actually bringing direct investment to their regions on their own. Partly for this reason, local government officials really had little idea about how the new taxes and retributions were going to affect the investment climate. Moreover, few local governments provide investors with the information on their local taxes and retributions. According to a report released by the Indonesian Chamber of Commerce and Industry (KADIN) in September 2001, over 1,000 kinds of local taxes and retributions are seriously affecting business activities. Further, as of November 2001, of the total of 1,503 local taxes and retributions across the country examined by a Ministry of Interior team, there are serious problems with 105. The team recommended to the Minister of Interior that 68 of the 105 taxes and retributions should be abolished.

### 3.2. Favorable Developments

There are favorable developments, too, in the course of the implementation of decentralization. Some local governments are showing ingenious initiatives in line with decentralization. *Kabupaten* Takalar in South Sulawesi Province, in a joint effort with state-owned telephone company PT Telkom, introduced the internet-based computer system to handle at a single location as many as 12 kinds of permit and approval procedures, including the building permit, location permit, resident registration certificate (KTP), and land ownership certificate. Issuance of the resident registration certificate takes only five minutes now, as against at least two to three days previously. The introduction of this system also greatly increased the level of transparency in resident services, allowing little room for irregularities. The *kabupaten* government succeeded in restoring residents' confidence in the government.

Decentralization is also encouraging the horizontal cooperation between local governments, in addition to the existing vertical cooperation between the central and local governments. In Sulawesi, governors of four provinces held talks on the rioting in *Kabupaten* Poso of Central Sulawesi Province and measures to help evacuees. Following this first meeting, the four governors met in Makassar in October 2000 and announced a plan of action on specific regional cooperation, signed an agreement on regional cooperation, and agreed to establish the joint office for cooperation among the four Sulawesi provinces. Regional cooperation that started in Sulawesi is beginning to

affect other regions. Similar moves to seek inter-provincial cooperation started in Sumatra, Kalimantan, and Java-Bali. The process of decentralization from 2001 gives greater importance to activities of cross-sectional organizations such as the association of provincial governors, the association of *kabupaten* heads (*Bupati*), the association of mayors, the association of provincial assembly speakers, the association of *kabupaten* assembly speakers, and the association of municipal assembly speakers. In addition to the role of lobbying groups for the central government, these organizations can be expected to perform key roles in building the networks of regional cooperation.

#### 4. Decentralization as an Opportunity to Learn

Indonesia is the country that is composed of a variety of regions with different social and cultural backgrounds and different administrative and governance methods, with the only common thread being the colonization by the Netherlands. Densely populated regions have few natural resources and thinly populated regions have an abundance of resources. This geographical situation opened the way for the structure of domestic colonization where densely populated regions drew greater economic benefits from the development of natural resources located in thinly populated regions. In governing this type of a state, the centralized system would reinforce the structure of domestic colonization, while the highly decentralized system would make densely populated regions with few resources worse off and the formation of a single state less meaningful. Thus, sustaining Indonesia as a state would require a lot of ingenuity from various angles and aspects, including methods and know-how of governing, not limited to the form of governance such as a unified state or a federal system. If these efforts were abandoned in favor of saving on the short-run cost of governance, the medium- and long-term costs would eventually prove to be much higher.

Discussions in this paper traced many causes of the rivalry between the central and the local in Indonesia as described above to the question of the fair distribution of profits from natural resources exploitation. This paper also pointed to the possibility that the heightened mutual distrust between the central and the local in the course of profit allocations could develop into conflicts with violent force. Separation and independence movements in Aceh and Papua can be understood in this context. Decentralization has opened the way for local governments and local residents to participate in the allocation of profits from natural resources as new actors, and the question that arises is how to adjust the interests between the new actors and longtime actors such as the central government and foreign firm. In that sense, the conventional

method of profit allocation may provide a reference material but cannot serve as a model for the future sharing of profits. There is no other way than all the actors, new and old, in the play striving to find new methods and know-how on a trial-and-error basis. And, to do so, all the actors involved, from the central government and local governments to local residents and foreign firms, need to change their attitudes or ways of thinking.

At the same time, decentralization demands the self-subsistence of regions, not necessarily separation and independence. Local governments, instead of depending on the central government or scrounging some benefits off foreign firms, should turn to local residents and local resources they have and formulate reasonable and realistic strategies of development on their own. They should reinforce administrative capabilities, sharpen regional originalities and thus boost the competitiveness of their own regions to ensure their survival in the increasingly globalize economy.

Through the process so far of nation state building, Indonesia has formed the framework of the state through the centralization of powers. But that framework may have been just for a fragile master-servant relationship, or an ostensible national unity, buttressed only by the central government's ability to control and ensure security. Decentralization has placed Indonesia in the stage of a true nation state building by letting it step into the question of the real substance of the nation state, or how to shape the future relationship between the central and the local. The historical experience in the strong centralized system was quite valuable in pursuit of a new shape of the state. Decentralization should be promoted steadily by fully digesting and learning from that experience. And local governments, not only the central government, should get involved in the process of the nation state building. The process of the nation state building and pursuit of a new ideal state require changes in the attitudes and consciousness of those participating in the process. Decentralization does not simply signify the transfer of administrative powers from the central to local governments, but provides an important opportunity to learn for a genuine nation state building in Indonesia.

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Table: History of Central-Local Relationship in Indonesia

Year	Politics	Decentralization	Natural Resource	Affairs on Local Politics	
1945	Proclamation of Independence	Law on Local National Committee (Republic Law No. 1/1945)			
1946	Independence War				Darul Islam (West Java, Aceh, South Sulawesi, and Other Areas)
1947					
1948		Basic Law on Local Administration (Republic Law No. 22/1948)			
1949	Establishment of RUSI				
1950	Establishment of Unified RI			Rebellion of Andi Aziz in South Sulawesi, Declaration of South Maluku Republic	
1951	Parliamentary Cabinet System				PRRI/Permesta (Sumatra, Sulawesi, and Other Areas)
1952					
1953					
1954					
1955					
1956		Balanced Finance Law (Law No. 32/1956)			
1957	Basic Law on Local Administration (Law No. 1/1957)	Requisition of North Sumatra Oil Fields by Indonesian Army			
1958					
1959	"Guided Democracy" by Soekarno			Establishment of Aceh Special Province	
1960					

1961				Operation for West Irian Liberation by Indonesian Armed Forces	
1962					
1963				Admission of West Irian to Indonesia	
1964					
1965		Basic Law on Local Administration (Law No. 18/1965)		Coup of 30 september 1965	
1966	Soeharto's "New Order" Government	MPRS Decision No. 16/1966			Purge of Communists and Their Supporters
1967			Foreign Investment Law (Law No. 1/1967), Exploitation Contract of PT Freeport		
1968			Establishment of Pertamina, Mobil Started Exploitation of Natural Gas in Aceh		
1969				Official Decision on Admission of West Irian to Indonesia	
1970					
1971					
1972					
1973		MPR Decision No. 4/1973	The 1st Oil Boom		

1974	Basic Law on Local Administration (Law No. 5/1974)		Malari Riot in Jakarta	
1975		PT Freeport Started Copper Exploitation	Invasion to East Timor by Indonesian Armed Forces	
1976			Annexation of East Timor to Indonesia	Independence Declaration of Aceh by GAM
1977				
1978		PT Inco Started Nikkel Exploitation, Arun LNG Plant Started Operation in Aceh		
1979	Law on Village Administration (Law No. 5/1979)	The 2nd Oil Boom		GAM Leader, Hasan di Tiro's Exile to Sweden
1980				Petisi 50 Published Anti-Government Documents
1981				
1982				
1983			Resistance Movements of OPM in Papua	Misterious Shooting
1984				Tanjung Priok Riots, Bom Attack to BCA Office
1985			Structural Reform of Indonesian Armed Forces	Embracement of Pancasila as the Sole Basis by Law on Social Organization
1986				GAM Sent Young Acehnese for Military Training in Libya
1987				

1988				GAM's Young Achenese Came Back after Military Training in Libya
1989		Exploitation Agreement on Timor Gap Oil Fields between Indonesia and Australia		Indonesian Government Designated Aceh as DOM, More than 6000 People Dead
1990			Establishment of Indonesian Muslim Intellectuals Association (ICMI)	
1991			Tragedy of Santacruz in East Timor	
1992	Government Regulation No. 45/1992 on Implementation of Law No. 5/1974			
1993			Establishment of East Indonesia Development Council	
1994				
1995	Minister of Interior Decree No. 8/1995 on Decentralization Experiment			
1996				

1997		Law on Local Taxes and Retributions (Law No. 19/1997)		Socila Conflicts and Riots in Makassar, Situbondo, Tasikmalaya, Banjarmasin, Medan, Jakarta, Kendari, Pontianak, Ambon, Poso, Sampit and Other Places	
1998					
1999	Habibie Government	Law on Local Administration (Law No. 22/1999), Law on Balanced Finance (Law No. 25/1999)			East Timor Decided to be Independent Country aa the Result of Referendum
2000	Abdurrahman Wahid Government	Law on Local Taxes and Retributions (Law No. 34/2000)			Papua Conference Requested Papua's Independence from Indonesia
2001	Megawati Government	Aceh Special Autonomy Law (Law No. 18/2001), Papua Special Autonomy Law (Law No. 21/2001)			