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# Indonesia's Centripetal Democracy and Economic Growth

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# Indonesia's centripetal democracy and economic growth

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## **Abstract**

What has been the impact of democracy on growth in Indonesia? An early view emphasized a growth and investment slowdown, but more recent data suggests otherwise. What accounts for the reversion to New Order growth and investment rates? My answer is the adoption of more centripetal and developmental democratic institutions in an otherwise messy democracy that has pushed political parties and presidents to compete for votes by promising to clean up government and restore growth.

## I. Introduction

Since Indonesia democratized in 1999, numerous analysts have worried about a slowdown in growth and investment. Criticisms take multiple forms. McLeod (2005) laments that Indonesia gained democracy but lost effective government. Webber (2006), Slater (2004) and Hadiz (2003) decry the capture of the state, parliament, the presidency, and political parties by predatory New Order elites. Pepinsky (2011: 340) attributes the slowdown to three pathologies associated with Indonesia's big bang decentralization. Aswicahyono, et. al. (2009) aptly sum up the economic argument against Indonesia's nascent democracy when they document the slowdown and list the reasons for it.<sup>2</sup>

But have growth and investment really been that low following democratization? That depends on one's time frame. With respect to growth, if one compares the uncharacteristically high growth rates of the 1990s to growth after democratization, growth has slowed.<sup>3</sup> But, if one compares growth rates between the New Order (1966-1998)<sup>4</sup> and Indonesia's new democracy (1999-2012), or its even newer centripetal democracy (2004-2012)<sup>5</sup> (see figure 1); a simple

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<sup>2</sup> As they say (2009: 355), "...Indonesia's political environment changed radically, from a 'hard,' authoritarian, corrupt but growth oriented state...to a weakened, democratic, corrupt state, with the political leadership not yet able to provide a clear and unambiguous commitment to economic growth."

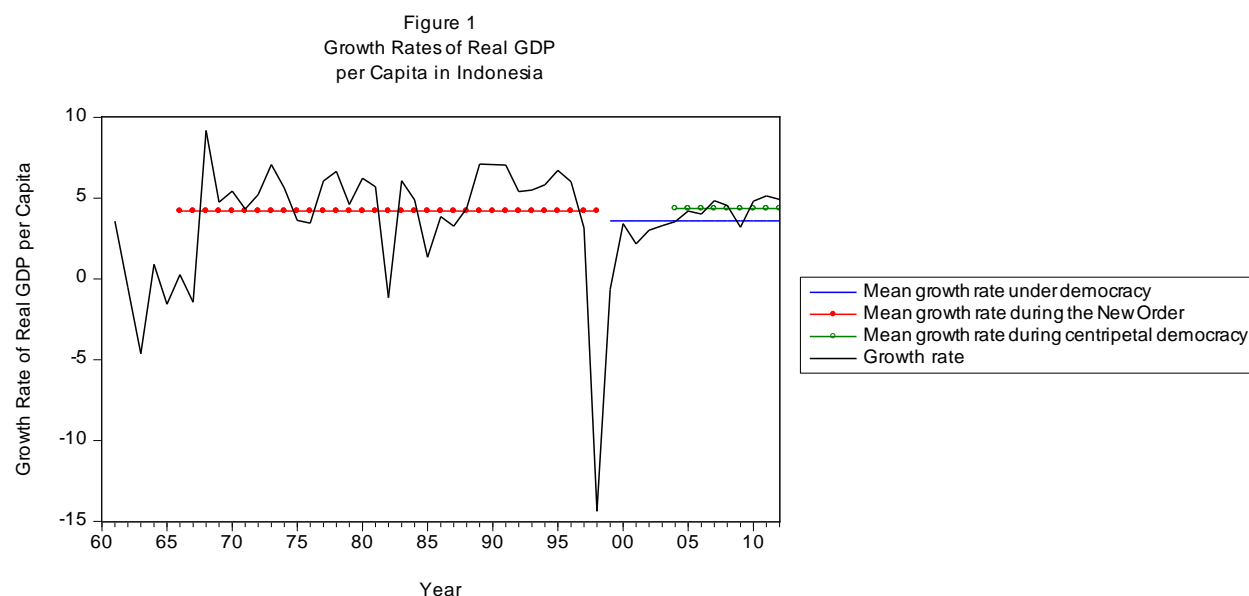
<sup>3</sup> A test of equality of means rejects the hypothesis that mean growth rates were the same ( $t=3.54$ ,  $p=.00$ ).

<sup>4</sup> Following Hill (1994 and 1996), I date the beginning of the New Order from 1966. As is well known, the New Order collapsed in 1998 with Suharto's resignation while Polity IV dates the beginning of democracy in 1999 (See Excel spreadsheet for Polity IV at <http://www.systemicpeace.org/inscr/inscr.htm>)

<sup>5</sup> The turn towards a centripetal democracy is described on pages 8-15 and in table 3. The key elements of Indonesia's centripetal democracy include strengthening the presidency, use of vote thresholds and distribution requirements for presidential elections and for political party participation in presidential and parliamentary elections to reduce party fragmentation, adoption of a form of decentralization that protected a unitary state, reduced district magnitudes putting Indonesia's PR electoral rule in what Carey and Hix (2011) label an electoral sweet spot that enhances the accountability of office holders to the electorate, and geographic requirements for political parties and for election of presidents and vice presidents. This combination enabled Indonesia to reap the benefits of a PR electoral rule without sacrificing too much in the way of accountability usually attributable to more majoritarian systems. As Reilly (2011: 291 and 294) argues, centripetal political institutions have a majoritarian thrust without being strictly majoritarian because they pull political parties and candidates toward the moderate center forcing both to sell themselves as good median choices.

difference of means test suggests no difference.<sup>6</sup> As figure 1 also shows, the story about growth in Indonesia is not one of slowdown, but rather one of a sharp recovery following the East Asian financial crisis and the collapse of the New Order.

The story is essentially the same when growth in Indonesia during its centripetal democracy (2004-2012) is compared with the growth of others in Southeast Asia, particularly Malaysia, the Philippines, Thailand and, to a lesser extent, Singapore; Southeast Asian



Source: World Bank (2013) WDI Online

economies to which Indonesia is frequently compared.<sup>7</sup> Because the growth rate in Indonesia during its centripetal democracy is higher<sup>8</sup>, but not significantly different than that of its closest

<sup>6</sup> A test of equality of means does not reject the hypothesis that mean growth rates in real income per capita are the same under democracy ( $t=.53, p=.59.$ ) or under centripetal democracy ( $t=.10, p=.91$ ) as under the New Order. This result does not change if New Order growth rates are from 1970 to 1998 or if the focus is on growth rates for real GDP instead of real GDP per capita where a difference of means test for real GDP growth rates under the New Order for 1970-1998 compared to growth under centripetal democracy does not reject ( $t=.46, p=.64$ ) the hypothesis that mean growth rates are the same.

<sup>7</sup> Tests of the hypothesis that mean growth rates in 7 countries in Southeast Asia (Cambodia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam) were no different than that in Indonesia were decisively not rejected in 5 (Cambodia, Malaysia, the Philippines, Singapore and Thailand) of the 7 cases. Most of the economic comparisons focus on Malaysia, Thailand and the Philippines (see, for example, Jomo 2001, Khan and Jomo 2000,

neighbors, one cannot attribute the return to New Order growth rates to broader regional<sup>9</sup> developments or, for that matter, to an increase in growth in the world economy.<sup>10</sup> These latter findings suggest that the search for the proximate cause or causes for the return to New Order like growth rates most probably lie within Indonesia.

But that is not all. There is not much difference in investment rates either (see figure 2). Simple difference of means tests reveal that the mean investment rate was higher during the New Order, than during Indonesia's transitional democracy (1999-2003)<sup>11</sup>, but it was lower than during Indonesia's centripetal democracy.<sup>12</sup> And as with Indonesia's democratic growth experience, as figure 2 shows, the investment story is not one of slowdown, but rather of a fairly speedy recovery. In short, what needs to be explained is not a growth and investment slowdown, but rather the sharp recovery in both following democratization.

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Bowie and Unger 1997, MacIntyre 1994), but much of the political science literature also includes consideration of Singapore (see, for example Kuhonta, et al 2008, Case 2002 and Taylor 1996).

<sup>8</sup> Indonesia's average growth rate in real GDP per capita between 2004 and 2012 was 4.35%, Malaysia grew at 3.19%, the Philippines grew at 3.36%, Thailand grew at 3.35% and Singapore grew at 3.32% per year (World Bank 2013)

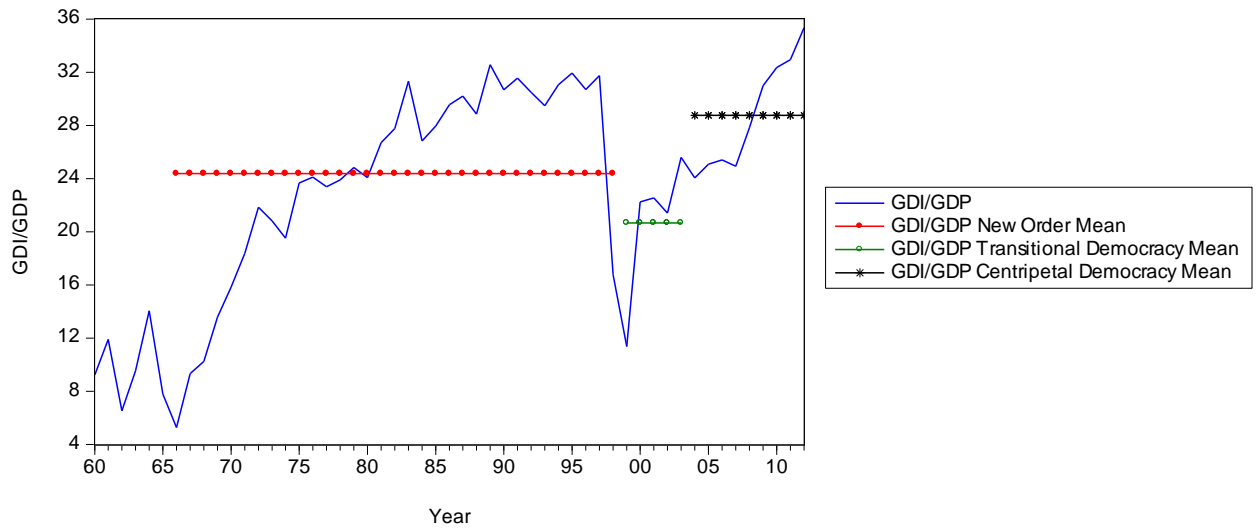
<sup>9</sup> A test of the hypothesis that the growth rate of real GDP per capita in East Asia and the Pacific between 2004 - 2012 was no different from that between 1970-1998 is decisively not rejected ( $t=1.19$ ,  $p=.24$ ).

<sup>10</sup> A test of the hypothesis that the growth rate of real GDP per capita in the world economy between 2004 and 2012 was not different from that during the New Order (1970-1998) is decisively not rejected ( $t=.03$ ,  $p=.97$ ) (World Bank 2013).

<sup>11</sup> If we date the New Order from 1970, instead of 1966, a simple difference of means test decisively rejects the hypothesis that there was no difference in investment rates ( $t=2.67$ ,  $p=.01$ )

<sup>12</sup> A simple difference of means test barely rejects the hypothesis that there was no difference in investment rates ( $t=-1.71$ ,  $p=.09$ ). This difference disappears if we date the New Order from 1970 ( $t=-1.14$ ,  $p=.25$ )

Figure 2  
Indonesia  
Gross Domestic Investment as a Share of GDP  
(GDI/GDP)



Source: World Bank 2013

The same basic story emerges from examination of a number of the variables thought to affect growth rates.<sup>13</sup> Five examples should suffice. First, there is virtually no difference ( $t=.95$ ,  $p=.35$ ) in mean inflation rates between the New Order (15.6%) and Indonesia's centripetal democracy (10.6%). There is also no difference ( $t=.83$ ,  $p=.40$ ) in mean welfare or redistributive expenditures, at least as measured by government consumption expenditures as a share of GDP.<sup>14</sup> Both are a bit surprising given rising populist pressures in democratic Indonesia (Manning and Roesad 2007; Lipsey and Sjöholm 2011). Third, the mean openness to trade ratio, defined as exports plus imports divided by GDP, is higher under centripetal democracy (54.23%) than it is under the New Order (46.73%,  $t=2.82$ ,  $p=.00$ ). Fourth, the mean of net inflows of foreign direct investment as a share of GDP is also higher under Indonesia's centripetal

<sup>13</sup> Variable definitions and sources appear in table 1, descriptive statistics appear in table 2.

<sup>14</sup> Government consumption expenditures as a share of GDP averaged 9.09% under the New Order and 8.68% during Indonesia's centripetal democracy (World Bank 2013).



democracy (1.75%) than it was under the New Order (.89%,  $t=2.57$ ,  $p=.02$ ).<sup>15</sup> Fifth, control of corruption is much improved over the New Order ( $t=2.25$ ,  $p=.03$ ).<sup>16</sup>

Finally, when these variables are regressed on the annual rate of growth in real GDP per capita, along with several other control variables<sup>17</sup>, taken together they account for 55% of the variation in annual real GDP per capita growth rates.<sup>18</sup> In addition, a Chow breakpoint test for the emergence of Indonesia's centripetal democracy reveals no structural break in the relationship between these variables usually thought to affect growth and growth rates.<sup>19</sup>

Although not definitive<sup>20</sup>, what this implies is that after a short growth and investment slowdown

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<sup>15</sup> That said, Indonesia continues to lag others in the region in attracting foreign direct investment (Lipsey and Sjöholm 2011) and only the Philippines in Southeast Asia attracts less FDI than Indonesia (World Bank 2013).

<sup>16</sup> The mean value for control of corruption is 2.64 during centripetal democracy and 1.53 during the New Order (Political Risk Service 2013).

<sup>17</sup> The basic format of this regression is in the spirit of Levine and Renelt (1992: 946) who begin with a stripped down Solow like model which includes relative income, investment as a share of GDP and population growth as base regressors to which they add a series of other variables thought to effect growth.

<sup>18</sup> The estimated OLS equation is

$$\text{YNG} = 15.65 - 4.76 \text{RELYN} + .38 \text{IY} - 3.27 \text{POPG} - .61 \text{GCY} + .52 \text{FDIY} + .03 \text{TRDY} - .07 \text{INFLATE} + .72 \text{CCORR}$$

$$(-2.32)^{**} \quad (6.75)^{***} \quad (-.99) \quad (-1.84)^{*} \quad (5.84)^{***} \quad (1.10) \quad (-2.11)^{**} \quad (2.49)^{**}$$

In this regression YNG is the annual growth rate of real GDP per capita, RELYN is Indonesia's income relative to the U.S., IY is the investment share in GDP, POPG is the population growth rate, GCY is government consumption expenditures as a share of GDP, FDIY is the net inflow of foreign direct investment as a share of GDP, TRDY is the trade share in GDP, INFLATE is the inflation rate of the GDP deflator, and CCORR is a measure of control of corruption. Adjusted  $R^2=.55$ . The t values below each regression coefficient suggest that most of the coefficients are statistically significant with the expected sign. An augmented Dickey-Fuller test rejects the assumption that the error term has a unit root ( $\text{ADF} = -5.16^{***}$ ). The Breusch-Godfrey serial correlation LM test reveals no serial correlation through 4 lags ( $F = .50$ ,  $p = .73$ ) and the Q statistic from a correlogram on the residual reveals that the error term is not subject to serial correlation through 16 lags. The Jarque-Bera statistic ( $\text{JB} = 5.66$ ,  $p=.06$ ) does not reject the hypothesis of a normal distribution of the residuals at the .05 and .01 level. Because the control of corruption variable might be endogenous, I instrumented it with a measure of ethnic tension taken from Political Risk Services (2013). Treisman (2000), among others, includes ethno-linguistic fractionalization in his regressions on corruption while Rock (2009) finds that this ethnic-tension variable increases corruption in a panel of countries. I used a Hausmann test to test for endogeneity. The regression coefficient on the residual from the auxiliary regression was nowhere near statistically ( $t=.41$ ,  $p=.68$ ) suggesting that CCORR can be treated as exogenous. Except for CCORR, all of the others variables are taken from World Bank (2013) and cover the period from 1981 to 2012—the years for which the World Bank reports data on FDIY. Data definitions and sources appear in table 1. Descriptive statistics appears in table 2. Because the growth rate in 1998 is such an outlier, it is omitted from the regression.

<sup>19</sup> The null hypothesis of no structural break is decisively not rejected ( $F=.33$ ,  $p=.94$ ).

<sup>20</sup> Very similar results were obtained by regressing each of the variables thought to affect growth on past values of those variables and testing the hypothesis that there are structural breaks in these variables with the onset of Indonesia's centripetal democracy. Tests results are available from the author on request.

during Indonesia's transitional democracy, the variables thought to affect growth in Indonesia either returned to their New Order means with the onset of centripetal democracy (investment as a share of GDP, government consumption as a share of GDP, and inflation rates) or improved (openness to trade and investment along with better control of corruption) enabling Indonesia to more or less return to the rather high growth and investment rates of the New Order.

This set of findings raises an intriguing set of questions: Why have growth and investment re-bounded so quickly? Why, despite the rise of distributive pressures, are inflation rates and redistributive expenditures no different than they were under the New Order? Why are openness to trade, net inflows of foreign direct investment, and control of corruption so much better under Indonesia's centripetal democracy than they were under the New Order? Or said another way, given Indonesia's past experience with democracy and its lacking of most of the conditions usually thought necessary for a successful transition to democracy, why has democratic Indonesia done so well in such a short period of time?

What follows is a detailed case study which argues that the answer to these questions can be found in the deliberate creation by political elites of a centripetal democracy, one that pulls political parties and presidential candidates toward a moderate center, enticing and enabling both to compete for votes by offering to 'clean up' government and restore growth.

## II. Indonesia's Shift to a More Centripetal<sup>21</sup> Democracy

Prior to the collapse of the New Order in 1998, few conditions in either the economy or the polity suggested a democratic transition was near. Between 1990 and 1997, economic performance remained very strong. Growth was high, inflation low, fiscal and current account balances were within reasonable bounds and both inequality (the Gini coefficient) and the incidence of poverty were low.<sup>22</sup> Despite growing popular opposition to Suharto and his re-election in 1997 (Aspinall 2005), the New Order regime seemed well-entrenched.<sup>23</sup> Because Indonesia lacked the usual traits associated with democratization<sup>24</sup>, few expected Suharto to resign, the New Order to collapse, or Indonesia to become a robust democracy.<sup>25</sup> Virtually no one expected Indonesia to consolidate its nascent democracy or return development performance to the levels experienced under the New Order. Indonesia appears to have done both. How did it do so?

There are multiple answers to this question but, as will be argued, political engineering—the deliberate creation of more centripetal political institutions by political insiders (Horowitz 2013)—lies at the center of the story of the consolidation of democracy and of the return to robust economic performance. As is well known, the collapse of the economy in 1998 ignited

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<sup>21</sup> I use the term centripetal democracy rather than majoritarian democracy because Indonesia does not possess a classic majoritarian democracy with, for example, a first past the post electoral rule (personal communication Marcus Mietzner).

<sup>22</sup> Between 1990 and 1997 real GDP grew at an annual average rate of 7.58%, inflation averaged 8.7%, the fiscal balance as a share of GDP was 1.2%, the current account balance as a share of GDP was -2.45%, the Gini Index was 29.9 and the head count incidence of poverty was 17.6% (World Bank 2013).

<sup>23</sup> Following the New Order's shift in 1989 to openness (*keterbukaan*), there was significant growth in oppositional activity prior to the collapse of the New Order, but the opposition was fragmented and ineffectual (Aspinall 2005: 242).

<sup>24</sup> In 1998 Indonesia was relatively poor, ethnolinguistic fractionalization was high, it possessed a small middle class and an equally small working class, and its religion was thought to be an impediment to democracy (Webber 2006:403).

<sup>25</sup> Even though oppositional politics grew during the 1990s, few in the opposition believed they could push Suharto from power (Aspinall 2005: 252).

widespread popular mobilization from below and substantial violence (Aspinall 2005: 252).<sup>26</sup> These events, alongside massive capital flight (Pepinsky 2009: 155) and the killing of middle class university students by security forces, precipitated elite defection from and disintegration of the New Order (Webber 2006: 407). From the vantage point of 1998, Indonesia's democratic transition looked like a classic 'ruptura' (Aspinall 2005: 271)—a mode of transition considered unlikely to lead to a consolidation of democracy (Karl 1990: 8). Subsequently old New Order elites quickly captured the state and Indonesia's new democratic institutions, shifting the early post-transition period to pact-making between the country's new democratic elites and the military on the one hand and between new democratic elites and separatists on the other hand (Aspinall 2010). While Slater (2004), Webber (2006) and Hadiz (2003) have criticized the impact of this particular transition on the quality of democracy, Aspinall (2010) argues that concessions to the military and separatists alongside absorption of Islamist political forces into the democratic mainstream enabled Indonesia to consolidate democracy.

By themselves, rapid collapse of the New Order and a shift to democratic pact-making are not sufficient to account for the ability of new democratic elites to consolidate democracy or put development back on track. Three other key developments—creation of more centripetal democratic institutions (Reilly 2006), building a more effective government by tackling corruption (Butt 2011), and keeping the economists and institutions of macroeconomic policy-making in their place of prominence in government (Aswicahyono, et al. 2009, Bird, et al. 2008, and Boediono 2005 and 2002)—also mattered.

As Horowitz (2013: 46-53) has so aptly demonstrated, political insiders consisting of old New Order elites and political elites in the opposition walled off outsiders' calls for more radical innovations and used existing institutions to incrementally craft a new democratic political

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<sup>26</sup> Approximately 19,000 people died in the violence that engulfed Indonesia (Aspinall 2010:26).

foundation and a revised constitution that moved Indonesia's transitional democracy in a more centripetal direction. As table 3 demonstrates, the turn towards more centripetal political institutions occurred in a series of fits and starts. All the major aspects of Indonesia's centripetal democracy were most probably not in place until the 2004 presidential election.<sup>27</sup> To begin with, in 1999 political elites reaffirmed the 1945 constitution (King 2004: 8), a unitary state, a presidential form of government (King 2004: 18) and elites rejected parliamentary democracy as inappropriate for Indonesia (King 2004: 143). At the same time, Indonesia adopted proportional (PR) electoral rules, but with closed party lists to generate greater party cohesion (Slater 2004: 75). The 1999 electoral law also established party thresholds for participation in subsequent elections.<sup>28</sup> And Indonesia adopted large district magnitudes<sup>29</sup> to insure adequate representation of Indonesia's pluralist interests (King 2004: 150) while it weakened the presidency.<sup>30</sup> Finally, to compete in the 1999 election, political parties had to establish branches in one-third of Indonesia's provinces and party offices in more than one-half the districts or municipalities in those provinces (Reilly 2006: 133). This limited party competition to those parties with sufficient geographic coverage and with significant penetration of their organizations in a wide range of locales (King 2004: 51). The net effect of these new rules on the political system was not entirely clear. Rejection of pure parliamentary democracy as inappropriate for Indonesia (Horowitz 2013: 27), continuation of a unitary state, and a presidential form of government had the potential to strengthen the centripetal character of democratic political institutions. The same

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<sup>27</sup> Tinkering with electoral rules, political party laws, and constituency size continued well past 2004 and it benefited larger parties and incumbents (Horowitz 2013: 199-206).

<sup>28</sup> The thresholds required parties to capture at least 2% of the seats in the DPR or 3% of the seats in local legislatures to run in subsequent elections (Sulistyo 2002: 81).

<sup>29</sup> District magnitudes for the 1999 elections varied from 4 to 82 (Sulistyo 2002: 80).

<sup>30</sup> The presidency was initially weakened because the 1945 constitution empowered the executive more like a monarch than a president (King 2004: 76). Parliament weakened the presidency by denying the president the right of executive privilege, eliminating the pocket veto, restricting the president's residual powers, requiring an annual accountability speech, and by provisions making it easy for parliament to impeach a president (King 2004: 53-54 and 77).

can be said for both geographic coverage/penetration rules and for the use of party thresholds aimed at reducing party system fragmentation. But creation of a weakened presidency and adoption of PR electoral rules even with closed party lists, alongside large district magnitudes, probably pushed the political system in a centrifugal direction.<sup>31</sup>

Subsequently, political elites reversed step by pushing the institutions of democracy in a decidedly more centripetal direction. Initially, they did so by using constitutional amendment to strengthen the presidency, which they had only recently weakened.<sup>32</sup> In response to growing pressures for greater regional autonomy, Indonesia implemented big bang decentralization in 2001, but it did so in a way that protected its unitary state while constraining separatist movements.<sup>33</sup> One consequence of decentralization was an increase in the number of electoral districts. As electoral districts became smaller, district magnitudes fell from 17.5 in 1999 to 8 in 2004 and 7.3 in 2009, increasing centripetal tendencies as winning seat thresholds rose from 5.7% of the votes in 1999 to 12.5% in 2004 and 13.7% in 2009 (Choi 2009: 673). As Carey and Hix (2011) have shown in other contexts, Indonesia's decline in district magnitudes puts it squarely in an electoral sweet spot—one which enables it to maximize the benefits of its PR electoral rule without encouraging too much unruliness or losing too much in the way of the accountability that enables voters to reward parties for good performance or punish them for poor performance. Finally, the government added to its geographic coverage/penetration rules for political parties by adopting additional rules for participation by political parties that pushed

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<sup>31</sup> As Mainwaring(1993) has shown, multi-party presidential systems tend to be unstable because they are prone to executive-legislative gridlock, ideological polarization and because it is difficult to build and sustain inter-party coalitions. Liddle and Mujani (2006) agree.

<sup>32</sup> The presidency was strengthened by the Third and Fourth constitutional amendments which empowered the presidency by way of direct national elections and by provisions making it more difficult to impeach a president (King 2004: 54).

<sup>33</sup> Decentralization by-passed provinces and focused on local governments to minimize secessionist threats and enable the central government to maintain central control (Fitriani, et al. 2005: 61).

them to aggregate interests and compete for the political center.<sup>34</sup> A similar set of rules governed party candidates for president.<sup>35</sup>

Why did Indonesia's political insiders opt for creation of a more centripetal democracy by incremental means? Horowitz (2013:6) argues this choice was driven by Indonesia's social endowments and history. Social endowments, particularly its ethnic, religious and cultural cleavages, Outer Island fears of Javanese domination, and differences among Modernist and traditional Muslims and between Muslims and secular nationalists, led elites to favor incremental reform and the 1945 constitution over crafting an entirely new constitution because they feared for the unitary state and secular nationalism (Horowitz 2013: 41).

History, particularly the experience of the 1950s, pushed reform in a centripetal direction. Here the fears focused on mass violence, territorial separatism, deliberative deadlock, and party fragmentation (Horowitz 2013: 22). As Horowitz (2013: 22) says, all critical junctures in Indonesia have been preceded or accompanied by mass violence. To the insider political elites charting a path to stable democracy, the violence, regional discontent, and separatist insurgencies of the 1990s looked all too eerily familiar to the violence, regional rebellions, and military revolts in the 1950s (Horowitz 2013: 25). Given this, some form of decentralization, as distasteful as it was, was seen as essential (Horowitz 2013: 73). But to protect the unitary state and limit fissiparous tendencies, decentralization was applied to kabupaten (districts) and kota

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<sup>34</sup> Parties that ran for election in 1999 could only run in 2004 if they held 2% of the seats in the DPR or 3% of the seats in the DPRD in one-half of the provinces or 3% of the DPRD seats in one-half of Indonesia's regencies (Choi 2009: 679). Parties also had to have executive committees in two-thirds of the provinces, two-thirds of the regencies and at least 1000 party members in both or 1/1000 of the population as party members in regencies (Choi 2009: 680). These rules increased disproportionality in the assignment of votes to seats from 1.54 in 1955 to 4.45 in 2004 and 6.84 in 2009 and they reduced the effective number of parties in parliament from 7.07 in 2004 to 6.13 in 2009 ([http://www.tcd.ie/Political\\_Science/staff/michael\\_gallagher/EISystems/](http://www.tcd.ie/Political_Science/staff/michael_gallagher/EISystems/))

<sup>35</sup> For the 2009 presidential election, parties had to have captured at least 25% of the popular vote and 20% of the seats in the DPR (Choi 2004: 682). In addition, parties or aggregations of parties had to run presidents and vice presidents as a team. Finally, unless first round winners had an absolute majority and at least 20% of the vote in one-half of the provinces, elections were to be conducted over two rounds.

(municipalities) rather than provinces. This same set of fears also led political elites to strengthen the presidency by backtracking on their own earlier efforts to weaken the executive. They did so because they worried that a fragmented country with a weak executive could lead to the break-up of the country (Horowitz 2013: 39).

Fears of deadlock and legislative and party fragmentation were also rooted in the experience of the 1950s. The deadlock and failure of the Konstituante (the Constitutional Assembly of Indonesia) of the 1950s to successfully rewrite the 1945 constitution was viewed as opening the door for Sukarno's authoritarian Guided Democracy (Horowitz 2013:26). Fearing deadlock on some of the same issues that deadlocked the Konstituante, political elites rebuffed calls for a constitutional convention (Horowitz 2013: 53) and reaffirmed the 1945 constitution.<sup>36</sup> In addition, the experience of the 1950s with parliamentary government and the 1955 elections taught reformers to fear legislative and party fragmentation (Horowitz 2013: 27). Because of this, they opted for electoral rules and rules governing political parties participation in elections designed to strengthen centripetal tendencies.<sup>37</sup>

How successful has the push toward more centripetal political institutions been? While there is, as of yet, no real clear answer to this question, Reilly (2006) contends, and fragmentary evidence on democratic outcomes suggest, that democratic political institutions have moved in a centripetal direction. As Mietzner (2008) shows, after democratization Indonesia's political parties have been competing for votes in the political center. While some of the shift to the center reflects the absence of a politically viable left (Mietzner 2008: 439), the moderate character of Islam and Indonesia's Islamic political parties (Aspinall 2010: 29-31, Mietzner 2008: 447-452

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<sup>36</sup> The failure of the Konstituante was attributed to deadlock on the issue of the role of Islam in the state (Horowitz 2013: 26).

<sup>37</sup> There is one important exception, even though Tim Tujuh proposed adoption of plurality electoral rules in single member districts (Horowitz 2013: 60-63), the political elites driving reform favored a PR list rule because the former was thought to give too big an edge to Golkar (Horowitz 2013: 64).



and Hefner 2000), and a keen interest to avoid a repeat of the unstable democratic experience of the 1950s, at least some of the move to the center surely had something to do with the shift towards centripetal political institutions which forced political parties to compete for votes by offering ‘cleaner’ government and a return of growth.<sup>38</sup> Voters appear to have responded to these campaign promises by throwing out parties and leaders viewed as corrupt or unable to restore growth,<sup>39</sup> and they rewarded parties and political leaders who have delivered.<sup>40</sup> This outcome alone creates incentives for political parties and elected presidents to continue to rely on the country’s economists in core macroeconomic institutions—the central bank, the Ministry of Finance and BAPPENAS—for council and advice. It also helped that democratically elected governments have become more stable (Reilly 2006: 154).

Not surprisingly then, political elites have taken steps to build a somewhat more effective government while keeping the government’s core macroeconomic institutions in their positions of prominence.<sup>41</sup> With respect to effective governance, Indonesia’s anti-corruption commission, despite some ups and downs, has successfully prosecuted and won a significant number of highly visible anti-corruption cases (Butt 2011: 381 and Mietzner 2009: 146 and 150).<sup>42</sup> There is also some evidence of success in prosecuting cases of the more local and decentralized corruption

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<sup>38</sup> In 2004 Yudhoyono campaigned on a promise to achieve a 6% GDP growth rate (Liddle and Mujani 2006: 137) and he delivered on it as real GDP grew by 5.9% during his first term (World Bank 2013). He also promised to clean up corruption, which he did as Indonesia’s score on the Control of Corruption Index of the Political Risk Service rose from a low of 1 throughout Megawati’s presidency to 3.58 by the end of Yudhoyono’s first term (Political Risk Service 2013).

<sup>39</sup> Public opinion polls show parties are not trusted by voters (Tan 2006: 104) and the poor economic (real GDP grew at 4.5% World Bank 2013) and anti-corruption performance of Megawati’s presidency cost her votes (Liddle and Mujani 2006: 133).

<sup>40</sup> During Yudhoyono’s first term his most popular initiative was the launching of an aggressive anti-corruption campaign that netted a number of high profile arrests of legislators, bureaucrats and investigators (Mietzner 2009: 150-151). As a result, Indonesia jumped 17 ranks in Transparency International’s Corruption Perceptions Index (Mietzner 2009: 147). Moreover, Mujani and Liddle (2010: 37-38) argue voters have become more rational by setting standards, identifying goals, and choosing leaders based on each.

<sup>41</sup> This has not come without setbacks (Tomsa 2010: 311-313 and 315).

<sup>42</sup> But there is some evidence of efforts to undermine Indonesia’s Anti-Corruption Court (Butt 2011: 381-382).

that emerged following Indonesia's big bang decentralization (Rinaldi, et al. 2007).<sup>43</sup> This may well account for the substantial improvement in Indonesia's control of corruption score recorded by the Political Risk Services Group (Political Risk Services). It may also explain why there has not been much deterioration in the Political Risk Services Bureaucratic Quality score for Indonesia following democratization.<sup>44</sup>

Equally important, each of Indonesia's democratic governments sought the advice of the country's economists in core macroeconomic institutions. Given their highly successful role during the New Order this is not particularly surprising. But now, political elites, particularly presidents, turn to them in the hope they could help them stay in power by delivering development. There are numerous examples of how this happened. In 1998, President Habibie relied on the advice of the country's macroeconomists in core macroeconomic agencies because he saw it as his best chance for succeeding as president (Boediono 2002: 388). Even during the phlegmatic Wahid Administration, Indonesia's democratic government adhered to a traditional macroeconomic stabilization program (Boediono 2002: 390). And, as Boediono (2005: 315) says, during Megawati's presidency, the important economic portfolios were more insulated, the economic team was more cohesive and like-minded, and the government was able to establish macroeconomic stability. Subsequently, the government strengthened the role of economists in democratic governments by creating a 'cordon sanitaire' around core macroeconomic institutions and principles by adopting a 1999 law guaranteeing central bank independence and by stipulating in Fiscal Law 17/2003 that fiscal deficits be kept below 2% of GDP and the debt to GDP ratio lower than 60% (Aswicahyono. et al. 2009: 357). As Aswicahyono, et al. (2009: 357)

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<sup>43</sup> This is quite important because as Shleifer and Vishny (1993) argue, this kind of corruption is likely to be more damaging to growth than the centralized corruption extant during the New Order.

<sup>44</sup> Indonesia's score on the Bureaucratic Quality Index declined during Megawati's presidency, but has been steady since (Political Risk Services).

conclude overall Indonesia's macroeconomic policy framework under democracy has been quite effective.

But this is not the only evidence that successive democratic governments relied on technocrats in the economic bureaucracy. Following the collapse of the New Order, the short-lived Habibie government supported the IMF's structural reform program (Bird 1998: 30) because it was widely popular and good politics (Bird, et al. 2008: 958). While trade policy reform floundered under the Wahid and Megawati presidencies, after Yudhoyono became president the government committed to tariffication of the remaining NTBs and unification of tariffs at a rate of 5% by 2010.<sup>45</sup> Responsibility for this stage of trade liberalization was given to an inter-ministerial committee, Team Tariff, housed in a core macroeconomic agency, the Ministry of Finance (Bird, et al. 2008: 952). Through 2005 tariffication covered 1900 items, mainly in agriculture, and 9000 items through 2006. Tariff harmonization was expected to lead to a decline in the MFN tariff rate from 8.7% in 2004 to 7.7% in 2010 (Bird, et al. 2008: 953), the MFN tariff rate actually fell to 5.4% by 2008 (Marks and Rahardja 2012: 64).

Although there has been some backsliding on trade policy reform, especially by the Ministry of Trade (Bird, et al. 2008: 955-957), on the whole, so far, democratic governments in Indonesia have been able to sustain a trade liberalization program begun in the mid-1980s. Bird, et al. (2008: 958) argue that success hinged on a variety of factors—the IMF's Letter of Intent, political recognition that dismantling the most blatant examples of protection was politically popular, recovery of the export sector, the success of liberalization in the 1980s and early 1990s which built a political constituency for liberalization, and a global trend toward trade liberalization, especially in China and India, which provided a mild barrier to increasing protection. This combination of factors probably made it easier for presidents and parties to

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<sup>45</sup> What follows draws on Bird, et al. (2008: 952-954).

sustain support for trade liberalization, especially since they were competing for votes in the center by promising to increase growth.<sup>46</sup>

In sum, there is good reason to suspect that the shift in Indonesia toward a more centripetal and developmental democracy played an important role in better control of corruption, in sustaining sound macro-economic policy-making, in continuing support for trade liberalization, and in the return of growth rates similar to those achieved by the New Order. To begin with, this outcome reflects the fact that voters (Mujani and Liddle 2010: 42-44), even Islamic voters, expect governments to deliver development (Pepinsky et al 2012: 10).<sup>47</sup> In addition, it became possible for presidents and parties to focus on clean government and development partly because concessions to potential spoilers of democracy in the military removed the threat of military intervention in high politics. It was facilitated by decentralization and concessions to potential separatists in Aceh and Papua which substantially lessened the probability of territorial fragmentation without under-mining Indonesia's unitary state (Aspinall 2011). But this outcome would probably not have been possible without the emergence of a centripetal party system that revolves around three major parties that compete for the political center and which have disarmed the Islamic parties forcing them to the center.<sup>48</sup> Nor would this outcome have been likely without regular national campaigns for president and vice president that have driven candidates and their parties to the political center. In short, this combination of

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<sup>46</sup> That said several recent developments are troubling and cause for some worry. First, parties and individual candidates tend to adopt protectionist policy stances during elections, even if they back away from these protectionist stances following elections (Personal comment from Marcus Mietzner). Second, non-tariff barriers have been rising for several food and horticultural products (Nehru 2013: 155-157) as well as for several natural resource products and minerals (Marks and Rahardja 2012: 66-68). Third, the new draft trade and industry laws grants Indonesians preferential access to natural resources and they provide for protection from the threat of global competition (Nehru 2013: 160). While individually these developments may not add up to much, taken together they suggest that protectionist instincts may not be too far from the political surface in democratic Indonesia.

<sup>47</sup> The Islamic parties have accepted defeat in the constitutional debate and have suspended demands for an Islamic state (Mietzner 2008:452). They have reached out to non-Muslims (Aspinall 2010: 29) and they have been tarred with corruption and patronage (Aspinall 2010: 31).

<sup>48</sup> The Islamic parties have also been forced to the center by declining vote shares (Aspinall 2010: 29).

outcomes has probably freed parties and presidents to focus on delivering development as a way to win re-election.<sup>49</sup> Both appear to believe that their best chance for doing so is by maintaining macroeconomic stability and continuing trade liberalization. For this they need, as did Suharto before them, the economists who work in the core economic agencies of government.

### **III. Conclusions**

What should one make of this argument? There are several answers to this question. First, they confirm what a growing body of theoretical and empirical work demonstrates—when it comes to the impact of political institutions on growth the devil really is in the details (Person and Tabellini 2006). Political regime type appears to be less important to growth than whether the micro institutions embedded in particular regime types encourage political elites to provide the policies deemed necessary to get growth going.

As is well known, a number of governments in East Asia, including Indonesia, relied on developmentally oriented authoritarian regimes to increase growth. But as is equally well known, authoritarian regimes outside East Asia have not been particularly good at stimulating economic growth. As a large regional and country case literature on authoritarian regimes suggests, this difference in growth outcomes is probably due to the significant institutional differences among authoritarian regimes. At least in Indonesia, a highly corrupt, but developmentally oriented authoritarian regime built several enduring and growth enhancing institutions—including a relatively high quality public sector bureaucracy in macroeconomic management and fiscal policy—that was insulated from popular pressures (Aswicahyono, et al. 2009: 355). Nothing like this particular political formation has appeared in sub-Saharan Africa, a region which, until recently, has been characterized by a large number of authoritarian regimes. There the micro

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<sup>49</sup> It also freed political elites to re-engage in the kind of patronage politics that afflicted the New Order (Webber 2006, Slater 2004 and Hadiz 2003).

institutions of autocracy were used to buttress neo-patrimonial ties between patrons and clients that were good at providing patronage, but poor at providing the public goods or policies necessary for growth (van de Walle 2001).

Something similar appears to be at work within democratic political institutions in Indonesia. As our case study shows, political elites constructed a set of centripetal democratic institutions that they turned into a more developmental democracy by creating a cordon sanitaire around macroeconomic policy largely insulating it from day to day politics. As a result, the political shift from the New Order's developmental autocracy to a developmental centripetal democracy occurred without a significant slowdown in growth or investment. In addition, it appears as if Indonesia's centripetal democracy has not led to rising inflation or burgeoning welfare expenditures while it has more or less kept the economy open to trade and investment. At the same time governance has improved—particularly control of corruption and to a lesser degree bureaucratic quality. Since better values on each of these variables are usually seen as contributing to higher growth, it is difficult to ignore the possible indirect effects of Indonesia's centripetal and development democracy on growth.

As Reilly (2006) argues, this particular political architecture is unique within the developing world. If he is right, it just might be that political elites elsewhere who opted for an alternative set of political institutions following democratization and/or who have largely failed to insulate a macroeconomic technocracy from day to day political pressures, may have unwittingly made it more difficult for governing elites in those polities to provide both the public goods and the policies necessary to get growth going.

Third, the success of Indonesia's centripetal democracy in sustaining high growth in an otherwise very messy democracy suggests that the political requisites of growth may be wider

than most suspect. Three core elements deserve mention. To begin with centripetal democratic institutions are likely to be particularly important in instances where ethnic, religious, or regional divisions affect the body politic. But, as numerous others have demonstrated, Indonesia's largely centripetal democracy is quite messy suggesting political engineers don't have to get everything right to create a developmental democracy. Finally, as noted above, it has been particularly important to craft a set of political institutions and norms that grant large sway to a politically insulated and competent economic technocracy in government that sustains macroeconomic stability and trade liberalization. While this may be politically difficult to do, at least in Indonesia's case, path dependence or the economic success of this technocracy during the New Order alongside a political reform process dominated by insiders, no doubt made it easier for political elites to sustain a significant role for economic technocrats.

Finally, it would be remiss to close without mentioning several important caveats. While growth in Indonesia during centripetal democracy has been as fast as it was under the New Order, Indonesia's democracy is still very young and a number of serious problems are clearly visible. Some of these relate to unresolved economic problems which, if not resolved, could slow growth, while others relate to attempts to undermine democracy. With respect to the former, Indonesia's economy is burdened by the underpricing of energy (Rock 2012), labor market restrictions (Manning and Roesad 2007), occasional anti-foreign investment sentiment (Lipsey and Sjöholm 2011), rising protectionist sentiments (Nehru 2013), and severe underdevelopment of infrastructure (Resosudarmo and Yusuf 2009). To date, these unresolved issues do not appear to have slowed growth, but unless resolved, they could well do so.

Because Indonesia's political transition was insider-dominated, old political elites have been working hard to undermine democracy—they have proposed eliminating direct election of

provincial governors, they have attacked the Corruption Eradication Commission, and they have tried to undermine the Election Commission (Mietzner 2011). The unwillingness of the current government to protect religious minorities (Mietzner 2011: 6-8) does not bode well for the future either. The shift to more candidate-centered elections (Aspinall 2010: 108) could well contribute to a longer run undermining of Indonesia's centripetal democracy. Presidential reliance on fractious and unruly coalition governments that require rainbow or unity cabinets also work to undermine the centripetal nature of the country's democratic political institutions. As Tomsa (2011: 312) has shown, this threat to effective governing is a real and serious one as cabinet stability tends to crumble following elections (Saragih 2012 and Sijabat 2012). In addition, weak and declining voter attachment to political parties (Mujani and Liddle 2010: 41) probably makes both the consolidation of democracy and economic policy-making more difficult. Furthermore, despite the turn toward a centripetal democracy, a strong presidency, a frail party system, unruly cabinet governments, alongside the vagaries of presidential recruitment (Mujain and Liddle 2010: 48), may not be particularly fertile soil in which to further consolidate democracy and sustain the policies necessary for economic growth.



Table 1 Indonesia Data, Variable Definitions, and Sources		
Variable	Definition	Source
YNG	The annual growth rate of real GDP per capita in 2005 US\$	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
IY	The investment share in GDP	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
POPG	The population growth rate	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
GCY	Government consumption expenditures as a share of GDP	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
FDIY	Net inflows of direct foreign investment as a share of GDP	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
TRDY	The share of trade (exports plus imports) in GDP	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
INFLATE	The inflation rate of the GDP deflator	World Bank (2013) <i>World Development Indicators</i> . <a href="http://databank.worldbank.org/">http://databank.worldbank.org/</a>
CCORR	Control of Corruption	Political Risk Services (2013)

Table 2  
Descriptive Statistics for Indonesia Data

Variable	Mean	Standard Deviation	Minimum	Maximum
YNG	4.35	1.76	-.65	7.09
RELYN	2.99	.48	2.29	4.02
IY	28.05	4.86	11.36	35.33
POPG	1.59	.25	1.24	2.15
GCY	8.50	1.15	6.53	11.23
FDIY	.90	1.31	-2.75	2.91
TRDY	53.16	7.65	39.97	71.43
INFLATE	9.85	4.49	-.09	20.44
CCORR	1.84	1.20	0	3.83

<b>Table 3</b>	
<b>Indonesia: Steps in the Creation of a Centripetal Democracy</b>	
<b>Post 1998 New Political Rules/Institutions</b>	<b>Year of Action or Year Action Takes Effect</b>
Reaffirmation of 1945 constitution, rejection of pure parliamentary government, reaffirmation of presidential government, maintenance of a unitary state (King 2004: 18)	1999
Proportional electoral rules with closed party lists to generate greater party cohesion (Sulistyo 2002: 79-80 and Slater 2004: 75)	1999
Establishment of party thresholds for future elections—political parties must win 2% of the seats in 1999 DPR election or 3% of seats in local elections to run in subsequent elections (Sulistyo 2002: 81)	1999
Establishment of geographic balance/party penetration requirements for political parties—parties required to establish branches in more than 1/3 of Indonesia's provinces and 1/2 of the districts/municipalities in those provinces (Reilly 2005: 133)	1999
Strengthening the presidency by constitutional amendment—direct election of president and adoption of provisions making it more difficult to impeach presidents (King 2004: 54)	2001 and 2002
Big bang decentralization protecting unitary state by decentralizing to local, not provincial governments (Fitrani, et al. 2005: 60)	2001
Increase in number of electoral districts with declining district magnitudes and rising winning seat thresholds (Choi 2009: 673)	2004 and 2009
Parties required to have executive committees in 2/3 of provinces, 2/3 of regencies, and at least 1000 members in both or 1/1000 of population as members (Choi 2009: 680)	2004
Parties can only run presidents and vice presidents for election in 2004 if the party won 5% of the vote in DPR or 3% of seats (Choi 2009: 681)	2004
Presidents and Vice Presidents must run as a team with the assumption that one candidate will be from Java, one from Outer Islands (Reilly 2006: 134)	2004
Direct election for president/vice president occurs over two rounds if one team does not capture an absolute majority of votes and 20% of the vote in one-half of the provinces (Reilly 2006: 135)	2004
Parties can only run presidents and vice presidents for office in the 2009 election if they captured 25% of the popular vote and 20% of the seats in the DPR (The Jakarta Post 05/18/2012)	2008

Note: This table does not include steps taken that undermined the shift toward centripetal democracy. This includes weakening the presidency in 1999, adoption of large district magnitudes in 1999, adoption of an open party PR electoral rule in 2004, a decision by the Constitutional Court in 2008 that made elections more candidate-centered, and the tendency of presidents to appoint unity cabinets that makes governing so difficult.

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