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Islam and Economic Development in New Order's Indonesia (1967- 1998)

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Muhamad Ali

Introduction

This paper examines the relationship between Islam and economic development in Indonesia during the New Order era (1967-1998). It scrutinizes some of the ideas and attitudes expressed by the New Order government and by some important Muslim institutions and individuals toward the relationships between Islam and economic development. It seeks to explain how President Soeharto who ruled from 1967 to 1998 attempted to accommodate the Muslim community to the ideology of economic development and how some of the Muslim organizations and leaders responded to such efforts.

It suggests that Soeharto's consistent attempt to introduce development ideology was generally well received by the Muslims because many of the Muslim organizations and leaders had understood that Islam is not an impediment to economic development. Both national and local Islamic institutions carried out their own economic activities according to their circumstances, or sought cooperation with other communities, or obtained the government's support. It suggests that the collaboration between the Muslims and the Soeharto's government during the New Order era seemed to have been motivated by both religious and pragmatic considerations, as the Muslims seemed to see no contradiction between material and spiritual needs. Based on some official documents and Muslim writings concerning Islam and development, it hopefully contributes not only to an historical understanding of Indonesian Muslims in their relations with developmental issues, but also to a theoretical debate on the relationship between religion and development that has attracted much attention from historians and social scientists such as Max Weber and Maxime on the relationships between Islam and Capitalism.¹ Many Indonesian Muslim scholars have also joined the debate on this unresolved question of religion and economic development.²

¹ Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (New York: 1958); Maxime Rodinson, *Islam and Capitalism*, trans. Brian Pearce (New York: Pantheon Books, 1973).

² For example, Aidit Ghazali, *Development: An Islamic Perspective* (Petaling Jaya: Pelanduk Publications, 1990); Sri Mulyati et al, *Islam and Development: A Politico-Religious Response* (Montreal: Permika & Lembaga & Penerjemah & Penulis Muslim Indonesia, 1997).

Islam and the Concept of Development in Indonesia

Islam, like other religions, is a complex, multifaceted phenomenon. There has never been one single history of Islam. There are multiple histories of Islam. Islam has many faces; it has more common characteristics that can be seen since the Prophet Muhammad until today, but it shows diversity. It is therefore helpful for Muslims and non-Muslims to understand Islam and its relations with other aspects, such as development, in its context, as interpreted and practiced by particular agencies in particular time and place. Indonesian Muslims may have similar features as Saudi Muslims since they attempt to follow the Koran and the Prophetic tradition, but they have shown striking differences as well, because they interpreted the scriptures and the tradition differently according to their circumstances.

Indonesia is admittedly the largest Muslim nation in the world. Muslims are the majority part of Indonesia's population. Since its independence of 1945, Muslims has made up some 87 percent of Indonesia's population, which ranged from 127 million in 1945 to 230 million in 2003. But Islam has not always been the same throughout its history in Indonesia as elsewhere. To summarize the history of Islam in Indonesia, in pre-colonial era, Islam was brought more significantly since the thirteenth century by the Arab, Indian and Chinese traders and missionaries through trade, marriage, and missionary interactions. During the pre-colonial time (from fifteenth to mid-seventeenth century), Indonesian archipelago became part of Southeast Asia "Age of Commerce" in which international maritime trade shaped the life of the communities especially in coastal areas, and where urbanization and modernization took place before it entered the period of crisis when Europeans came to the region and dominated the economic and political life.³

Development has been defined as 'general improvement in the standard of living'.

Development implies a transformation of way of life from traditionalism to modernism.

Development is very connected with modernization.⁴ This close connection suggests that development reflects Western paradigm on social transformation. Development and steps toward higher modernity or from traditionalism to modernity became identical.⁵ From this

³ Anthony Reid, *Southeast Asia in the Age of Commerce*, vol 1 & 2 (New Haven and London: Yale University Press, 1993). The criticism to Reid came from other scholars such as Victor Lieberman, *Strange Parallels: Southeast Asia in Global Context, c.800-1830* (Cambridge: The Press Syndicate of the University of Cambridge, 2003).

⁴ Mansour Faqih, "Tinjauan Kritis terhadap Paradigma dan Teori Pembangunan", in Masdar F.Mas'udi (ed), *Teologi Tanah* (Jakarta: P3M, 1994), hal.38-9.

⁵ Mansour Faqih, *Runtuhnya Teori Pembangunan dan Globalisasi* (Yogyakarta: Pustaka Pelajar & Insist Press, 2001), hal.202-3.

broad definition, we should examine how it was interpreted and applied in different countries and institutions. For example, United Nations Educational Scientific and Cultural Organization (UNESCO) defined development as an effort toward a complete human progress. UNESCO states, “Development is meaningful only if man, who is both its instrument and beneficiary, is also its justification and its end. It must be integrated and harmonized; in other words, it must permit the full development of the human being on the spiritual, moral, and material levels, thus ensuring the rights of man in society through respect for the Universal Declaration of Human Rights.”⁶ In the Third World, development was generally defined as a gradual movement toward modernity in the economic, military, and political levels.⁷

In colonial era, the Dutch colonials attempted to integrate Indonesian economy into world economy especially in Java. But this took place in the context of colonial exploitation and forced labor which created anti-colonialism in the region as well as others.⁸ As Indonesia gained independence in 1945, the leader of the newly-born nation, Soekarno struggled for maintaining the independence already declared and for ensuring the political integrity within ethnic and religious diversity, and sought international recognition. The key political term during the period 1945-1950 was freedom (*kebebasan*) from foreign powers. However, Muhammad Hatta, the then vice president, introduced the term development (*pembangunan*) in 1948 when he became prime-minister, but it came to bear some narrow meaning: rationalization of the army and government officials to improve production. From 1950 to 1966, the concept of democracy (*demokrasi*) replaced the concept of development (*pembangunan*) and Soekarno created a Guided Democracy. Yet again Hatta still attempted to popularize his concept of development. In 1951, Hatta argued for close connection between culture and development and maintained that cultural development is a basis of economic development, because without cultural development, economic development would lose its direction. In 1958 in front of the Coordinative Board of Islamic Organization, Jakarta, Hatta even more specifically talked about the relations between Islam and development, suggesting that Islam is a source of value and motivation for development in

⁶ This is contained in the communication from the UNESCO's Executive Board to the Intergovernmental Preparatory Committee which was working in the program and strategy for the Second UN's Development Decade, September 1969, in Aidit Ghazali, *Development: An Islamic Perspective*, p.40.

⁷ Mansour Faqih, “Tinjauan Kritis”, p.40.

⁸ See for example, G.Roger Knight, *Narratives of Colonialism: Sugar, Java, and the Dutch* (Huntington: Nova Science Publishers, Inc., 2000); Clifford Geertz, *Agricultural Involution: The Processes of Ecological Change in Indonesia* (Berkeley, Los Angeles & London: University of California Press, 1963).

the framework of creating a new society. But another political jargon during this period, revolution (*revolusi*) for social transformation, was far more pervasive and became quickly a predominant jargon within the political struggle. Therefore, the Soekarno's government focused more on political and diplomatic struggles, with few economic programs.

In the 1960s, the struggle of ideology among Muslims, communists and nationalists was so intense that Soekarno attempted to combine nationalism, religion, and communism which however came to a failure due to lack of support. Soekarno's statement that religion is a basic element of the nation and character-building failed to convince the religious groups to collaborate with the communists. Communists, nationalists, Christians, and Muslims were so divided in ideological and political lines that none emphasized the urgency of development. During this period (1945-1966), Soekarno hardly promoted a specific economic development. Consequently, since 1961, annual inflation reached 650 percent and was uncontrolled until 1969.

Since 1966, the term 'modernization' emerged and replaced revolution for a short time. Yet the term modernization became controversial because it was suspected as an adoption of Westernization and secularization. The term development (*pembangunan*) then replaced the term modernization. *Pembangunan* did not emerge in public until the New Order government under Soeharto established its cabinet and made the Five Year Development Plan since 1969.⁹ The emergence of military and technocratic regime responsible for the new development planning and implementation, constituted as a response to political instability in the previous era. Now with a strong military government (thus, a relatively strong nationalism) and a group of economists and social scientists, Soeharto began to promote development as its primary governmental duty and attempted to maintain its hegemony until he stepped down in 1998.

The Order of Development

Ever since taking office in 1967, the New Order Government of President Soeharto was determined to return to a constitutional life by upholding the 1945 Constitution in a strict manner and by respecting Pancasila as the state philosophy and ideology. To emerge from the political and economic legacy of Soekarno's era, the new government set up to

⁹ M. Dawam Rahardjo, "Islam dan Pembangunan: Agenda Penelitian Sosial di Indonesia", Saiful Muzani (ed.), *Pembangunan dan Kebangkitan Islam di Asia Tenggara* (Jakarta: PT Pustaka LP3ES, 1993), pp.263-5.

undertake the following priorities: to complete the restoration of order and security and to establish political stability, to carry out economic rehabilitation, and to prepare a plan for national development and execute it with the emphasis on economic development. With this commitment, the Soeharto's government succeeded to gain foreign supports in the form of a consortium of creditor countries, called the Inter-Governmental Group on Indonesia (IGGI), which included the United States, Canada, Australia, New Zealand, Japan, Britain, and a number of Western Europe, under the chairman of the Netherlands.¹⁰ In order to establish a just-and-equitably-prosperous society in a material and spiritual sense based on Pancasila, the People's Consultative Assembly of the Republic of Indonesia established the Guidelines of State Policy in a systematic pattern of National Development. The New Order's government attempted to implement the Trilogy of Development: economic growth, even economic distribution, and political stability (growth, equity, and stability).¹¹

Based on the basic premise that the essence of National Development is the development of the complete Indonesian human being in all aspects of life and the development of the entire Indonesian society, the basis for the execution of National Development is therefore the *Pancasila* (the state ideology, consisting of five principles) and the 1945 Constitution.¹² The New Order viewed the form of the state of Indonesia neither as a socialist nor as a capitalist. In a speech in front of Islamic clerics and preachers, minister of home affairs, H. Amir Machmud attempted to explain the guidelines of national development. Indonesian nation-state was neither a religious state (theocracy, either Christian or Islamic state), nor a capitalist, nor a socialist, but a Pancasila state. The state is based on Pancasila and the 1945 Constitution. In economic terms, as stipulated in the Constitution, Indonesian economy shall be based on familial togetherness (*kekeluargaan*). The state shall control production sectors that are vital to the state and for the benefit of the people. Land, water, and all resources contained shall be controlled by the state and be employed for the well-being of the people. The poor, orphans, and disadvantaged children will be taken care of by the state. These are the main principles of the economic development.¹³

¹⁰ Currently, the IGGI has been replaced by the Consultative Group for Indonesia (CGI) consisting of the former members of IGGI (except the Netherlands) and five new creditors. See Kosky Zakaria et al (eds) *Indonesia 1999: An Official Book*, (Jakarta: Department of Information of the RI, 1999), pp.34.

¹¹ RADIUS Prawiro, *Indonesia's Struggle for Economic Development: Pragmatism in Action* (Kuala Lumpur; Oxford University Press, 1998)

¹² *ibid.*, p. 61.

¹³ H. Amir Machmud, "Garis-garis Besar Haluan Negara", *Ulama dan Umara* (Jakarta: Panitia Pekan Orientasi Ulama/Khatib Seluruh Indonesia, 1978), pp.60-1.

The New Order claimed to endorse an economic system of Pancasila, instead of capitalist or socialist systems. The economics of Pancasila, according to Indonesian economist Mubyarto, is inspired by the Pancasila values such as collective action based on togetherness (*kekeluargaan*) and national solidarity. In other words, the Pancasila economics is supposed to be concerned with more social justice, than capital accumulation by the minority. Yet, despite taking distance from socialism and capitalism in ideological terms, the New Order recruited neo-classic economists mostly graduating from American universities, especially the University of California, Berkeley.¹⁴ To put development goals into practice, Soeharto determined his economic development planners: Prof.Dr.Wijoyo Nitisastro, Prof.Dr.Ali Wardhana, Prof.Dr.Sumitro, Dr.Radius Prawiro, Prof.Dr.Ir.Moch.Sadli, Dr.Emil Salim, Dr. Frans Seda, and Prof.Dr.Subroto.¹⁵

The New Order claimed that its economic system was neither capitalism nor socialism.¹⁶ Instead, many of the officials and leaders liked to use the Pancasila economics. However, for many, the New Order actually adopted a modified capitalist system, since its policies and strategies were largely based on Western concepts and institutions.¹⁷ Indonesian nationalism affected the ways in which the New Order viewed foreign concepts and strategies. Besides, the government would regard Indonesia as neither a secular state nor an Islamic state, and their economic system was not to subscribe to either path. In the early period of the New Order (1960s and 1970s), in the absence of an Islamic economic system and actual practices, the New Order was faced with only two alternatives: the socialist and the capitalist, both being secular. The introduction of the economics of Pancasila should be viewed within this context – especially when the government and society looked to their national ideology believed to be a combination of different foreign and local ideologies under the Pancasila.

Avoiding the perceived foreign ideologies of capitalism and socialism, Soeharto named his cabinets instead with the Development Cabinet (*Kabinet Pembangunan*): 1968-73, 1973-78,

¹⁴ Mubyarto, *Ekonomi Pancasila: Gagasan dan Kemungkinan* (Jakarta: LP3ES, 1987), p.5; David Ransom, "The Berkeley Mafia", *Ramparts*, no.9 (1970).

¹⁵ *ibid.* p.262.

¹⁶ Dumairy, *Perekonomian Indonesia* (Jakarta: Penerbit Airlangga, 1997), p.35.

¹⁷ On economic development in the New Order, see for example Anne Booth and Peter McCawley (eds), *The Indonesian Economy during the Soeharto Era* (Kuala Lumpur: Oxford University Press), Richard Robinson, *Indonesia: The Rise of Capital* (Sydney: Allen & Unwin, 1986); Robinson, "Industrialization and the Economic and Political Development of Capital: The Case of Indonesia", in Ruth McVey (ed.), *Southeast Asian Capitalists*, (Ithaca, N.Y.: Cornell University, Southeast Asia Program, 1992).

1978-83, 1983-88, 1988-1993, and 1993-1998, and called his period as the Order of Development. Throughout his office, Soeharto was to emphasize the Trilogy of Development which is comprised of the distribution of development and its outcomes toward social justice, high economic growth, and national stability. In terms of economic development, four chapters of the 1945 Constitution became the general principles as well as GBHN issued by MPR. It was stated that economic development should prevent three phenomena: a) free fight liberalism which grows exploitation over other nations, b) Etatism in which the state and its apparatus became dominant and repressive against private economic sectors, and c) centralization of economic power in the hand of minority in the form of monopolies that are harmful to the people.¹⁸

The outcome of development efforts was largely impressive to the Indonesians and international community. In general terms, improvement of the people's welfare was tangible: the number of inhabitants living below the poverty line dropped from 60.0 % or 70 million of the total population in 1970 to, from 40.1 % of the total population in 1976 to about 26.9 % in 1981, and then dropped from the latter to about 16.4 % in 1987, and then dropped to about 13.7 % or 25,9 million in 1993. An average annual rate during the long-term growth was between 5 % to 7 % in the last two decades, before the Asian monetary crisis starting in 1997.¹⁹

Foreign governments praised the economic achievements of the New Order. For example, the ambassador of the U.S.A for Indonesia, John H Holdridge commented in 1983 as follows: "This is a remarkable accomplishment, one in which all Indonesians may take pride...economically, Indonesia's accomplishment under President Soeharto have been equally impressive. Beginning from a point of near-bankruptcy, Indonesia was able to achieve self-sufficiency in textiles, cement, fertilizers, and many other essential commodities during the 1970s. In rice production, Indonesia has made remarkable gains. Yield per hectare has grown at 4 % annually and now is the highest in the tropics. As a result of this broad-based progress, Indonesian are better educated, better fed, and have a higher standard of living than ever before. And there is every reason to believe this progress will

¹⁸ In Tjahyadi Nugroho, *Soeharto Bapak Pembangunan Bangsa* (Semarang: Penerbit Yayasan Telapak, 1984), p.258.

¹⁹ *Ibid.*, pp. 62-7. The annual economic growth in the 1966-1974 period was 7 %, in the 1973-80 period 7.5 % (partly due to oil price hike), then in 1980 9,9%, in 1981 7,9%, but the growth dropped to 2,2 % in 1982, and 4,5% in the period between 1980-195. See Mubyarto, *Sistem dan Moral Ekonomi Indonesia* (Jakarta: LP3ES, 1988), pp.10-1.

continue. The World Bank recently reported that in 1983 Indonesian actually improved its position among middle-income countries...the United States has and will continue to support Indonesia's program to meet the development aspirations of its people. We take pride in our cooperation in trade, investment and development programs which contribute to Indonesia's progress..."²⁰

The Indonesia's House of Representative (MPR) issued a decree no.II/MPR/1983 on General Lines of the State Direction (GBHN) which outlines principles, goals, strategies and priorities of national development. Economic development became the main priority, which included agriculture, industry, mining, energy, transportation, tourism, trade, cooperative, work power, transmigration, regional development, natural resources and environment. Practically, the development of economic sectors was separated from other sectors such as religious sector. MPR also issued another decree no. V/MPR/1983 granting Soeharto the title of the 'father of development' (*Bapak Pembangunan*). The decree also provides the general reasons for such bestowal of title as follows: " The Indonesian people have accepted with full gratitude the wise leadership and statehood of General Soeharto in the struggle for saving and implementing Pancasila and the 1945 Constitution purely and consequently both in the life of the state or that of the society since the establishment of the New Order. In the framework of the continuity of national struggle in meeting the goals of independence, General Soeharto has become a pioneer and a leader in solving critical times in the life of the nation by remaining obedient to the will of the people and the Constitution, in rebuilding social and political lives which are based on the Pancasila and the 1945 Constitution, in maintaining national stability which is strong and dynamic as well as national unity, and in managing Five Years Development successfully, all of these leading towards an advanced, prosperous, and just society."²¹

Soeharto on Religion and Development

The government officials and the society at large celebrated religious holidays. Islamic celebrations were typically held either in the Mosque of Independence (*Istiqlal*) or in the state palace in Jakarta where the President and his cabinet members, high officials and foreign ambassadors together with the Muslim community were present. National and private televisions broadcasted the religious events nationally. The president, the minister of

²⁰ John H Holddrige, "Impressions of Development in Indonesia", *ibid.*, pp.575-6.

²¹ TAP MPR II/MPR/1983 and TAP MPR V/MPR/1983 in Tjahyadi Nugroho, *Soeharto Bapak Pembangunan Bangsa* (Semarang: Penerbit Yayasan Telapak, 1984), pp.17-72,pp.73-7.

religion and one speaker assigned delivered speeches. For President Soeharto, such occasions were the best occasions to convey development messages, particularly to ask the Muslim community to support the government development ideology and policies. President Soeharto, in his speeches, repeatedly regarded Islam and development as being inextricably interwoven. On commemoration of the Coming Down of the Koran (*Nuzul al-Quran*) on the 11th of September 1976 in the state palace, Soeharto asserted that the ideal of national development were to create a Pancasila society, that is a religious socialistic society. Pancasila is the state ideology which consists of five pillars, representing different, yet inter-related ideas: belief in One God, just and civilized humanity, Indonesian unity, democracy and representative government, and social justice. Soeharto argued, these values should become the driving force and spirit of national development.²² Religion is both a subject and an object of development. “As religion and Pancasila should not be confronted”, Soeharto said in another speech on 13 August 1979 at the Conference of *Majelis Dakwah Islamiyah Keluarga Besar Golongan Karya*, “religion and development should equally support each other”. It has become a reality that the Muslim community (*ummah*) have a tremendous potential for national development. The government viewed religion as one sector among development projects.²³

As the Five Year Development Plans (*Pembangunan Lima Tahun*, PELITA) were implemented, development of religious sector became part of national development programs. Financial aids were granted to religious schools and institutions. Religious infrastructures such as mosques, schools (*pesantren* and *madrasah*), Islamic centers and others received financial support from the government. The 1945 Constitution states that the State is based on the belief in one God and that the state shall guarantee religious freedom. The government shall put these principles into practice, by providing religious public services without discrimination and building religious tolerance.²⁴ The government would give the whole society the rights to observe their religious rituals and missionary activities. Thus, religious development as viewed by Soeharto was carried out in the framework of religious tolerance which would lead to political stability. Religious development was seen as a prerequisite for other more pragmatic programs, namely economic development. However, Soeharto had little to say about how religion is an important factor for economic

²² Soeharto, “Cita-cita Pembangunan: Mewujudkan Masyarakat Pancasila Yang Sosialistik Religius”, dalam *Agama dalam Pembangunan Nasional*, pp.45-9.

²³ Soeharto, “Tidak Ada Pertentangan Antara Agama dan Pancasila”, *Agama dalam Pembangunan*, pp. 50-3.

²⁴ Soeharto, “P4 Tidak Mengurangi Arti dan Peranan Agama”, pp.59-63.

development and how economic development should be carried out in the framework of religious ethics and values. According to Soeharto, economic development is an important condition for advancement and without advancement there will be no social justice. To develop economy means to produce.

Soeharto asserted that religion is not only a driving force for development, but also a savior of advancement (*kemajuan*). Without religion, one will lose his or her goal of life and one will feel emptiness in the noisy situation of physical advancement. As industrial advancement created natural pollution and disasters, religion became a controlling factor. Without self-control, natural resources will be increasingly finished.²⁵

In another religious occasion, Soeharto said that development and religion are like one breath. Development would bring about advancement (*kemajuan*) and religion will lead to happiness. It is therefore a happy advancement that has to become the goal of national development. Religion also provides development with right direction. Religion can become a means of social control to prevent socio-economic gaps for religion teaches the importance of social justice and solidarity. Soeharto said, "Development requires a driving force that should not be declining. The greatest power lay on the people's motivation to change their fate into a better one and this change can only be fulfilled through development. This development process can only be undertaken with the power of religious consciousness. Religion also serves to prevent or neutralize the excesses or negative sides of development. Moral values as taught by religions would become a strong fortress against such excessiveness."²⁶

In his speeches in different religious celebration occasions in 1968, 1970, 1972, 1973, 1975, Soeharto repeatedly insisted the importance of development and that of religion as a motivating factor for development. Religious ethics and norms should be used to justify and sustain the ideology of development. Furthermore, on 28 October 1974 in Aceh, speaking at the conference on the role of religious leaders in national development, Soeharto asserted that atheism does not have the right to exist in Indonesia.²⁷

²⁵ pp. 80-3.

²⁶ pp.67-71.

²⁷ Soeharto, *Agama dalam Pembangunan*, p.138.

Soeharto asserted that Islam is a religion of modernity and advancement. The Koran disproves blind imitation (*taqlid*), which clots human mind. It encourages studying natural laws and to develop science and technology, to throw out superstitions and rigid characters. But the advancement in science and technology should be moderate in the sense that it cannot bring about moral decadence and natural destruction.²⁸

In his speeches, Soeharto quoted Islamic texts. For example, “no nations but itself will change Indonesia’s fate” (the Koran). He also emphasized sacrifice (Qurban) and promoted *zakat* (obligatory almsgiving) as a means of reducing poverty and distribution of wealth amongst Muslim community. Soeharto repeatedly stated that Islam is an inspiring and driving factor to move toward advancement that faith (*iman*), science (*ilmu*), and action (*amal*) are the three Islamic pillars that drive development. Indonesia, according to Soeharto, should participate in international competition, for, he quoted a verse, “Different nations are to race in goodness (*fastabiqul khairat*). Soeharto said that poverty is the evil, because as the Prophet Muhammad said, “poverty leads to infidelity.” In another occasion, Soeharto contended that the kind of advancement is a good, human, prosperous, but just and socialistic one. Yet, Soeharto reminded, endorsing modernity should not necessarily abandon Islamic authenticity and purity. Why development? Soeharto said that development is an effort without end, but development gives a hope of a better life in the future. Development operates in stages, and each stage has its own priorities. Development demands resources, capital, and skills.²⁹

Islamic Organizations

The New Order government placed most Islamic organizations within the networks of state patronage and rigid administrative control, especially through the establishment of the Department of Religion which had national and local offices throughout the country.³⁰ However, Indonesian Muslims had possessed their own religious movements, even before the independence, such as the *Muhammadiyah* (founded in 1912) and the *Nahdlatul Ulama* (founded in 1926), working independently of the state intervention. As we shall see, these organizations had long carried out their own economic activities before the New Order.

²⁸ *ibid.*, p. 91.

²⁹ *ibid.*, pp. 74-5, 85-88, 96, 99.

³⁰ Georg Stauth, *Politics and Cultures of Islamization in Southeast Asia: Indonesia and Malaysia in the Nineteenth-nineties* (Bielefeld: Transcript, 2002), p. 49.

From the 1960s to the 1980s, the political role of Muslims became marginalized. But certain individuals, such as from alumni of the Islamic Students' Association (*Himpunan Mahasiswa Islam*, HMI), emerged to take part in the economic sectors, thanks for their education and training in the Western universities. Yet they were elite, rather than Muslim grass-roots.

Then criticisms arose out of perceived and actual unbalanced and unjust economic development. In the late 1980s, the New Order government began to be criticized for not involving the native entrepreneurs (*pribumi*) in the development process and for allowing special privilege to the Chinese minority. Yet Muslim entrepreneurs were encouraged to study economics and business in the West so that they could compete with the Chinese in business. Criticism was leveled against the Government's marginalization of small-scale and middle-scale businesses in which many Muslims were involved. The too much emphasis on economic growth, rather than justice and dependence upon foreign aid rather than economic independence also became the target of critics. The criticisms came mostly from non-governmental organizations (NGO) with the support from international NGOs.³¹

Indonesian Council of Islamic Scholars (MUI)

Soeharto emphasized the important role of the Islamic clerics (*ulama*) in revitalizing Islamic values as a positive spiritual and social force in national development. Soeharto urged the Islamic leaders to encourage the Muslim community to participate in development and insisted that development is a religious duty.³² For this very reason, the government established the Council for Islamic Clerics (*Majelis Ulama Indonesia*, MUI) in 1975, in order to become a mediator between the government and the Muslim community as large. Soeharto asked MUI to be a development translator who conveys development messages to the people. It was the task of MUI to disseminate the goals and efforts of development to the people and to maintain religious tolerance.³³

The MUI often praised the success of Soeharto's development program with some reservations. K.H. Syukri Ghozali, the chief of MUI, wrote in 1983, "the implementation of development during the New Order under President Soeharto has succeeded in bringing about enormous outcomes, especially in terms of material advancement, without neglecting

³¹ M. Dawam Rahardjo, "Islam dan Pembangunan: Agenda Penelitian Sosial di Indonesia", Saiful Muzani (ed.), *Pembangunan dan Kebangkitan Islam di Asia Tenggara* (Jakarta: PT Pustaka LP3ES, 1993), pp. 269-70.

³² *ibid.*, p. 115.

³³ *ibid.*, p. 133-5.

spiritual and religious field. As President Soeharto has frequently contended, development brings with it negative sides, especially in religious life. Therefore, the step that he is taking in the forth development plan (PELITA IV) to emphasizes religious development is the most appropriate, for we believe that religious consciousness will solve moral decadence that could be harmful to the continuity of development outputs.”³⁴

In a workshop for Muslim missionaries held by the Center for Indonesian Islamic Mission (Pusat Dakwah Islam Indonesia) 26-29 November 1974, a kind of consensus was reached: “to maintain and build the continued participation of the Muslim community in development, it is necessary to have an Indonesian Council for the Islamic Clerics (*ulama*), later called Majelis Ulama Indonesia (MUI).”³⁵ As stated by Syukri Ghozali, one of the chiefs of the Council, the Council will serve as a communicator between Muslim leaders and the government and between Muslim leaders and Muslim community at large. The theme of the first meeting itself was revealing: “To strengthen National Tenacity (Ketahanan Nasional) and religious tolerance, the Council participate in development.”³⁶ As stated in its guidelines, the Council was established on 26 July 1975, mainly to support and participate the national development.³⁷ The Council will have different functions: to give advices in religious affairs to the Muslim community and the government in the framework of improving National Tenacity, to serve as a medium of Islamic brotherhood and solidarity in the framework of improving National Unity, to represent Muslim community in the Consultative Body of Inter-religious Communities, and to be a communicator between the Muslim clerics and the government and between the Muslim clerics and the Muslim community in order to make National Development successful.³⁸ It was stated also that Council will not do political activities. The programs of the Council will consist of three aspects: Improving National Tenacity, Improving National Development, and Religious Tolerance. In terms of Improving National Development, the Council will encourage a greater participation of the Islamic clerics in development at national, regional, and local levels, will implement Islam according to Pancasila in the framework of reaching the goal of just and prosperous society, will improve the establishment of religious infrastructure (mosque, schools, etc) to improve religious education, and will help eradicate Muslim’s poverty and suffering by distributing wealth, intensifying *zakat* (Islamic almsgiving) and other donations.

³⁴ K.H.M.Syukri Ghozali, *ibid.*,p.584.

³⁵ *Ulama dan Pembangunan*, pp.11-2.

³⁶ *ibid.*, p.47

³⁷ *ibid.*, p.54.

³⁸ *ibid.*, p.56.

In the same conference, a number of Muslim clerics delivered their views on the role of Islam in development. The chairman of the House of Representatives, K.H. Idham Chalid, himself an Islamic cleric, for example, emphasized the urgency of development: "Perhaps there are some Islamic leaders who are indifferent of development; they will become losers; the process of development will continue faster than before and development is a spirit of Indonesia. Without development, suffering will face our people and various ideologies will destroy our Pancasila, religions and spiritual values. Prof. Dr. Hamka was elected by the members as the chair of the MUI. Hamka also gave his speech, emphasizing the role of Islamic leaders in Indonesian revolution and anti-colonial movements throughout Indonesian archipelago. The role of the *ulama* will be even greater in the development era. For Hamka, the participation of the *ulama* in development constituted a continuation of the previous struggles against colonial powers.³⁹ The minister of religion, Prof.Dr.A.Mukti Ali also gave his speech on the relationship between religion and development. He said, "Although for the early stages of development the first priority will be given to the development in economic sector, other non-economic sectors will not be neglected. There is an interdependence between economic sector and other sectors, including religious sector. Human individuals are both the object and subject of development. The role of religion in development consists of four aspects: 1) motivating factor, 2) creative factor, 3) sublimating factor, and 4) integrative factor."⁴⁰

Apart from speeches, Islamic clerics also published books and journals to distribute among the Muslims. For example, in its magazine *Mimbar Ulama*, a number of Islamic clerics wrote articles advocating economic advancement. Husein Kartasasmita wrote articles on "Economic Development: A Path to Improve Islamic Action", and on "Patriotism in the Economic Hardship". H.M.Sonhadji wrote "Entrepreneurship in the Development of Muslim Economy".⁴¹

The MUI issued very few advices to the government in the details of economic development matters. Most advices and decrees (*fatwas*) were religious and moral in nature. None of the decrees were directly related to economic development. Thus, the *fatwas* concerned moral issues, such as the *fatwa* on living in simplicity (against economic luxury) issued on February 10, 1976, on the misuse of narcotics (issued on the same date), on the *zakat*

³⁹ Hamka, "Jasa-jasa Ulama dalam Perjuangan Bangsa", *Ulama dan Pembangunan*, pp.333-52.

⁴⁰ Ibid., op.85-6.

⁴¹ *Ulama dan Umara*, p.163.

(almsgiving) of salaries and wages (issued on January 26, 1982), on the use of *zakat* for productive purposes (issued on February 2, 1982), and on the selling of inherited land (*waqf*) (issued in 1984).⁴² At this point, the MUI had not involved itself in elaborating what could be an Islamic economic system.

The MUI primarily served to prevent the Muslim community from what they viewed as negative sides of development. Thus, for example, the MUI paid attention to the legal purity (*halal*) of consumer goods. On January 10, 1989, the MUI founded a Foundation of Inquiry into Food, Medicines, and Cosmetics (*Lembaga Kajian Bahan Makanan, Obat-obatan dan Kosmetika*).⁴³ Later, the MUI called upon the government for greater vigilance concerning laser disks and parabolic antennas. On July 1993, the chairman of the MUI, K.H. Hasan Basri, declared that all laser disks imported to Indonesia should be presented to the Film Censor Body (*Badan Sensor Film*, BSF). This body should ban them if they contained scenes which were contrary to Indonesian religious and cultural values.⁴⁴

Yet the MUI intended not only to censure what is forbidden, but to initiate a more proactive development. In 1991, the MUI helped establish the first Islamic bank in Indonesia, called Bank Muamalat Indonesia (BMI). On April 12, 1993, the MUI founded an economic agency called Activating Agency for the Economy of the Community (Badan Penggerak Ekonomi Umat, BPEU), but the chair appointed was Probosutedjo, a private businessman and an older brother of Soeharto. The agency was aimed to help improve the economic life of Muslim community. At that time, the estimated 27 million Indonesians were still living in poverty.⁴⁵ However, the MUI did not issue a *fatwa* on the prohibition of *riba* (to mean interest) until December 2003.

The need for development programs after independence and the desire to free from the shackles of colonial powers provided a fresh opportunity to Muslims to seek answers to their problems from within their own cultural heritage. The inability of both capitalism and

⁴² A good account on the history of the Indonesian Council of Ulama (MUI), its relationship with the government and its religious decrees/opinions (*fatwas*) can be found in Mohammad Atho Mudzhar, *Fatwa-fatwa Majelis Ulama Indonesia: Sebuah Studi tentang Pemikiran Hukum Islam di Indonesia, 1975-1988*, in Indonesian and English (Jakarta: INIS, 1993).

⁴³ Darul Aqsha, Dick van der Meij, & Johan Hendrik Meuleman, *Islam in Indonesia: A Survey of Events and Developments from 1988 to 1993* (Jakarta: INIS, 1995), p.198.

⁴⁴ Darul Aqsha, Dick van der Meij, & Johan Hendrik Meuleman, *Islam in Indonesia: A Survey of Events and Developments from 1988 to 1993* (Jakarta: INIS, 1995), p.221.

⁴⁵ *ibid.*, pp.221-2.

communism to offer acceptable socio-economic solutions to Muslims, and the apparent failure of both these materialist systems to provide panaceas for the global economic crises, especially of the 1970s and 1980s, coupled with the heightening of Islamic consciousness, have prompted Muslim scholars to turn to an Islamic system of economics. In February 1976, the First International Conference on Islamic Economics, held in Mecca, provided Muslim economists to create a profit-sharing system. Three groups emerged: the legalistic jurists, the innovation thinkers, and the Western educated Muslim economists. The latter have based their analysis on the sources of Islam, while at the same time, adopting contemporary tools of analysis and the economic jargon of Western economics. They tried to establish a coherent system of Islamic economics.⁴⁶ These scholars have a great influence in the growth of Islamic banking in Pakistan, Malaysia, and then Indonesia. Their English books have been translated into Indonesian and provide an intellectual source for an Islamic economics, which affected the formation of Islamic banks. For certain segments of Muslims, Islamic banking system became alternative to the existing conventional banks.

When Minister of Finance, J.B. Sumarlin, did not object the establishment of Islamic banks, because it did not contradict the Indonesian Constitution, several Islamic banks in the form of *baitul mal* (financing house) had been set up such as the Co-operative for Professional Services (*Kooperasi Jasa Keahlian*) Teknosa Bandung in Bandung on 4 July 1984 and Koperasi Ridho Gusti in Jakarta. The Organization of Islamic Conference (OIC), especially with its Islamic Development Bank (IDB) greatly contributed to further development of Islamic banks in Indonesia. On June 1990, Minister for Foreign Affairs, Ali Alatas, inaugurated the Jakarta OIC Economic Consultative Forum, to promote economic relations between Indonesian and other members of the OIC.⁴⁷

On 19 March 1991 Minister of Home Affairs Rudini and Minister of Religious Affairs Munawir Sjadzali signed a joint decree on the development of the Islamic Almsgiving Management Body (*Badan Amil Zakat, Infaq, dan Shadaqah*, BAZIS) which is a non-governmental organization, but worked under the government's supervision.⁴⁸

⁴⁶ Mohamed Aslam Haneef, *Contemporary Islamic Economic Thought: A Selective Comparative Analysis* (Kuala Lumpur: Ikraaq, 1995), pp.1-2.

⁴⁷ Darul Aqsha, Dick van der Meij, & Johan Hendrik Meuleman, *Islam in Indonesia*, pp.181-3.

⁴⁸ *ibid.*, p.183.

While the question of whether bank interest is prohibited or not (*halal-haram*) was still debated, the Indonesian Council of *Ulama* (MUI) was preparing the establishment of an Islamic bank without interest, by firstly establishing a Foundation of the Fund for Religious Propagation related to Development (*Yayasan Dana Dakwah Pembangunan*). Soeharto promised an interest free loan from his Foundation of the Pancasila Muslim Action (*Yayasan Amal Bhakti Muslim Pancasila*) of the IRP 3 milliards. In addition, several Muslim big entrepreneurs, including Fadel Muhammad, Aburizal Bakrie, and Fahmi Idris, were interested in the creation of Islamic banks. With some Islamic economists and clerics on the managing and consultative boards, the *Bank Muamalat Indonesia* was officially created in 1 November 1991, signed by more than 30 high ranking officials and businessmen. In addition, Four foreign Islamic banks –the Faisal Islamic bank from Egypt, Al-Barakah from Saudi Arabia, the Bank Islam Malaysia Berhad, and *Dharmal Al-Islami* from Switzerland, along with Indonesian Muslim partners, had started to operate in Indonesia.⁴⁹

According to Robert Hefner, the establishment of Islamic bank was an effort of Islamizing capitalism. Moreover, the organization of the *Bank Muamalat Indonesia* (BMI) reflected an important, albeit controversial, strategy for accommodating the Muslim community to modern Indonesian capitalism.⁵⁰ The government's support for the BMI suggests that some in the government, especially Soeharto, recognized that it is time to acknowledge the Muslim community in a more practical manner and to bring them into national, economic development. For most Muslim leaders during the New Order, although the New Order government circumscribed Islamic political organizations, it also presented social and economic opportunities for Muslims in the framework of national development.⁵¹

The establishment of an Islamic bank in 1991 was just one of the policies of the New Order in specific relation with the Muslim community in the late 1980s and early 1990s. The New Order increased its support for the Muslim community by agreeing a number of aspirations, including the National Education Law (1989), Religious Court Law (1989), the formation of Islamic Intellectuals Association (ICMI, 1990), the Compilation of Islamic Law (1991), The

⁴⁹ *ibid.*, pp.184-6.

⁵⁰ Robert Hefner, "Islamizing Capitalism", p.296.

⁵¹ According to Hefner, the establishment of BMI represented also a response to the Chinese economic domination that had prevailed since colonial era to the New Order. Comprising only 2.5 percent of Indonesia's population, Chinese Indonesians own an estimated 70-75 percent of all mid to large-class enterprises. I don't completely agree with this observation because as we have seen the Muhammadiyah also sought cooperation with some of the Chinese businessmen. About Hefner's views see, *ibid.*, p.294.

lifting of the ban of Muslim Students' Headscarf in Public Schools (1991), The Management Body of *Zakat, Infaq, and Sadaqah* (BAZIS, 1991), and the Islamic Festival at the Mosque of Istiqlal (1991 and 1995). Given the increased support and accommodation between the government and the Muslim community, this period from the late 1980s to 1990s can be regarded by 'honeymoon period'.⁵² This was as a result of readjustment of Islam with the changing conditions on the one hand, and the government's accommodation of the Muslims on the other hand, with the primary focus on development, rather than ideological struggle. Thus, development became a vital factor that united the New Order government and the Muslim community.

The Muhammadiyah and the Nahdlatul Ulama

The two biggest religious organizations in Indonesia, Muhammadiyah and the Nahdlatul Ulama were among the strong supporters of national development, despite their dynamic fluctuating relations with the New Order. Muhammadiyah was found in 1912 in Yogyakarta with the purpose of modernizing Islamic schools and improving social activities, whereas Nahdlatul Ulama (the Revival of the Islamic Clerics), rurally-based, was established in 1926 to improve local traditional boarding schools (*pesantren*) and to strengthen the unity of their leaders.

The Muhammadiyah underwent an interesting shift in the formulation of its objectives. In 1914, it was stated that the goal was to preach Islam to its members. In 1959, the goal became creating a truly Islamic society. In 1985, it became establishing a virtuous, just, and prosperous society.⁵³ It seemed that the latter was to support the language of the national development of the New Order.

The Muhammadiyah had been involved in local economic activities, beside its religious and educational ones, since its rise in the colonial time. Even before the Indonesia's independence in 1945, the local Muhammadiyah organizations or members had coordinated the implementation of Islamic alms (*zakat* and *sadaqah*) and management of Islamic endowment (*waqaf*). Besides, it found local cooperatives (*koperasi*). Local leaders also

⁵² Anas Saidi, "Hubungan Agama dan Negara: Sebuah Rekonstruksi Kebijakan", *Kebijakan Kebudayaan di Masa Orde Baru* (Jakarta: LIPI & The Ford Foundation, 2001), pp.311-14.

⁵³ H.Fahmi Chatib, *Peranana Muhammadiyah dalam Pembangunan Bangsa*,

initiated the elimination of exploitative economic practices (rentenir and sistem ijon).⁵⁴ Regarding the existing banking system as promoted by the New Order, in its conference in 1969 in Sidoarjo, the Muhammadiyah identified interest as *mutasyabihat*, a legal issue that is not clear that needs a more extensive scrutiny. In the meantime, the Muhammadiyah allowed its members to have transaction with the existing banks while urging its members to establish a more Islamic banking system. The Muhammadiyah recognized that the state banks (*Bank Negara*) had played an important role in economic development and the Muslims could not isolate themselves from the influence of the banks.⁵⁵ Consequently, the Muhammadiyah leaders and members became customers of the existing banks, until it established People's Credit Banks in some local areas in the early 1990s. The Economic Committee of the Central Board of the Muhammadiyah, in its meeting in 23-25 December 1989, made a plan to create a hundred People's Credit Banks (*Bank Perkreditan Rakyat*, BPR) before the end of 1990 so as to help small entrepreneurs with loans and management consultancy. The members of the Muhammadiyah will own the property of the banks, but the Muhammadiyah will participate in the financing and management and therefore will receive a share of the profits. The banks employed interest, which was still controversial within and without organization. At this point, an Islamic banking without interest was still absent and its status was still being studied seriously.⁵⁶

The Muhammadiyah did not possess adequate resources to develop its own economic programs. Therefore, the Muhammadiyah sought cooperation with the Indonesian business world, including with those Chinese *peranakan*. On May 13, 1990, the Muhammadiyah invited a number of national businessmen from the retail trade sector, including from the Matahari Group, PT Masagung, and Hero Supermarket, for a dialogue in Jakarta, exploring the possible cooperation, such as joint ventures, the marketing of the products of Muhammadiyah members and the education and technical assistance needed by the members. Another effort was to seek cooperation with private interest-based banks, such as the Bank Central Asia (BCA) and the Lippo Bank. Both banks would advance money to the BPR of the Muhammadiyah and would provide training in management.⁵⁷ On April 27,

⁵⁴ On the growth and development of a local Muhammadiyah, see for example, Ibrahim Polontalo, *Muhammadiyah di Sulawesi Utara 1928-1990* (Siliwangi: CV Karya Dunia Fikir, 1995)

⁵⁵ "Keputusan Tarjih Sidoarjo", Pimpinan Pusat Muhammadiyah, *Himpunan Putusan Madjlis Tardjih Muhamadiyah* (Jakarta: PP Muhammadiyah, 1971), pp.308-12.

⁵⁶ Darul Aqsha, Dick van der Meij, & Johan Hendrik Meuleman, *Islam in Indonesia: A Survey of Events and Developments from 1988 to 1993* (Jakarta: INIS, 1995), p.218.

⁵⁷ *ibid.*, pp.220-1.

1992, the Muhammadiyah sought cooperation with an insurance company, PT Asuransi Jiwasraya. It was specifically aimed to improve social security for employees, lecturers, teachers, and students within the Muhammadiyah. It covers funds for pensions, family welfare, accident allowances, and dead allowances. In general terms, the cooperation was aimed to realize the program of economic development for Muslims. For the Muhammadiyah, insurance was not a violation against Islamic law.⁵⁸

Found in 1926, the Nahdlatul Ulama (NU) became the largest religious organization in Indonesia, which today claimed to have some 35 million members. Like the Muhammadiyah, before the independence day, the NU members had carried out local economic activities. In East Java, for example, PT Hamzah Jaya, a firm of the Surabaya branch of the NU, employed a hundred of workers and exported 250 tons of dried cassava per month. Another branch, Magetan, made handicrafts. In 1950, NU members set up the Bank Nusantera and Bank Haji in Jakarta and in 1960 the Bank Mualim in Semarang, but they all ended in bankruptcy due to mismanagement. In 1990, the NU opened a People's Credit Bank (*Bank Perkreditan Rakyat*, BPR) in East Java, as a result of cooperation between PT Sinar Bumi and PT Sumber Nilaiarta. The NU was planning to establish some 2,000 units of BPR during the next ten years to serve some 200,000 small entrepreneurs. It was aimed to improve the well-being of its members living mostly in rural areas. The BPR however operated with interest, but the NU was studying the possible Islamic banking system without interest. The NU's Institute of Economics in East Java invited an executive director of the Islamic Development Bank (IDB) to give lecture on the practice of non-interest banking.⁵⁹ On June 1990, the NU also sought cooperation with the Summa Bank, a bank owned by a Catholic family, to establish some 2,000 BPRs. The Summa Bank would provide staff, financial share and training. It was hoped that the NU could contribute to economic growth especially in rural areas. The then general chief of the executive board of the NU, Abdurrahman Wahid, explained that there was nothing prohibited in the economic field to cooperate with people from other religions as long as they are capable and honest. The chief commissioner of the Bank Summa stated that apart from the general aim of contributing to national economic development, it was very profitable for his company to cooperate with the NU which represented some 35 million members, instead of creating its own network.⁶⁰

⁵⁸ibid., pp.224-5.

⁵⁹ibid., pp.234-5.

⁶⁰ ibid., pp.235-7.

In addition, the NU entered the agricultural industry through its boarding schools (*pesantren*) all over Indonesia. The *pesantren* would receive credit from the BPR Nusumma. The NU extended its agro-industrial activities to other commodities, such as baby corn, asparagus, and cashew nuts. The first export of canned pineapples was carried out to Taiwan on 13 July 1991. Moreover, on September 1991 in Jakarta, PT Morelly Aswaja, a NU-owned agribusiness company, and Bangna Steel Work Ltd., a Thai company, decided to cooperate to establish nine tapioca powder plants in several provinces. There were some other economic activities under the cooperation with other private companies.⁶¹

Pesantrens, the Islamic boarding schools, mostly under the NU, also underwent modernization as the government attempted to accommodate them to the national development. *Pesantren* were invited to participate in national development. The New Order provided funds and training for students to have skills necessary for work. The kind of skill to train depended on the local condition: agriculture, handcraft, industry, etc. For example, *Pesantren* Darus Salam, Darul Falah, Gontor, Pabelan, and Muallimin and thousand others throughout Indonesia received financial assistance from the government in order to support national development. *Pesantren* KH Ahmad Dahlan in Sipirok, Tapanuli, in Sumatera was among of them.⁶² However, some *pesantren* leaders were not uncritical of what they saw as negative excesses of national development. While supporting the national development, KH Yusuf Hasyim, a NU leader, saw that “the bread of development has not yet been evenly distributed into the lower level of population.” Yusuf Hasyim also observed the government still strongly emphasized physical development, neglecting the spiritual development.⁶³

Before the New Order, the NU had established local conventional banks. In 1950 the NU established two banks in Jakarta and in 1960 a third bank in Semarang, still employing interest on loans, as according to its thirteen national congress in 1938, bank interest was allowed (*halal*) when it brings benefit to the borrower. Though all three eventually failed due to mismanagement, they represented early economic efforts of the organization. It was not until 1990 that the NU established the People’s Credit Bank (Bank Perkreditan Rakyat, BPR). Regarding the status of interest, the NU members and leaders did not speak with one

⁶¹ *ibid.*, pp.241-3.

⁶² *Pesantren KHA Dahlan Sipirok: Pesantren Pembangunan, Tapanuli Selatan* (n.p:n.p, n.d.)

⁶³ KH. Yusuf Hasyim, “*Pesantren and National Development*”, Manfred Oepen and Wolfgang Karcher (eds), *The Impact of Pesantren in Education and Community Development in Indonesia* (Jakarta: Fredrich-Naumann Stiftung, P3M, & Technical University Berlin, 1988), pp. 67-75.

voice.⁶⁴ Some NU clerics condemned interest and attacked the NU leadership for working with conventional banks, such as Bank Summa, a Chinese-own bank. But at this point most of the Muslims felt comfortable with the existing banking system.

In 1984 the NU decided to return to its 1926 original path (*Khittah* 1926) in the sense that this organization remained religious and cultural in orientation and would not become a political party nor engage in practical politics. Consequently, the NU had to establish intellectual basis for its development. One of the ideas that young NU activists promoted in June 25-26 1988 in Yogyakarta was a 'theology of development'. Based on the NU's values (tolerance (*tasamuh*) and innovation (*tajdid*)), a conference was held to develop such theology, inviting a number of NU intellectuals. The conference concluded that an Islamic theology that is relevant with development is one that recognizes not only faith and ritual, but also social aspects. This kind of theology should not merely serve as a justifier for development, but also should function as a critic of development. Theology of development meant a religious attitude conducive for liberating humankind from social injustices, such as poverty, ignorance, exploitation, corruption, as well as from dependence and backwardness. This theology should be rationalistic, non-fatalistic, and transformative. The Muslim leaders should play a greater role in development.⁶⁵

Conclusion

In the first twenty years after the Indonesian independence in 1945, the Soekarno's era was perceived to have succeeded in creating national unity, focusing revolution and political unity under actual and perceived imperialist influences, thereby neglecting economic and pragmatic aspects of national life. During this period, ideological struggle was prevalent and the gap between traditionalist Muslims and modernist Muslims became wide.

The Muslim leaders and scholars and the government in the New Order largely supported each other within the context of the nation building through the ideology of development. In the New Order' era, the gap between Muslim traditionalists and Muslim modernists became

⁶⁴ Robert W. Hefner, "Islamizing Capitalism: On The Founding of Indonesia's First Islamic Bank", Mark R.Woodward (ed.), *Toward A New Paradigm: Recent Development in Indonesian Islamic Thought* (Arizona: Arizona State University, 1996), pp.296-7.

⁶⁵ In this conference, a number of intellectuals presented papers, including traditional theology and development by Zamakhsyari Dhofier, rational theology by Masdar Farid Masudi, a heretic theology and development by M.Dawam Rahardjo, transformative theology and development by Moeslim Abdurrahman, and Islam as a social transformation theory by Kuntowijoyo. See H. Masyhur Amin (ed.), *Teologi Pembangunan: Paradigma Baru Pemikiran Islam* (Yogyakarta: LKPSM-NU-DIY, 1989).

blurred. The process of de-politicization and de-ideologization implemented by the New Order, either directly or indirectly, paved the way for different Muslim groups – traditionalist and modernists – to interact more closely. The political conflict between themselves became insignificant. The development programs of the New Order not only coincided but also was facilitated by this de-politicization of Islam. Through development programs, the New Order government succeeded in directing public energy toward economic activities. Consequently, the annual economic growth for several decades reached 7-8 %. Despite the mal-distribution of wealth and corruption, the economic programs of the New Order created an opportunity for modernization.⁶⁶

Although there were different ways in which Islam and development were connected, there was common understanding that most of the Muslim community were underdeveloped and backward, in comparison with other communities, especially Western or Japanese communities. They argued that the Muslim should revitalize their religiousness to adapt to progress. Islam should serve as a motivator. Islam was believed as an ethics of development, rather than a radical political ideology that challenged the legitimacy of the state.

The establishment of Islamic banks did not constitute a challenge, let alone replace the conventional banking system. The rise of an Islamic economic system was perceived as an alternative to the existing economic development, but did not replace it either. It became part of the whole process of development. What many of the Muslims criticized was the excesses of the economic development such as social injustices, corruption, nepotism, and collusion that prevailed throughout the period of the New Order which culminated in 1997 as the Asian crisis hit Indonesia and other countries, which contributed to the stepping-down of President Soeharto and thus the end of the New Order.

Many Indonesian Muslims seemed to be more concerned with the ethics of development rather than its workable strategies in the New Order period. In practice, Muslim institutions were not directly connected to the planning of national development. Westernized economic experts dominated the governmental policies. Due to lack of actual examples of development experiences in Muslim countries, and to the minimum number of Islamic

⁶⁶ See Hendro Prasetyo and Ali Munhanif et al, *Islam and Civil Society: Pandangan Muslim Indonesia* (Jakarta: PT Gramedia Pustaka Utama & PPIM-IAIN Jakarta, 2002), p.60.

trained technocrats, the Indonesian government carried out the development programs that were basically Western. The historical context explains why this happened. Indonesia intended to catch up its backwardness with the modernized and advanced Western countries. Although some understood modernization not as “Westernization”, the reality was that Indonesian government followed Western development programs.

Muslim organizations and leaders during the New Order had a positive attitude toward economic development and nothing in their religious teachings became a barrier to progress and modernization. All institutions and individuals studied in this paper showed no rejection against economic development. They supported economic development in different ways; some more formally-oriented and others more substantively-oriented. This compatibility between religion and economic development in the New Order coincided with other studies, such as the one by Robert J. Barro and Rachel M. McCleary who analyzed some 50 countries between 1981 and 1999 and found that there is a rigorous relationship between religion and economic development.⁶⁷

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⁶⁷ Felicia R. Lee, “Research Around the World Links Religion to Economic Development”, *The New York Times*, January 31, 2004, www.nytimes.com

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