

Chapter 32

Prevention of Major Economic Disruptions Following Acts of Terrorism — The Case of the 2002 and 2005 Bali Bombings

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The Bali I (2002) and Bali II (2005) bombings, conducted by Jema'ah Islamiya (JI) and its splinter group Al-Qaeda in the Malay Archipelago respectively, are watershed empirical case studies used to highlight the theoretical discussion about the economic consequences of terrorism with particular focus on the tourism industry and related services sectors. The analysis focuses on broader lessons learned, and relevant policy prescriptions for areas heavily reliant on the tourism industry that make use of public-private partnerships, both domestically and internationally. In terms of a theoretical discussion about economic consequences, discussion involves comparisons between three topics. First, damage caused by the Bali I and Bali II bombings and economic impacts nationally, regionally, and internationally, to comparable damage caused by 9/11 and certain natural catastrophes such as Hurricane Andrew and Hurricane Katrina. Second, tourism asset protection approaches from economic and legislative perspectives. Finally, police and military action approaches and disaster management programs. This analysis primarily makes use of the school of neo-realism's "three level analysis" of conflict with its focus on explanatory factors and effects at and across three levels: the "international political system," "nation-state," and "individual." To be more specific, the "international political system" explanatory factors include those that affected three or more states (e.g., the Global War on Terrorism (GWOT) and the SARS virus). The "nation-state" factors include regime type, level of modernization, and societal composition. Third, "individual factors" include individual leader personality and style of leadership characteristics, and small upper level elite group decision-making processes.

Keywords: Al-Qaeda in the Malay Archipelago, Bali bombings, counter-terrorism, economic consequences, Indonesia, Islamic extremism, Jema'ah Islamiya, prevention, terrorism, tourism.

The purpose of this chapter is to examine the prevention of major economic disruption following acts of terrorism, in particular acts of terrorism against the tourism industry. The Bali I and Bali II bombings will be used as case studies to extract lessons learned and develop relevant policy prescriptions for areas heavily reliant on tourism. The framework of discussion includes a concise literature review about the economic disruptiveness of terrorist acts, the emergence of JI and its allure, and a discussion about the ramifications of the Bali I and Bali II bombings.

For both the Bali I and Bali II bombings, economic effects, major Indonesian government responses, and lessons learned will be examined. In the case of lessons learned, discussion about the Bali I bombings revolves around prevention measures taken and not taken, and the political (administrative), financial, and legislative deficiencies revealed, and a description of business preparedness and consequence management.

An historical retrospective suggests terrorist assaults against tourist-related targets have comprised a relatively modest portion of a broader set of attacks. Alex Schmid highlights analysis of terrorist assaults against tourism-related targets, revealing that between 1970 and 2007, less than 1 percent of terrorist attacks in the Global Terrorism Database (GTD) targeted tourists.¹ It is fair to say that rate is higher nowadays because as traditional government and military targets continue to be hardened, the value of attacks against “soft targets” has increased relative to the costs incurred to carry out attacks.²

One useful measure to establish a baseline is comparing the economic impacts of the Bali I and Bali II bombings described below with the economic effects of the 1993 World Trade Center (WTC) bombing and the 9/11 events. In the case of the 1993 (WTC) bombing, the economic consequences of that event were very substantial, but primarily limited to WTC tower structural damage to power centers, “emergency systems,” and “smoke damage.”³ According to one New York Times report, the bomb exploded, “... causing hundreds of millions of dollars of damage”⁴ Plainly, this stands in stark contrast to the \$22 billion USD in just insured losses caused by the 9/11 events.⁵

¹ Schmid, Alex P., “International Terrorism and International Tourism”; in: John J. LeBeau (Ed.), *The Dangerous Landscape: International Perspectives on Twenty First Century Terrorism: International Challenge, International Responses*, Garmisch-Partenkirchen: Partnership for Peace Consortium, 2013, pp. 211-219. Available at: https://bib.irb.hr/datoteka/663264.THE_DANGEROUS_LANDSCAPE.pdf.

² Ibid., p. 215; Lakdawalla, Darius, and George Zanjani, “Insurance, Self-Protection, and the Economics of Terrorism — Working Paper 9215,” (September 2002), NBR Working Paper Series, *National Bureau of Economic Research*, Cambridge, MA, pp. 1-26. Available at: <http://www.nber.org/papers/w915>.

³ The Canadian Press, “Jury rules N.Y. Port Authority negligent in 1993 World Trade Center bombing,” *The Canadian Press (CP)*, 26 October 2005. Available at: <https://advance-lexis-com.proxy.lib.wayne.edu/api/document?collection=news&id=urn:contentItem:4HDV-M7X0-01G6-938C-00000-00&context=1516831>.

⁴ Bernstein, Richard, “Explosion at the Twin Towers: 4 Are Convicted in Bombing at the World Trade Center that Killed 6, Stunned U.S.” *The New York Times*, 5 March 1994, Available at: <https://advance-lexis-com.proxy.lib.wayne.edu/api/document?collection=news&id=urn:contentItem:3S8B-1K70-008G-F40H-00000-00&context=1516831>.

⁵ Baranoff, Etti G., “Risk Management and Insurance after 9/11”; in: Matthew J. Morgan (Ed.), *The Impact of 9/11 on Business and Economics: The Business of Terror: The Day That Changed Everything?* New York: Palgrave MacMillan 2009, p. 145.

The Literature on Terrorism and Tourism

This brief literature review describes the “terrorism-tourism literature” with attention to economic security preparations relevant to pre-Bali I and pre-Bali II bombing conditions. The literature is broken down into three categories :

1. Assessment of broader 9/11 economic effects to compare economic impacts to the Bali I and Bali II bombings.
2. Approaches regarding tourism and related asset protection primarily from economic policy and legislative perspectives.
3. Examination of police and military actions and the role of disaster management programs that, inter alia, help to protect economic assets more completely.

In the case of literature that allows for comparison between the economic impact caused by the Bali I and Bali II bombings and 9/11, Etti Baranoff describes the economic impact of 9/11 on the American insurance industry. He compares 9/11 economic damage rates to natural disasters such as Hurricane Katrina (2005) and Hurricane Andrew (1992). Those two natural disasters caused the two highest rates of economic damage that the American insurance industry had to contend with, followed by 9/11: Hurricane Katrina caused roughly \$69 billion in insured losses, in contrast to Hurricane Andrew, with circa \$24 billion in insured losses. The damage caused by the 9/11 events ranked a very close third with insured losses valued at, as previously mentioned, \$22 billion.⁶

While attacks against tourism targets remain limited in scope, tourist arrivals worldwide were approximately 916.3 million in 2008, dropping some 4 percent to 800 million a year later.⁷ In the narrower sense, for US tourism, losses as a function of 9/11 from 2000-2007 were substantial. Fall and Epkins cite US Department of Commerce statistics and report that if tourist arrivals by Mexican and Canadian tourists are excluded from the tally, “.... overseas travel to America has declined 8 percent since 2000. In 2000, the United States welcomed almost 26 million overseas visitors. Seven years later, the United States welcomed 24 million overseas visitors.”⁸ The authors appraise the financial loss incurred as a direct result of 9/11, and as a function of related factors that contributed to a downturn in tourist arrivals to the US. Those factors include, but are not limited to, hostile tourist environments that resulted from American fears and suspicion, and the ongoing Global War on Terrorism (GWOT).

Studies that focus on tourism and related asset protection from economic and legal points of view include: Bandyopadhyay, Sandler, and Younas (2014); Ghaderi, Saboori, and Khoshkam (2017); Lakdawalla and Zanjani (2002).

Bandyopadhyay, Sandler, and Younas distinguish between “transnational” and “domestic” terrorist attacks to compare how “transnational” assaults and “domestic” assaults affect levels of Foreign Direct Investment (FDI) as measured in the relation to a country’s GDP. They examined

⁶ Ibid.

⁷ Schmid, 2013, p. 212.

⁸ Fall, Lisa T., and Heather Epkins, “The U.S. Welcome Mat: A Case Study of Post 9/11 Tourism Efforts”; in: Matthew J. Morgan (Ed.), *The Impact of 9/11 on Business and Economics: The Business of Terror: The Day That Changed Everything?*, New York: Palgrave MacMillan 2009, pp. 87-104.

“... the percentage of net FDI inflows to GDP (FDI/GDP) taken from World Development indicators....”⁹

Bandyopadhyay et al. conclude that “at the margin”, without taking into account domestic terrorism’s higher frequency that tends to equalize effects, one discrete event of “transnational” terrorism has more of a negative effect on FDI/GDP than one discrete event of “domestic” terrorism.¹⁰ The primary reason for this is that transnational terrorists, with their infrastructure and resources located primarily in a foreign country, are not very vulnerable to local counterterrorism efforts. In addition, the authors find “aggregate aid” is particularly adept at reduction of domestic terrorist effects on FDI. In subsequent analysis that breaks down “aggregate aid” into “bilateral” and “multilateral” assistance, “bilateral aid” is found to be more effective in combating “transnational” terrorism’s ability to reduce FDI/GDP, while “multilateral aid is more effective vis à vis “domestic” terrorism.¹¹

A 2017 study by Ghaderi, Saboori, and Khoshkam examines the relationships between tourist arrivals and several independent explanatory variables that include security, exchange rate, travel cost, tourism infrastructure (i.e., hotels, room availability), and GDP. In the case of the independent variable security, the authors create an aggregate security indicator composed of “political,” “economic,” and “social security” components that is regressed onto the dependent variable, “tourist arrivals” (along with the other variables mentioned), with interesting results.¹²

The authors find that in the case of developed states, there is a positive relationship between the aggregate security variable and tourist arrivals, where a one-unit level increase in total security results in an uptick of 1.3 percent for tourist arrivals. In contrast, for developing states, there is an inverse relationship, where a one-unit level increase in total security leads to a 4.1 percent decrease in tourist arrivals. This could perhaps be due to tourist perceptions of unsafe travel conditions in developing states as reflected in government efforts to enhance security. The analysis concludes that a high level of security while crucial to tourist arrivals might not be as significant for tourist arrivals in developing countries as are the independent variables, “tourism infrastructure” and “GDP.”¹³

Lakdawalla and Zanjani’s work, with its focus on the effects of government support for anti-terrorism insurance programs, is an example of an economic policy approach to counterterrorism. The authors examine whether government-supported insurance programs work to ameliorate a skewed condition where different levels of protection exist, as firm owners either decide to augment private security on their own (or not), and instead rely on public provisions - namely law enforcement. The central notion is that terrorists, as rational actors, will tend to target “soft”

⁹ Bandyopadhyay, Subhayu, Todd Sandler, and Javed Younas, “Foreign Direct Investment, Aid, and Terrorism,” *Oxford Economic Papers*, Vol. 66 (1), 2014, p. 9.

¹⁰ *Ibid.*, p. 25, pp. 48-50. A one standard deviation increase in domestic terrorism (per 100 people) affects FDI/GDP more than a one standard deviation increase of transnational terrorism (per 100,000 people).

¹¹ *Ibid.*

¹² Ghaderi, Zahed, Behnaz Saboori, and Mana Khoshkam, “Does Security Matter in Tourism Demand?” *Current Trends in Tourism*, Vol. 20 (6), 2017, pp. 552-565. Available at: <https://www.tandfonline.com/doi/full/10.1080/13683500.2016.1161603>.

The authors’ coefficients are (-.041 at the .01 significance level) and (.013 at the .01 significance level).

¹³ *Ibid.*

unprotected firms, whose owners are unable or unwilling to take advantage of private “self-protection” measures. Hence, “... each target’s probability of attack falls with its own self-protection, but rises with the self-protection investments of others.”¹⁴

The authors point out that firm owners, when making counterterrorism “self-protection” decisions, do not take the needs of others into account. The crux of the argument is that it is difficult for government to tax private “self-protection”, and thus to take into account free rider problems with firms in close proximity to “self-protection” firms that benefit from those private protection efforts because security in immediate proximities is an indivisible commodity.

Hence, if protection level differences between targets cannot be equalized through taxation, the option is to focus on insurance subsidies. The authors report that for this to work, “self-protection” and insurance protections must be equally effective, working in a condition where each firm pursues its own self-interest, knowing others will do the same. In this so-called Nash equilibrium condition, no firm deviates from pursuit of self-interest, (e.g., collusion with others to acquire a benefit), provided others do not.¹⁵ In the case of the Bali bombings, the issue of government sponsored insurance programs, their feasibility, and under what circumstances, is broached in this chapter, and in the broader sense by authors cited in this literature review.

Lastly, in the case of work that focuses on police and military security involvement and creation of disaster management programs, examples of work that explore effectiveness and feasibility issues include: Asongu and Nwachukwu (2018), Gurtner (2016), and Metodijeski and Filiposki (2016).

Asongu and Nwachukwu focus on factors internal to a country with a comparative analysis of firstly, law enforcement and private security, and, secondly, “armed services personnel” effectiveness. The aim is to shed light on the capabilities of each type of security apparatus to reduce negative externalities caused by terrorism on international tourism, as measured by “tourist arrivals.” In their analysis, the authors focus on four factors or measures of terrorism intensity called “policy syndromes” to assess comparative effectiveness. Those include numbers of deaths, numbers of injuries, property damage, and terrorist incident frequency. The scope of the study includes 163 countries for the period 2010-2015.¹⁶

The authors generate results that suggest that “armed services personnel” are critical in efforts to reduce terrorism’s negative effects in three out of four “policy syndromes” — property damage, injuries, and incident frequency. The findings for law enforcement and other security personnel were not found to be statistically significant, leading to the conclusion that law enforcement and other security “... are necessary but not sufficient to mitigate the adverse consequences of terrorism.”¹⁷ Those results may be particularly important for Indonesia and Bali, as Thompson

¹⁴ Lakdawalla and Zanjani, 2002, p. 4. The authors find government insurance subsidy strategies dovetail well with “public law enforcement strategies.”

¹⁵ Ibid.

¹⁶ Asongu, Simplicie and Jacinta C. Nwachukwu, “Mitigating Externalities of Terrorism on Tourism: Global Evidence from Police, Security Officers and Armed Service Personnel — AGDI Working Paper No. WP/18/036,” *Econstor* 2018, pp. 1-6. Available at: <http://hdl.handle.net/10419/204968>.

¹⁷ Ibid., p. 6.

(2011) notes that “a 1% increase in terrorism attacks decreases tourist arrivals per capita by 0.07% in developed countries and by 0.38% in developing countries.”¹⁸

Instead of focusing on military and police response efficiencies, Gurtner, in her work on Bali, focuses on the need to develop “disaster risk management” regimes with anticipatory governance and foresight emphasis. Those “disaster risk management” systems put a premium on an integrated set of pre-attack preparations to reduce risk, with an eye to promoting sustainable economic development at every stage of the emergency preparedness process.¹⁹

What seems significant here is the concept of risk insofar as risk, according to Monahan, can be assessed in two basic ways. For Monahan, risk can be conceptualized in an actuarial sense, as the likelihood or probability of victimization, or risk can be analyzed as “risk abatement,” namely the removal or reduction of explanatory factors and their harmful effects.²⁰ Gurtner appears to embrace the notion of “risk abatement” (also applied in this chapter on Bali case studies), where local communities must be integrated more effectively into governmental risk preparedness plans, perhaps with political and economic incentives, produced since the Bali I and Bali II bombings.

For Gurtner, one aspect of sustainable development is diversification of local economies where, in the case of Bali, there has been some effort at modification of the tourist industry to promote more specialized tourist options, what she calls “boutique” options, which cater to travelers that are more affluent. A critical part of Gurtner’s discussion involves corporate social responsibility (CSR) measures taken as part of “disaster management” by larger firms in tourism and related industries to provide worker education, retraining programs, and enhanced resilience. Gurtner argues that CSR initiatives would provide workers with the educational and economic wherewithal to adjust to fabricated economic shocks to local economies such as terrorism, or natural disasters such as tsunamis.²¹

In ways that echo the aforementioned, work by Metodijeski and Filiposki describes the importance of an integrative approach to “crisis management” preparation. Thereby emphasis is placed on inclusion of three components:

1. National counterterrorism stratagems and “training programs.”
2. Marketing through advertising campaigns.
3. Broader integrative tactical preparations for various stakeholders in the security system such as hotel industry personnel, the police, and military.

¹⁸ Thompson, Alexi, “Tourism and Tourism in Developed Versus Developing Countries,” *Tourism Economics*, vol. 17 (3), 2011, pp. 698-699.

¹⁹ Yetta Gurtner, Yetta, “Returning to Paradise: Investigating Issues of Tourism Crisis and Disaster Recovery on the Island of Bali,” *Journal of Hospitality and Tourism Management*, Vol. 28, 2016, pp. 11-19; Sheila Ronis (2007), *Timelines Into the Future: Strategic Visioning Methods for Government, Business and Other Organizations*, Lanham, MD: Hamilton Books; Leon Fuerth and M.H. Faber, *Anticipatory governance practical upgrades: equipping the executive branch to cope with increasing speed and complexity of major challenges*. Washington, DC: National Defense University, Center for Technology & National Security Policy, 2012.

²⁰ Monahan, John, “The Individual Risk Assessment of Terrorism” in *Psychology, Public Policy and Law*. 10 October 2011, pp. 14-17. Available at: <https://doi.apa.org/doiLanding?doi=10.1037%2Fa0025792>

²¹ Gurtner 2016, pp. 16-17, p. 12; Bandyopadhyay, Sandler, and Younas, 2014, p. 32; Richard J. Chasdi (2014), “A Continuum of Nation-State Resiliency to Watershed Terrorist Events” *Armed Forces & Society*, Vol. 40 (3) July, 476-503.

Metodijeski and Filiposki, who draw on the work of Paraskevas and Arendell, describe a five-fold sequence of “anti-terrorism policy” development with stages that include work to craft a “proficient anti-terrorist group,” intelligence/analytical divisions, set of protocols for formulation and implementation plans, and a series of monitor and oversight function programs that scope out clear issue and functional areas of responsibility.²² For both Gurtner and Metodijeski, and Filiposki, emphasis is placed on more integrative, holistic conceptions of the terrorism threat and the counterterrorism response to introduce flexibility into the system to make it more effective and efficient.

Jema’ah Islamiya — Growth and Allure

The Bali bombings were the work of Jema’ah Islamiya (JI). JI is a splinter group of Darul Islam (DI), an Indonesian Islamic extremist organization that emerged in 1942. Nugroho points to three themes that characterize the “Indonesian Islamic terrorism” discourse, ranging from Darul Islam, crafted by Raden Sekarmadji Maridjan Kartosoewirjo, to JI. For Nugroho, those three themes include the notion of defensive Jihad (*jihad difai*), a binary conceptualization of the world into believers and non-believers, and conspiratorial points of view about world domination “... under Jewish and Western civilization to destroy Islam.”²³

JI was formally crafted in 1992 by Abdullah Sungkar who had a personal rivalry and disagreement with DI chieftain Ajengan Masduki about Masduki’s piety. Estimates about the size of the JI cadre vary: while Nugroho, for example, reports some four hundred activists comprised the JI cadre through 2012, Chalk and Ungerer report a much larger number of some two thousand activists.²⁴ A set of “nation-state” factor effects, and what neo-realists call “international system” level factor effects, coalesced to make it possible for Abdullah Sungkar and Abu Bakr Ba’aysir to grow membership in JI and thicken its ties to Al-Qaeda in Afghanistan and in Pakistan.²⁵

²² Metodijeski, Dejan and Oliver Filiposki, “Tourism Policy and Security: The Case for Terrorism”: in: Rubin Zemon (Ed.), *4th International Conference ‘Ohrid-Vodici 2016’ Terrorism, Migrations Refugees — Contemporary Challenges on Cultural Identities, Heritage, Economy, Tourism and Media* (Conference Proceedings), Ohrid, 17-19 January 2016, pp. 133-142. Available at:

<http://eprints.ugd.edu.mk/17654/1/TOURISM%20POLICY%20AND%20SECURITY%20THE%20CASE%20OF%20TERRORISM.pdf>.

²³ Nugroho, Wibawanto, “The Special Appreciation for Lembaga Pengelola Dana Pendidikan (LPDP) Republik Indonesia (Indonesian Endowment Fund for Education),” Ph.D. Dissertation, University of Exeter, Exeter, United Kingdom, 15 October 2018, pp. 127-128, p.148n., p.156, pp. 117-119, pp. 107-108, p. 203; Matthew Strickler, “Jemmah Islamiya: Lessons from Combatting Islamist Terrorism in Indonesia: Wright Flyer Paper No. 58,” Air Force Research Institute, Maxwell Airforce Base, Alabama: Air University Press 2017, p. 5, p. 9; Solahudin, *The Roots of Terrorism in Indonesia: From Darul Islam to Jema’ah Islamiyah*. Ithaca, NY: Cornell University Press 2013, p. 196.

²⁴ Gordon, David and Samuel Lindo, “Jemmah Islamiyah Case Study Number 6,” *AQAM Futures Project Case Studies Series — November*, Washington, DC: Center for Strategic & International Studies, 2011, pp. 2-3; Nugroho 2018, p. 150; Peter Chalk and Carl Ungerer, “The Jemmah Islamiyah Network: the evolving terrorist threat in Southeast Asia,” *Australian Strategic Policy Institute*, 2008, pp. 12-13. Available at:

<http://www.jstor.org/stable/resrep04168.7g/stable/resrep04168.7>; Nugroho 2018, p. 150, p. 155.

²⁵ Waltz, Kenneth N., *Man, the State and War: A Theoretical Analysis*. New York: Columbia University Press 1959; Joseph S. Nye, Jr., *Understanding International Conflict: An Introduction to Theory and History*. New York: HarperCollins College Publishers 1993.

Indonesia under Suharto (1966-1998) was a “fierce state,” to use Ayubi’s term, where the state predominated over society in the absence of a social compact; where clientelism, coercive behavior, and an enhanced security apparatus, induced compliance.²⁶ At the “nation-state” level, President Suharto’s manipulation of non-violent Islamic organizations was a crucial factor where, in efforts to retain political control, Suharto loosened restrictions against non-violent Islamic organizations in efforts to build political alliances for his own political survival. A basic mistake made by the Suharto government that led to long-haul security problems for Indonesia was insufficient recognition of, or indifference to, the links between those non-violent Islamic organizations and violent Islamist extremists and the permeability between those types of organizations.²⁷

A second “nation-state” level factor whose effects accelerated the growth of Islamist extremism was Suharto’s 1998 resignation. The fall of Suharto’s “New Order” revolved around economic pressures caused by the Asian economic crisis (1997-1998). By itself this was an “international system” level factor, and an outcome of the political pressures associated with Suharto’s repression of political enemies and his indifference to the plight of most Indonesians. Thus, Rabasa reports that “Suharto’s downfall, to a large extent a consequence of the economic crisis, sharpened competition among the political sectors, some of which saw Islam as a path to political power.”²⁸ At a functional level, with the end of the Suharto era, the organizational separation of Indonesia’s military into its national army, the Tentara Nasional Indonesia (TNI), and into POLRI, its national police force, also provided room for Islamic extremism to grow and thrive as administrative protocol, areas of responsibility, and communications capacities were still in their formative phases.²⁹

Suharto’s resignation, followed by efforts to establish a more democratic political system in Indonesia, and the relative political tolerance that ensued, created opportunities for Islamic extremism to expand while links between local militias and non-violent Muslim political parties and movements continued to grow. At the same time, at least some of that newly found political tolerance in Indonesia was a result of government functional problems, namely problems with the capacities of early post-Suharto governments to project power in areas more distant from Jakarta.³⁰ The problems those early post-Suharto governments had projecting power into the hinterland worked to the advantage of terrorist groups. For example, in the case of the Bali I bombings, at least some of the bomb materials for the attack used, namely the TNT involved, was transported

²⁶ Calcutti, Marina, and Matteo Legrenzi, “Middle East Security; Conflict and Securitization of Identities”; in: Louise Fawcett (Ed.), *International Relations of the Middle East — Fourth Edition*, Oxford, England: Oxford University Press 2016, p. 221.

²⁷ Johnson, Kirk A., “The Longue Duree: Indonesia’s Response to the Threat of Jihadist Terrorism 1998-2016,” Master’s degree, Naval Post Graduate School, June 2016., pp. 13-14, p. 25, p. 30; Greg Barton (2004), *Indonesia’s Struggle: Jemmah Islamiyah and the Soul of Islam*, Sydney, Australia: University of New South Wales (UNSW) Press. Ltd, p. 86.

²⁸ Rabasa, Angel M., , “Southeast Asia: Moderate Tradition and Radical Challenge”: in: Angel M. Rabasa, Cheryl Benard, Peter Chalk, C. Christine Fair, Theodore Karasik, Rollie Lal, Ian Lesser, and David Thaler (Eds.), *The Muslim World After 9/11*, Santa Monica CA: RAND, 2004, p. 367, p. 381; Lewis, Jeff, *Language Wars: The Role of Media and Culture in Global Terror and Political Violence*. London: Pluto Press, 2005, p. 170, p. 181, p. 203; Hastings, Justin V., *No Man’s Land: Globalization, Territory, and Clandestine Groups in Southeast Asia*. Ithaca, NY: Cornell University Press 2010, p. 88.

²⁹ Nugroho, 2018, p. 131, p. 160; Johnson, 2016, p. 106.

³⁰ Chalk and Ungerer, 2008, p. 10; Johnson, 2016, pp. 7- 8, pp. 13-15.

from Ambon (Maluku) to Bali on widely used roads, apparently without fear of interception by Indonesian security forces.³¹

An important consequence of Suharto's resignation was its effect on the Indonesian military. The Indonesian military, jockeying for political position in post-Suharto Indonesia, actually mirrored President Suharto's tactics by working to curry favor with Islamic extremists for political advantage.³² For some Indonesian citizens it was frequently the economic hardships associated with the Asian economic crisis, the predominant macro-economic international system level factor in play at that time, that intensified the allure of Islamic extremism as a political alternative to government-supported Islamic political institutions such as Nahdlatul Ulama and Muhammadiyah.³³ While Suharto's short-sighted efforts to court Islamic organizations, irrespective of their actual composition was a tragedy — an avoidable mistake but understandable, perhaps even predictable, given Suharto's acute desire to retain power — the Asian economic crisis and its effects on populations comparatively new to city life, as well those in the Indonesian countryside, were beyond the control of Indonesia's leadership.

Another “nation-state” level factor that influenced the growth of JI was the condition of local communal conflict in Indonesia, primarily between Muslims and Christians. This communal conflict happened in cities such as Poso (Sulawesi), Ambon (Maluku), and Sampit (West Kalimantan), and exacerbated tensions between Indonesian Muslims and Christians, where in Poso, North Maluku, and Maluku, Christians also murdered Muslims. One crucial effect of this condition was that it diverted the attention of the Indonesian National Police (POLRI) away from the increasing threat of domestic Islamic extremism in Indonesia.³⁴

What also contributed to JI's growth was its actual involvement in the communal conflicts in Ambon, Maluku, and Poso. In Poso, for example, local Muslims, in exchange for protection against Christian militias, provided safe-haven to JI activists.³⁵ In Maluku, JI activists, primarily from “Mantiqi I,” JI's organizational division for Singapore, southern Thailand, Malaysia, and Islamic extremists from others groups such as Darul Islam (DI), fought together under the banner of an organization known as Laskar Mujahideen.³⁶

Separatist movement activity in Indonesia, with its imputed economic costs in terms of what the military had to spend to constrain it, was a further “nation-state” level factor that contributed to the growth of JI and other Islamic extremist organizations. Separatist movements were operative in East Timor (1999), in Aceh with the Free Aceh Movement (GAM), and in West Papua with the

³¹ Hastings, 2010, p. 98, pp. 101-102; Johnson, 2016, p. 25, p. 30; Rabasa 2004, pp. 389-390.

³² Rabasa, 2004, p. 367, p.382; Hastings, 2010, p. 87, pp. 100-101; Lewis, 2005, p. 181; Johnson, 2016, p.; Barton 2004, p. 96, p. 80.

³³ Strickler, 2017, p. 1, pp. 6-7; Rabasa 2004, p. 368, pp. 370-372, p. 377; Baker, John C., 2005, “Jemaah Islamiya,” in *Aptitude for Destruction, Volume 2: Case Studies of Organizational Learning in Five Terrorist Groups*, Santa Monica, CA: RAND, p. 68. Available at: <https://www.jstor.org/stable/10.7249/mg332nij.11>; Chalk and Ungerer, 2008, 9. Nahdlatul Ulama and Muhammadiyah are non-violent government-sanctioned Islamic bodies that practice “moderate” Islam, but Nahdlatul Ulama is oriented towards rural Indonesians with its “traditionalist” standpoint. This in contrast to Muhammadiyah, that is urban oriented and, hence, “modernist.”

³⁴ Lewis, 2005, pp. 172-173; Johnson, 2016, p. 105.

³⁵ Solahudin, 2013, pp. 193-194; Gordon and Lindo, 2011, pp. 3-4, p. 6.

³⁶ Nugroho, 2018 p. 161.

Free Papua Organization (OPM) where significant threats of violence from such paramilitaries did not pass into eclipse until 2002, and in some cases lasted until 2005.³⁷

Turning to the “international system” level, the effects of the Global War on Terrorism (GWOT), the dominant macro-political “international systems” level factor at work, interacted with communal conflict and separatism at the “nation-state” level to inhibit the Megawati government from making a more complete commitment to combating the growth of Islamic terrorism. Prior to the Bali I bombings, part of the problem was government denial that a significant threat from Islamic terrorism existed internally, a problem that appears to have been related to its preoccupation with communal conflicts and separatist movements.

A related factor responsible for the Indonesian government’s inability to commit itself more fully to the Global War on Terrorism was a carefully reasoned political appraisal by Indonesian political leaders about the prevailing opinion among Indonesians regarding American counterterrorism actions. The conventional wisdom held by many Indonesians was that GWOT illuminated a post-9/11 American plot to prosecute a global war against Islam. Such conspiratorial anti-American sentiments were even found among members of political families at the highest level of Indonesia’s government. For example, President Megawati’s “own sister...Rachmawati Soekarnoputri...dismissed reports of radicalism within Indonesia as CIA ‘rumours’ designed to undermine Islam and put Indonesia under US control.”³⁸

Hence, President Megawati, as a rational actor, appears to have conducted a cost-benefit analysis — the costs of political blowback portraying her as an American stooge, willing to use “hardline” Suharto-like actions, was more costly and difficult for her to bear than reaping the benefits of a more robust response to the threat of Indonesian Islamic extremism. Within the context of the transition from Suharto to a more democratic leadership where Indonesia’s weak governments were trying to establish legitimacy, public opinion and perception certainly mattered.³⁹ While the Suharto resignation remains a critical factor for the rise of JI and other Islamic extremist organizations, the weakened condition of early post-Suharto governments with their legitimacy and power projection problems seems equally important. This then, was the background to the Bali bombings.

The Bali I Bombings (2002)

The Bali bombings of 12 October 2002 were carried out by JI against two sites in Kuta, Bali’s popular tourism locale, and at a third site in Sanur, close to the US consulate. Those terrorist assaults caused the deaths of 202 persons and injuries to up to 500 others. Both sites in Kuta were frequented regularly by regional tourists from countries such as Australia and Japan, and tourists from Western countries such as the US, UK, Ireland, and Germany.⁴⁰

³⁷ Johnson, 2016, p. 43, pp. 15-16, pp. 19-21, p. 24, p. 39, p. 71.

³⁸ Gordon and Lindo 2011, p. 5; Anthony L. Smith, “A Glass Half-Full: Indonesia-US Relations in the Age of Terror,” *Contemporary Southeast Asia*, Vol. 25 (3), 2003, pp. 456-457; Johnson, 2016, pp. 35, 41-42.

³⁹ Johnson, 2016, p. 15, p. 19, p. 48, pp. 51-52, p. 54, p. 58, pp. 35-36, pp. 41-42; Hastings, 2010, p. 87, p. 93.

⁴⁰ Anne-Marie Balbi, “Constructing Counter-Narratives to Terrorism: A Comparative Analysis of Collective Resistance in the aftermath of the terror attacks in Bali and Norway.” Ph.D. dissertation, Curtin University, May 2019. Available at: <https://espace.curtin.edu.au/handle/20.500.11937/78145>, 186, n.724.

The most devastating detonations took place in Kuta at the Sari Club discotheque and at Paddy's Bar where the curbside potassium chlorate explosive devices used were packed into a plastic file cabinet inside a parked Japanese minivan, at least in the case of the Sari Club. The IED near the front of the Sari Club was considerably more powerful than the device used at Paddy's Bar, but it was at Paddy's Bar that suicide bomber "Jimmy" entered the premises, marking a departure from past JI events.⁴¹ Those high intensity assaults are consistent with Baker's broader observation that, "...most of the JI bombings attacks since 2004 have involved multiple or large bombs aimed at indiscriminately producing substantial numbers of casualties."⁴²

Bali as a Target

Why target Bali? Ostensibly, the long-term objective of JI at that time was to cull out an "Indonesian Islamic state" (*Daulah Islamiya*) as a springboard to create a broader regional Islamic polity in Southeast Asia.⁴³ However, for Balbi, intertwined political and religious motivations tracing an arc to Indonesian religious conflict in the 1940s are more nuanced sources of both of the Bali bombings. Those attacks also reflected a visceral response to increased socio-economic development and the new emphasis on democratic reform. Balbi quotes Lewis and Lewis, who asserted that "the relationship between Bali and Java represents the complex modernization of Indonesia and the "constitutional fabric of Indonesia's democratic statehood", and in this sense, the Islamic militant terror attacks were also an assault on the "very essence of the Indonesian state and its politico-cultural integrity."⁴⁴

For Hitchcock and Darma Putra, "opportunity recognition" and international political factors made Bali a high-profile targeting opportunity, where an attack would command extensive media coverage. There was symbolic importance to high intensity attacks in the post-9/11 world against Westerners, particularly Americans and Australians in this case, because the Australian government had, in the 1990s, provided close cooperation to the Clinton administration as it confronted the Indonesian political leadership's response to East Timorese self-determination efforts with brutal Indonesian military repression.⁴⁵

The anticipated role of media related to the attacks did not go unnoticed by JI chieftains. The benefits of extensive media coverage of Bali I promoted the political message of confrontation

⁴¹ Michael Hitchcock and I Nyoman Darma Putra (2007), *Tourism, Development and Terrorism in Bali*, Hampshire, England: Ashgate Collective Resilience Limited, 144; Justin V. Hasting, *No Man's Land: Globalization, Territory, and Clandestine Groups in Southeast Asia*, Ithaca: Cornell University Press 2010, pp. 102-103, Available at: <https://www.jstor.org/stable/10.7591/jctt7z70v.10>; John C. Baker (2005), "Jemaah Islamiya," in *Aptitude for Destruction, Volume 2: Case Studies of Organizational Learning in Five Terrorist Groups*, Santa Monica, CA: RAND, 70, 80-81. Available at: <https://www.jstor.org/stable/10.7249/mg332nij.11>; Greg Barton, *Indonesia's Struggle: Jemaah Islamiyah and the Soul of Islam*, Sydney, Australia: University of New South Wales Press 2004, p. 20, p. 8.

⁴² Peter Chalk and Carl Ungerer, "The Jemaah Islamiya Network," *Neighborhood Watch: the Evolving Terrorist Threat in Southeast Asia*, Australian Strategic Policy Institute, 2008, p. 14. Available at: <https://www.jstor.org/stable/resrep04168.7>; Baker, 2005, p. 72, pp. 70-71.

⁴³ Chalk and Ungerer, 2008, p. 10-11; Baker 2005, p. 59; Hitchcock, Michael, and I Nyoman Darma Putra, *Tourism, Development and Terrorism in Bali*. Hampshire, England: Ashgate Collective Resilience Limited 2007, p. 140; Hastings, 2010, pp. 102-103; Baker 2005, pp. 80-81.

⁴⁴ Balbi 2019, p.187, p. 187 n.734.

⁴⁵ Ibid., p. 186 n.725, pp. 187-188.

with the West over the GWOT. It also highlights what Hudson describes as the GWOT's heavy emphasis on military actions and "regime change." That message dovetailed well with JI and al-Qaeda's economic motivations to damage the world economy.⁴⁶ Media coverage of the Bali bombing could create fear among tourists and help cripple the Indonesian economy and Bali's tourism industry.⁴⁷

At the same time, the vast religious, ethnic, and cultural differences between JI perpetrators and Bali's Hindu community made Bali, with what Balbi calls its "secularism," an even more attractive terrorist target, as the Balinese who are Hindu stood out in sharp religious contrast to Java's majority Muslim population. Within the context of those religious and social cleavages, Balinese were seen by Islamic extremists as somehow complicit in post-9/11 American counterterrorism operations.⁴⁸

The choice of Bali as a target was also influenced by JI's close ties to Al-Qaeda. JI's own origins trace an arc to contacts in the early 1990's between Osama bin Laden and JI founder Abdullah Sungkar. According to Nugroho, "their linkage to Al-Qaeda is the result of the identical ideological bondage of global Salafist doctrine envisaged to create a caliphate in Southeast Asia."⁴⁹

For Islamic extremists, Westerners have a high degree of symbolic importance as targets within an imagined fierce eschatological struggle between the West and Islam; they are viewed by Islamic extremists as legitimate targets because they live in "ignorance" or darkness (*jahaliya*), in *Dar al-Harb* ("the house of war"), or outside the enlightened community of believers, the Muslim *ummah*.⁵⁰ In the middle to late 1980s, Sungkar and Abu Bakr Ba'asyir, who were both living in exile in Malaysia since 1985, established networks with Al-Qaeda and a Southeast Asian recruit pipeline of activists to fight in Afghanistan, before their return to Indonesia in 1998.⁵¹

The Bali I Operation

It was JI member Imam Samudra who hatched the plan to assault Bali, but Mukhlas (aka Ali Gufron), who worked with JI chieftain Hambali (aka Riduan Isamuddin), appears to have been in charge of the actual operation.⁵² The JI group involved in the Bali bombings was divided into two units: one responsible for target surveillance and a second group to carry out the operation. JI's capacity to engage in target surveillance was ample. For Baker, the focus of "...JI bombing operations to date has been an emphasis on extensive target identification and surveillance."⁵³ Syahfullah, a Yemeni who was an Al-Qaeda activist, worked with Mukhlas and Imam Samudra on administrative and logistics issues, while the Malaysian JI reconnaissance expert Zubair helped

⁴⁶ Michael C. Hudson, 2016, "The United States in the Middle East" in Louise Fawcett (Ed.), *International Relations in the Middle East — Fourth Edition*, Oxford, UK: Oxford University Press.

⁴⁷ Hitchcock and Darma Putra 2007, pp. 135, pp. 141-143, p. 145.

⁴⁸ Balbi, 2019, p. 188, p. 234.

⁴⁹ Nugroho 2018, p. 129, p. 119; Balbi, 2019, p. 186.

⁵⁰ Baker 2005, pp. 64-65, p.73; Hitchcock and Darma Putra 2007, pp. 135-136, pp. 141-143; Lewis, 2005, p.190.

⁵¹ Chalk and Ungerer 2008, p. 9; Nugroho 2018, p. 153.

⁵² Hitchcock and Darma Putra, 2007, p. 143; Baker 2005, pp. 70-71.

⁵³ Baker, 2005, p. 73-74, pp. 80-81; Hastings, 2010, pp. 102-103.

to identify specific targets.⁵⁴ The major Bali I perpetrators were middle-to-high-echelon JI activists with overlapping affiliations with other terrorist organizations that were operating internationally. Those included JI chieftain Zulkarnaen (aka Aris Sumarsono or “Daud”), the Indonesian senior “JI operations chief,” bomb maker, and interlocutor between al-Qaeda and JI, who would also go on to collaborate with Noordin Mohammad Top to carry out the Bali II bombings (2005). Fathur Rahman al-Ghozi, was another main JI actor who trained JI recruits in Mindanao and served as JI interlocutor to the Moro Islamic Liberation Front (MNLF).⁵⁵

Several scholars such as Nugroho point to the importance of the war in Afghanistan, where many JI chieftains gained military experience to pass on to Southeast Asian Islamic extremists, as crucial to the enhancement of JI effectiveness. Further, those international connections established in training camps in places like Afghanistan, Pakistan, and the Philippines, made it possible for Jihadists who knew one another to establish networks for future collaborative efforts.⁵⁶ It is well known that networks are the transmission mechanisms of social movements. They cause “social mobilization” in individuals and small groups of individuals that, in turn, can lead to structural political change.⁵⁷

The JI group was also comprised of several others including three brothers: Amrozi bin H. Nurhasyim who was a motorcycle repairman, Ali Imron, as well as Mukhlas.⁵⁸ Dr. Azhari bin Husin, an engineer by training and considered the senior bomb-making specialist in this group, crafted the bombs, while his student Dulmatin (aka Joko Pitono), a capable bomb-making and electronics specialist in his own right, presumably worked with him. In addition, Idris (aka Joni Heidrawan), an Indonesian who detonated the US consulate device, presumably worked with Umar Patek (aka Abdul Ghoni), who was another Indonesian bomb maker.⁵⁹

What is significant here is the permeability of many terrorist groups, personnel, and the thickness of family connections (e.g., the brother-in-law of Dulmatin, Hari Kuncoro, was also a conspirator). Those findings about JI composition dovetail well with previous findings of this author about the importance of family and personal connections between activists of al-Ittihad al Islamiya (AIAI), the al-Qaeda affiliate responsible for the Mombasa and Kikambala terrorist assaults against Israeli targets in November 2002.⁶⁰ It should be noted that both Rabasa and Hitchcock and Darma Putra suggest Abu Bakr Ba’asyir might not have supported the Bali bombings outright because he

⁵⁴ Hitchcock and Darma Putra, 2007, p. 140; Nugroho 2018, p. 138.

⁵⁵ Sidney Jones (2010), “New Order Repression and the Birth of Jemaah Islamiyah”; in: Edward Aspinwall and Greg Fealy, Acton (Eds.), *Soeharto’s New Order and Its Legacy: Essays In Honor of Harold Crouch*, Australia: Australian National University Press, p. 40, p. 45, pp. 43-46; Nugroho, 2018, pp. 117-119, p.158; Hastings 2010, pp.101-102; Chalk and Ungerer 2008, pp. 12-13, p. 4; Baker 2005, p. 59-60, p. 69, p. 73, pp. 77-78; Rabasa 2004, p. 401. Jones reports that Zulkarnaen was a member of the Gerkan Pamuda Indonesia (GPI), Masyumi’s “youth league”; he subsequently became a Darul Islam (DI) activist. The MNLF in the Philippines is Abu Sayyaf’s parent organization; Abu Sayyaf is a “splinter group” that gradually lost its ideological ambitions in favor of criminal actions and profit.

⁵⁶ Johnson, 2016, p. 46; Nugroho, 2018. As cited by Johnson, Heghammer’s notion is that a seasoned veteran in terrorist group ranks increases lethality and injury rates.

⁵⁷ Nugroho, 2018, p. 89, p. 93, pp. 110-113, pp. 130-131.

⁵⁸ Rabasa 2004, p. 398; Nugroho, 2018, pp. 138-139.

⁵⁹ Baker, 2005, p. 71, p. 74; Chalk and Ungerer 2008, p. 13; Nugroho, 2018pp. 138, pp. 165-166.

⁶⁰ Chalk and Ungerer, 2008, p. 13; Hastings, 2010, p. 103; Richard J. Chasdi, 2018, *Corporate Security Crossroads: Responding to Terrorism, Cyberthreats and Other Hazards in the Global Business Environment*, Santa Barbara, CA: Praeger Publishers–ABC-CLIO, pp. 93-109; Hitchcock and Darma Putra 2007, p. 140-141.

believed that JI's commission of frequent terrorist assaults would elicit the special focus of the Indonesian police and counterterrorism measures onto JI.⁶¹

The Bali bombings display the rationality assumption in decision-making where terrorist chieftains are considered rational actors who engage in cost-benefit analysis within the context of "opportunity recognition" for target selection. By contrast to the enormous economic damage caused by the Bali I bombings to Bali's local economy and the substantial damage to the national economy described below, Hastings asserts that JI chieftain Mukhlas had only some \$ 30,500 supplied by Al-Qaeda to spend on the Bali bombings.⁶² Plainly, terrorist leaders understand how economic cascade effects from carefully planned terrorist attacks can disrupt national economic development plans.⁶³

As a rational strategy, focus on tourism target venues, especially in the post-9/11 era, appears to be pronounced with attacks in places as varied as Indonesia, Morocco, Sri Lanka, India, Egypt, Fiji, and Mali.⁶⁴ In the case of the Bali I bombings, Gurtner, Rabasa, and Henderson all suggest that early warning systems (EWS) and other prevention or disruption instruments and protocols were virtually non-existent in the pre-Bali bombing period. For Henderson, this extended into the realm of strategic assessment. As she reported, "regarding strategy ingredients, there is no evidence of formal attempts to identify threats or devise plans prior to the attack."⁶⁵

Rabasa points out that "Indonesia...had just emerged from authoritarian rule and lacked the equivalent of an Internal Security Act that would allow the authorities greater latitude in dealing with suspected terrorists."⁶⁶ Likewise, Gurtner concludes that after the Bali I incidents, while "safety and security measures with related education and training had improved, however Bali still lacked a formal disaster management plan."⁶⁷ Indeed, a statement made by Indonesia's future president right after the Bali I attacks is very telling with respect to what were security priorities. As reported by The Guardian, "security minister Susilo Bambang Yudhono said strategic targets, such as liquefied natural gas plants, 'will be protected.'"⁶⁸

⁶¹ Rabasa, 2004, p. 398; Hitchcock and Darma Putra 2007, p. 140; Solahudin, 2013, p.192; Baker, 2005, p. 73.

⁶² Hastings, 2010, p. 102; Solahudin, 2013, p. 197; Hitchcock and Darma Putra, 2007, pp. 141-143; Nugroho 2018, p. 131, p. 150; Gordon and Lindo 2011, p. 7; Llewellyn, Aisya. 2021. "Indonesians unknowingly fund hardline group behind Bali bombings." *Al-Jazeera*, 7 January.

⁶³ Colgan, Jeffrey D., *Petro-Aggression: When Oil Causes War*, Cambridge, UK: Cambridge University Press 2013, p. 2.

⁶⁴ Schmid, 2013, p. 211-219; Raoul Bianchi 2006, "Tourism and globalization of fears: Analyzing the politics of risk and (in) security in global travel," *Tourism and Hospitality Research*, Vol. 7 (1), p. 65, p. 70; Joan C. Henderson (2003), "Terrorism and Tourism," *Journal of Travel & Tourism Marketing*, 15, p. 1, p. 54. Available at: <http://doi.org/101300/J073v15n0103>; Tarlow Peter E., "War, Terrorism, Tourism, and Morality," *International Journal of Safety and Security in Tourism and Hospitality*, Vol. 1 (12), 2015, p. 2. Available at: <https://search-proquest-com.proxygw.wrlc.org/docview/1721369983/fulltextPDF/2DD47D3B8B514F88PQ/1?accountid=11243>; Graham Norton, "The Vulnerable Voyager: New Threats for Tourism," *The World Today*, Vol. 50 (12) December 1994, pp. 237-238; Chasdi, 2018.

⁶⁵ Henderson, 2003, p. 54.

⁶⁶ Rabasa, 2004, p. 395; Lewis, 2005 p. 83-84.

⁶⁷ Gurtner, 2016, p. 14.

⁶⁸ The Guardian, "Indonesia Bali night club bomb kills 180," *The Guardian*, 13 October 2002. Available at: <https://www.theguardian.com/world/2002/oct/13/indonesia>.

Some accounts suggest that the economic effects of the Bali I bombings were compounded by broader macro-economic factors such as the Asian economic crisis. However, it remains unclear just how or to what degree the Asian economic crisis or other exogenous events such as the SARS virus epidemic exacerbated the effects of the Bali I bombings on Indonesia's national economy. That uncertainty resonates with Drennan's point about the inherent difficulties of sorting out broader terrorist incident effects from the effects of other confounding conditions such as the post-1998 regional recession.⁶⁹

Economic Effects of Bali I

In the broadest sense, Schmid reports that the world tourist arrival rates, dropped 25 percent in 2003 after the Bali bombings of October 2002.⁷⁰ Some of the economic effects of the Bali I bombings could be captured by incremental weekly or monthly data about hotel occupancy, for example, sorted out into broader effects on the Indonesian national economy and more localized economic effects in Bali that involved the Balinese hotel management industry, hotel workers, vendors, and subcontractors. However, such detailed data are not available.

Henderson captures the magnitude of financial loss in the aftermath of the Bali attacks, noting that "the Tourism Ministry speculated about losses of \$1.8 and \$2 billion from international and domestic tourism earnings respectively, equivalent to about 6.6% of the country's GDP, leaving 2.7 million unemployed...."⁷¹ Balbi points out that the disruption of Bali worker remittances to families in parts of Java after the Bali I bombings also had substantial economic effects that contributed to the damage inflicted on the Indonesian national economy.⁷² Further, there were other broad economic effects such as a decline in Indonesia's reserves of foreign currency and decline in incoming foreign investment.⁷³

The Bali I terrorist assaults had the most profound economic repercussions locally. As 90 percent of Bali's revenues were, at the time, tourism driven, the downturn in tourism to Bali increased unemployment among the ranks of local workers such as small merchants and taxi cab drivers associated with the hotel and tourism industries, and hence contributed to a decline in the income that local families earned.⁷⁴ One World Bank estimate is that on average, there was a 40 percent

⁶⁹ Drennan, Matthew P., "The economic costs of disasters: permanent or ephemeral?"; in: Harry W. Richardson, Peter Gordon, and James E. Moore II (Eds.), *The Economic Costs and Consequences of Terrorism* Northampton, MA: Edward Elgar Publishing, Limited, 2007, p. 165.

⁷⁰ Schmid, 2013, p. 216.

⁷¹ World Tourism Organization (2002), "Tourism Between 'Moderate Optimism' and 'Structural Changes', WTO Tourism Recovery Committee says," *World Tourism Organization*, 21 November, as found in Henderson 2003, pp. 47, 58; Drennan 2007, pp. 158-181. One caveat that some scholars like Drennan point to, are the difficulties of attempts to distinguish between terrorism's economic effects from broader macro-economic effects.

⁷² Balbi, 2019, p. 214.

⁷³ Henderson, 2003, p. 1, 47; Lewis 2005, p. 200, 177. Available at: <https://jstor.org/stable/j.ctt183q4ck.9>; Nugroho 2018, p. 214.

⁷⁴ Lewis, 2005, pp. 200, 177; 200; Hitchcock and Darma Putra, 2007, p. 122, p. 124; Asmarani, Devi., "Devastated tourism industry tries to rise from ashes," *The Straits Times (Singapore)*, 2002, p. 21, October. Available at: <https://advance-lexis-com.proxy.lib.wayne.edu/api/document?collection=news&id=urn:contentItem:473J-N3H0-0058-X2VX-00000-00&context=1516831>.

decline in income from November 2002-May 2003.⁷⁵ Hitchcock and Darma Putra reported that “tourist arrivals” dipped considerably in the months following the Bali I terrorist assaults.

Thus, in September 2002, there were 150,747 tourist arrivals in Bali, a number that continued to dip over a three-month period to 60,836 by January 2003. That represents a 40.35 percent reduction in tourist arrivals from 150,747 in three months. In February 2003, “tourist arrivals” increased by 6,633 and steadily grew through March 2003 to 72,263 people. From that time until August 2004, when tourist arrivals reached 155,628, tourist arrival rates per month were marked by cyclical patterns, with a range of between 47,858 to 148,117.⁷⁶ The last figure represents about 98.2 percent of the volume listed for September 2002. Compared to the American tourist rate dip of some 8 percent over seven years from 2000-2007 following 9/11, these indicators appear to reflect much greater volatility in the case of the Bali experience, perhaps in part because of Bali’s small size and lack of economic diversity beyond tourism.⁷⁷

In a similar vein, accounts in *The Straits Times* also point to the potency of the short-run effects of those attacks: in the week after the 12 October 2002, Bali I terrorist assaults, “hotel occupancy” in Bali diminished by some 44.6 percent, from 74.8 percent to 33.4 percent hotel capacity, from 11 October 2002, to October 2019, amidst the combined effects of abject fear and foreign government issued travel warnings and advisories. Indeed, both Henderson and Hitchcock, and Darma Putra reported that by late October 2002, Bali’s hotel occupancy rates had in some cases as in Nusa Dua, diminished to some 10.0 percent.⁷⁸ To provide some middle-range perspective to this, Schmid reports, “after 9/11, both airline passenger loads and hotel occupancy in the United States declined for several months by 50% and more in some regions.”⁷⁹

There were also Southeast Asian regional and international effects — Malaysia for example, suffered a smaller downturn in “tourist arrivals,” about two-thirds of the drop in Bali’s “hotel occupancy” as reported by Asmarani; tourist arrivals for October 2002 plummeted “...28 percent to just over one million, compared to a forecast of 1.4 million.”⁸⁰ However, Bali’s tourism rate experienced again an uptick due to, at least in part, interregional tourism from places such as Japan, Singapore, and Australia. Hitchcock and Darma Putra noted that “by 2004 the situation had

⁷⁵ Nick Mawdsley, Eugenia Piza-Lopez, Kai Kaiser, 2004, “Bali beyond the Tragedy: impact and challenges for tourism led development in Indonesia #53691,” World Bank, 4 April, 2011. Available at: <http://documents.worldbank.org/curated/en/699951468049458930/Bali-beyond-the-tragedy-impact-and-challenges-for-tourism-led-development-in-Indonesia>.

⁷⁶ Hitchcock and Darma Putra 2007, pp. 122-123.

⁷⁷ Fall and Epkins 2009, pp. 87-104.

⁷⁸ $74.8\% \times .446 = 33.40\%$. Asmarani 2002. Available at:

<https://advance-lexis-com.proxy.lib.wayne.edu/api/document?collection=news&id=urn:contentItem:472X-38H0-00BT-M51X-00000-00&context=1516831>; Associated Press International (2002), “Hotel occupancy plummets to 10 percent in Bali after bomb attacks,” *Associated Press International*, 25 October (Nexis-Uni); Henderson 2003, pp. 46, 57; Hitchcock and Darma Putra, 2007, p. 122.

⁷⁹ Schmid ,2013, p. 216.

⁸⁰ *The Straits Times (Singapore)* 2002, “Malaysia tourism industry feels Bali blast effect,” *The Straits Times (Singapore)*, 15 November. Available at:

<https://advance-lexis-com.proxy.lib.wayne.edu/api/document?collection=news&id=urn:contentItem:4782-M1T0-0058-X40M-00000-00&context=1516831>; Henderson 2003, p.46, p.57. To be sure, “tourist arrivals” is a measure comparable to “hotel occupancy” — a “tourist arrivals” dip of 28.0% in Malaysia is just under two-thirds of the 43.5% drop in hotel occupancy in Bali reported by Asmarani, 2002.

improved markedly with foreign arrivals returning — and in some cases exceeding (see January 2004) — the pre-bombing record...” as measured per month, primarily by the Bali Tourism Authority.⁸¹

In the case of the “Typology of Terrorism’s Economic Disruptions” presented in Appendix I, the Bali I attacks appear to fit most closely with type ten, (A1 B4 C1) where “economic disruption effects of a terrorist assault against a tourist target (have) international effects and national effect and/or regional effects in a short-run interval” (See Appendix I).

Indonesian Government Economic Responses to Bali I

The purpose of this section is to explore briefly some of the Indonesian government’s more important economic responses to the Bali I bombings. International assistance efforts to Indonesia and to Bali, in particular after the Bali I bombings, are well documented with multilateral assistance provided from institutions that include, but are not limited to, the World Bank and the United Nations (UN Development Program). As Lewis reports, “donor and development organizations such as USAID, the World Bank, Dutch Trust and AusAID have also developed a range of social and infrastructure programs, mostly focused on the restoration of tourism.”⁸²

The Indonesian government also implemented some carefully reasoned policies of its own in both economic and political/cultural domains — with mixed results. In efforts to promote societal resilience and economic recovery nearly simultaneously, the Indonesian national government, with involvement of provincial and district governments, focused its efforts primarily on economic recovery.⁸³ Those efforts included, but were not limited to, about \$ 4 million, with an additional \$ 1 to 2 million more specifically geared towards tourism, infused into Bali (e.g. through the Bali Tourism Authority) by Indonesia’s national government.⁸⁴

In addition to infusions of money into the tourism sector, there were initiatives to restructure small business (credit) debt. According to Mawdsley, Piza-Lopez, and Kaiser of the World Bank, “...Bank Indonesia published a decree in December 2002 asking banks to assist businesses in restructuring their credit. The Jakarta Initiative Task Force also held meetings and a conference in March 2003 with banks and businesses in Bali to promote debt restructuring between debtors and creditors.”⁸⁵

One such economic recovery program was directed at local small and middle-size businesses. Three Indonesian monetary institutions in Bali, Lembaga Perkreditan Desa (LDP), Bank Rakyat Indonesia (BRI), and Bank Perkreditan Rakyat (BPR), issued lines of credit to small and middle-size business owners. However, the program suffered because of repayment problems many of those business owners subsequently experienced.⁸⁶ Another Indonesian government backed

⁸¹ Hitchcock and Darma Putra, 2007, p. 122.

⁸² Johnson, 2016, p. 106; Lewis, 2005, pp. 200-201.

⁸³ Balbi, 2019, p. 278, p. 273.

⁸⁴ Balbi 2019, p. 234; Lewis, 2005, pp. 200-201; Chasdi, 2014.

⁸⁵ Mawdsley, Piza-Lopez, and Kaiser, 2004, pp. 55-56. See “section 148 — Fiscal Responses and Incentives for Terrorism Related industries.”

⁸⁶ Ibid., pp. 63, p. 61, pp. 20-21.

program to aid in Bali's recovery had, by 2004, either approved distribution of monies or had distributed monies to Balinese middle-size and small businesses by means of several government ministries that included Indonesia's Department of Defense and Security. In the absence of clear program impact and outcome evaluations presented, it is not possible to evaluate the effectiveness of that program.⁸⁷

World Bank analysts suggested that broader structural problems such as the Asian economic crisis compounded economic hardships in East Java (and in Bali) to the point that the aforementioned Indonesian program might well have been imperiled from the start. For Mawdsley, Piza-Lopez, and Kaiser, "the effects of the Bali bombings are moreover overshadowed by a generally slow recovery of East Java in the wake of the Asian economic crisis after 1997-8."⁸⁸

Hence, it seems likely that economic hardships, exacerbated by the Asian economic crisis and the SARS epidemic of 2002-2004, contributed to the growth of Islamic extremism for the reasons described above. In addition to this, it can be argued that economic hardship, in large part due to that economic crisis, impinged on the potential of some of these economic recovery programs' capacities to work more effectively.

Bali I – Lessons Learned

There are several lessons that have been learned from the events of Bali I related to prevention; political/administrative, monetary, and legislative deficiencies; and preparedness and consequence management that will now be discussed.

Prevention

The political and economic effects of the Bali bombings compel us to think about prevention efforts taken by the Indonesian government and those not taken prior to the bombings. This chapter section distinguishes between political strategies that could have been taken prior to Bali I and some of the broader political and economic trends that worked to compound the economic effects of the Bali I bombings.

One set of opinions, as Balbi reports, expressed by Balinese after Bali I, was that Bali's lack of economic diversity contributed to the problem. "One respondent," as Balbi recalled, "spoke about how the bombings impacted thinking about the Bali economy, where it had jumped from an economy based on agriculture straight to a services economy, circumventing the industrialized economy, and how a reorientation was necessary to be better equipped for a disruption in the future."⁸⁹

Clearly, that is a prescient argument — the introduction of flexibility into a local economy through diversification increases economic and societal resilience against external "shock effects"

⁸⁷ *Ibid.*, p. 45, p. 47, pp. 53-57.

⁸⁸ *Ibid.*, p. 39.

⁸⁹ Balbi, 2019, p. 214.

associated with terrorism or natural disasters. The multidimensional production conditions intrinsic to several product lines, even within firms, produces redundancy that allows worker transition in crisis situations into other economic sectors, if only on a temporary basis. The argument suggests the Indonesian national government should have worked to diversify Bali's economy; a terrorist assault on the tourism industry without such strong reliance on the "services economy", for example, would have caused much less economic devastation.⁹⁰

However, while the importance of economic diversification is an important lesson, such twenty-twenty hindsight does not take into account the broader political trends in Indonesia that allowed Islamic extremism in Indonesia to grow in the first place. Major problems associated with political and economic reform prospects were apparent in, and intrinsic to, the Suharto era — characterized by political rigidity and overreliance on the military to cope with challenges to the regime. In authoritarian regimes, there is no "social compact" between the state and society to regulate ruling elite behaviors. Suharto's manipulation of Islamic parties and movements for his own purposes prior to Bali I created conditions where Islamic extremism was able to take root and thrive.⁹¹

In his quest to find allies and political support, Suharto could not or would not recognize and distinguish adequately the number and depth of links between non-violent political parties and movements and more violence-prone Islamic extremist organizations. After Suharto's resignation, there was continuous jockeying for political positions by Indonesian political parties and the military. The use of local Islamic militias (*laskars*) such as Laskar Jihad (LJ) by Indonesian officials to maintain law and order illuminated a dangerous situation. In the new, less authoritarian post-Suharto political landscape, heavy-handed actions to promote narrowly based interests continued to predominate as a style of rule. This precluded the prospect of more carefully reasoned approaches to address Indonesia's collective political interests.⁹²

Political/Administrative, Monetary, and Legislative Deficiencies

As previously mentioned, it seems likely that Indonesian government inaction against Islamic extremism was at least partially a result of the comparatively weak governments in place that followed Suharto, themselves characterized by reluctance to commit to post-9/11 US-led international and regional counterterrorism operations. The predominant reason why early post-Suharto governments were reluctant to cooperate more closely with the administration of president George W. Bush was because of the prevailing Indonesian public opinion that the US-led global war on terror was, in reality, a war against Islam.⁹³

Ironically, the Bali I bombings produced an almost complete volte-face in Indonesian public opinion about the threat of Islamic extremism in Indonesia. After Bali I, it was possible for President Megawati Sukarnoputri to support the Global War on Terror more completely and, in the process, accept American and Australian assistance to augment Indonesian military and police anti-terrorism capabilities. From 2002 - 2008, the American money infusion amounted to \$ 40

⁹⁰ Ibid.

⁹¹ Nugroho, 2018, p. 131, p. 152.

⁹² Waltz, 1959; Barton 2004, pp. 96, 80; Johnson, 2016, pp. 33-34, pp. 19-20.

⁹³ Smith, 2003, pp. 456-457; Johnson, 2016, pp.35, pp. 41-42; Gordon and Lindo, 2011.

million , by contrast to \$10 million provided by the Australian government.⁹⁴ Those funds and other policing enhancement assistance made it possible for the Indonesian government to create the POLRI elite counterterrorism force “Detachment 88” (Densus 88) that would, within the context of new legal powers, play a critical post Bali I role by arresting and killing JI leaders and activists.⁹⁵

It is important to understand that Indonesian counterterrorism efforts included “soft-line” efforts at de-radicalization as well as “hardline” kinetic measures. Initially, international political leaders were concerned the Indonesian government would focus almost exclusively on broad, heavy-handed, “hardline” security responses, much in the style of a Suharto-like response. However, the emergent reality was the Indonesian government was also supportive of “soft-line” religious and cultural practices in Bali to promote community resilience, even though such religious and cultural practices were grassroots initiatives.⁹⁶ As to why this happened, it is probably fair to say concerns over more democratic processes in the shadow of Suharto’s rule, in addition to the prospect of expected utility, at least in some de-radicalization cases, drove this softer policy approach.

A first mistake that contributed to Indonesian government inaction against Islamic extremism was its inability to fully appraise the profound problems that communal conflicts and separatism caused. Coupled with terrorism threats, these problems posed dangers to state security and integrity. Those twin threats dovetailed with the severe monetary constraints those conflict conditions imposed on successive Indonesian governments when it came to fight homegrown Islamic extremism. For instance, it appeared that Indonesian officials like Vice President Hamzah Haz did not take the threat of Indonesian Islamic extremism seriously. In the case of Hamzah Haz, that was probably because of his own close ties to Islamic extremists.⁹⁷

This analysis highlights the confluence of interests and the political opportunities that galvanized after Suharto’s resignation to make it possible for Islamic extremists, and separatist group and ethnic group leaders, to coordinate their actions in pursuit of mutual gain. At a functional level, JI had embedded itself in Poso to provide protection to local Muslims afraid of Christian militias. In the contexts of nearly simultaneous conditions of communal conflict and separatism, where it was logical to assume leadership might share some interests, those connections became even more significant.

From the vantage of Indonesia’s government, the almost singular focus on those conflict conditions probably contributed to an outcome where the threat potential from those Islamic extremist group ties were downplayed.⁹⁸ Indonesian officials somehow believed that if Bali had not been the target of attack within the context of those conflict conditions, then the likelihood of an attack remained very low. The logic of this argument was convoluted with the assumption that the drivers of both communal conflict terrorism were the same or very similar — as if a terrorist assault against the tourism epicenter that was Bali would result from the same set of communal

⁹⁴ Johnson ,2016, pp., 56-57.

⁹⁵ Ibid., 9

⁹⁶ Balbi, 2019, pp. 217, 234, 287.

⁹⁷ Barton, 2004, pp. 19-20; Lewis, 2005, p. 197.

⁹⁸ Solahudin ,2013, pp. 193-194.

conflict and separatism motivations.⁹⁹ A role for “groupthink” and “perception and misperception” dynamics in upper-level Indonesian official circles with regards to these issues is a reasonable assumption — but remains speculative because of an absence of available data.

Those political and economic factors, as previously mentioned, aligned to produce a condition of stasis, where efforts to tackle Indonesian anti-American and anti-Western public opinion, characterized by acute anger at the US for its perceived war on Islam, were blocked outright. It should be noted that anger was most likely exacerbated by the confounding effects of economic hardship caused by the Asian economic crisis and the local economic backwater conditions left to fester by Presidents Sukarno and Suharto.

It is worth noting that the communal and separatist conflicts began to pass into eclipse from 2002 to 2005. This period leading up to Bali I was marked by anti-American sentiment, but even before Bali I, the Indonesian government had the opportunity to focus its attention on the threat posed by Indonesian Islamic extremists. Having said that, this era of communal conflict and separatism created profound national vulnerabilities for domestic Islamic extremists to exploit, amplified by the central government’s unwillingness to address the problem. That combination led to a policy where the Indonesian government used certain militias (lascar) to promote law and order. That policy also provided additional opportunities for Islamic extremists to establish networks, other connections, and to accrue resources.¹⁰⁰

Thus far, analysis points to incorrect or absent appraisals in the Suharto era about pernicious links between non-violent Islamist parties and movements and more extremist Islamic parties. The result was that extremist paramilitary elements in the guise of local militias were used to try to quell political instability, even in the post-Suharto era. The analysis points to fundamental misappraisals about the potential for militias that worked to defend Islamic communities in conflict with Christians, to establish relationships and networks with other more extremist Islamic militias.

The fact that Indonesian political parties and the Indonesian military made use of these Islamic militia and Islamic extremist groups to jockey for political position in the post-Suharto era reflects at best a makeshift and incomplete understanding of the deleterious political consequences of such behavior. This was most important for the Indonesian collective interest — development of civil society and of national institutions that were inclusive of, and responsive to, broad segments of Indonesian society.¹⁰¹

The analysis points to a second set of post-Suharto regime problems that involve misappraisals and wishful thinking about the scope and degree of the specific nature of the Islamic threat in Indonesia from 1998 up through early 2002, prior to Bali I. This aspect of the Suharto-era style of government carried over into the early post-Suharto era and it was only a devastating terrorist attack at home that disturbed that indifference.

⁹⁹ Baker, 2005.

¹⁰⁰ Johnson, 2016, pp. 33-35, p. 54, pp. 41-42.

¹⁰¹ Huntington, Samuel P., *Political Order in Changing Societies*, New Haven: Yale University Press 1968; Johnson, 2016, p. 40.

There were other political and administrative “process” problems that stemmed from “nation-state” level factors that also contributed to the Bali I bombings. Those include institutional structural problems — an acute instability and organizational dysfunction linked to post-Suharto government fragilities and the anxieties of political leaders. For example, in reaction to the Suharto years, the visible presence of Indonesia’s military was curtailed by post-Suharto governments in efforts to put distance from the Suharto era with its heavy-handed use of military force. One manifestation of that was the 1998 split of Indonesia’s security forces into an army and a police wing, the TNI and POLRI. This contributed to dysfunction — “turf war” competition between the Indonesian National Police (POLRI) and the Indonesian National Army (TNI), as opinions between the military and national police differed about each organization’s overall capabilities, effectiveness, and scope of responsibilities.¹⁰²

That instability, coupled with the overall weakness of those post-Suharto governments with its leadership insecurities, contributed to decisions that led to extremely poor security preparations in Bali. One result of this new organizational security approach was that in Bali, community-based paramilitary organizations known as *pecalang* that were poorly trained and organized, oftentimes stepped into the security vacuum to perform law-and-order functions. The *pecalang* were local militia with a reputation for discrimination against Balinese street merchants, vendors, and other non-Balinese.¹⁰³ The vulnerabilities that derived from the flawed appraisals of the terrorism threat at the top echelon of the state by early post-Suharto national governments, bound up with the drastic reduction in visible military presence throughout Indonesia — clearly a political move as a result of the “reformation” — most likely created counterterrorism infrastructure and response vulnerabilities.

The lack of effective security infrastructure prior to Bali I was paralleled by the lack of effective legal instruments at that time necessary to prosecute terrorists. Both reflected the lack of counterterrorism focus that was the hallmark of post-Suharto governments prior to 9/11. The Indonesian judicial landscape prior to Bali I was marked by makeshift and incomplete legal instruments. These are perhaps best reflected by the emergent reality that the United Nations Security Council (UNSC) passed a binding resolution that declared JI a terrorist group in 1996, and the Indonesian government did not follow suit until April 2008, with a magistrate’s ruling in District Court in South Jakarta.¹⁰⁴

Thus, it was only after Bali I that the counterterrorism legislative void was filled. After Bali I, President Megawati Sukarnoputri’s emergency measures were codified into law by the Indonesian parliament in counterterrorism legislation passed in March 2003. For Johnson, those watershed legal events reinforced the primacy of the police approach and apparatus over the military, an approach that also made use of “soft-line” counterterrorist measures. Those legal instruments included provisions where government capacities to collect inculpatory evidence were expanded, and where in the process, terrorist suspects could be imprisoned for a maximum of six months.¹⁰⁵

¹⁰² Johnson, 2016.

¹⁰³ Lewis, 2005, pp.181-182.

¹⁰⁴ Johnson, 2016, pp. 60-61.

¹⁰⁵ Ibid., pp. 58-59.

Preparedness and Consequence Management

In this section, the discussion about how to protect commercial interests is largely speculative — it revolves around the notion of what initiatives might have been taken by various stakeholders prior to Bali I to improve their economic standing in the aftermath of the Bali I bombings. As indicated before, lack of a visible military presence was both a cause and an effect of new political conditions and a source of the political uncertainties associated with Suharto’s resignation. This section explores what indirect economic benefit could have accrued with a more visible military presence in Bali and associated consequences.

Asongu and Nwachukwu’s work suggests emphasis on the visible presence of Indonesian “armed service personnel” rather than more reliance on law enforcement in Bali might have increased tourist arrivals there after the Bali I and Bali II bombings because of the perception among tourists that with the military present, they could feel more secure.¹⁰⁶ Asongu and Nwachukwu’s results run counter to sentiments of the early post-Suharto governments to reduce military presence to distance themselves from Suharto and suggest that from a purely economic security standpoint — and most likely from a traditional security standpoint — the reduction in visible military presence policy might have been a mistake.

In contrast, Ghaderi, Saboori, and Khoshkam’s findings have particular relevance for post-Bali I and post-Bali II conditions. Ghaderi et al.’s findings illustrate an inverse relationship between a unit change in “aggregate security” and tourist arrivals in developing countries. In other words, a one unit increase in “aggregate security” leads to a decrease in tourist arrivals in developing states of about four percent. Ghaderi et al.’s work suggests that while security focus is critical to ensure tourist flows, “...other factors such as travel cost, visa facilitation, emerging exotic and attractive destinations have been influential...”¹⁰⁷

Thus for Bali to achieve greater economic security, the security required is two-dimensional. First, this can be with direct inputs to economic security where POLRI or TNI (or both) assume control over many traditional security functions rather than having the *pecalang* or an organization like it handle functions. Second, is that indirect inputs such as low travel and hotel accommodation costs, favorable exchange rates, and easy-to-obtain visas remain instruments available to maintain higher levels of tourist arrivals. In other words, traditional security is a necessary but insufficient condition for economic sustainability and robust resilience against terrorist attacks.¹⁰⁸ The challenge here is those types of initiatives require significant public-private partnership frameworks. That, in turn, requires a developed private sector whose leaders are willing and are able to engage in efforts that amount to corporate social responsibility (CSR). That has proven difficult even in some developed countries such as the US.

For businesses, anticipatory, government-sponsored insurance programs in Indonesia orchestrated with the assistance of government and non-state actors might be fruitful. Anti-terrorism insurance policies have the potential to offset the extensive damage to the tourism industry and related

¹⁰⁶ Asongu and Nwachukwu, 2018.

¹⁰⁷ Ghaderi, Saboori, and Khoshkam, 2017, pp. 558-560. Ghaderi, Saboori, and Khoshkam’s analysis produces a coefficient of -0.041 at the .01 significance level.

¹⁰⁸ Ibid.

commercial interests. An Indonesian insurance program akin to the American Terrorism Risk Insurance Act (TRIA) might have established a set of insurance baselines to stipulate levels of premiums to be paid by private sector companies before government subsidies to provide monies for rebuilding would kick in to make compensation to economically victimized business owners viable.¹⁰⁹ One additional part of such a program might also include insurance provisions in anticipation of foreign tourist kidnappings.

However, the problem here revolves around the comparatively weak tax systems in many developing countries such as Indonesia to fund such programs. This is because, as in the case of a program like TRIA, the overall cost of an insurance program to combat the effects of “spectacular” terrorist assaults is ultimately passed along to policyholders (i.e., the consumer) with premium increases, and, ultimately, to the population at large with moderate increases in taxes to fund such programs.¹¹⁰ As some 16 percent of Indonesians lived in poverty, this policy option alternative is problematic without taking into account outside donor support. Perhaps one option would be to involve multinational corporations (MNCs) more heavily in the counterterrorism security policy process to develop bulwarks of economic protection where both MNCs and state/societal interests are met.¹¹¹

In essence, what that condition suggests is the establishment of a worldwide counterterrorism insurance program funded by several donors: ASEAN, the World Bank, the International Monetary Fund (IMF), the Islamic Development Bank, and the Asian Infrastructure Investment Bank (AIIB) for instance. Such an insurance program would service commercial sector victims of terrorist assaults in countries that do not have sufficient economic strength to undertake such programs on their own. Heiduk provides a roadmap of sorts — in his description of more indirect EU influence on security relations with the Association of Southeast Asian Nations (ASEAN) — outlining five collaborative areas: “judicial cooperation,” “migration and border management,” “intelligence cooperation,” “combatting terrorist financing,” and “law enforcement.”¹¹²

That approach is consistent with the clarion call by scholars for additional multilateral efforts to confront “twenty-first century problems,” as Kaplan puts it, such as terrorism, drug trafficking, illegal arms trafficking, human trafficking, and climate change that cross over national borders.¹¹³ Those initiatives should be taken in conjunction with continued national efforts, supported by outside donors to strengthen Indonesian civil society and, in the process, spur on continued

¹⁰⁹ Howard Kunreuther and Erwann Michel-Kerjan, “An empirical analysis of the Terrorism Risk Insurance Act (TRIA)” in: Harry W. Richardson, Peter Gordon, and James E. Moore II (Eds.), *The Economic Costs and Consequences of Terrorism*, Northampton, MA: Edward Elgar Publishing, Limited 2007, pp. 38-64.

¹¹⁰ Ibid.

¹¹¹ Chasdi 2018, Mawdsley, Piza-Lopez, and Kaiser, 2004.

¹¹² Felix Heiduk, “In It Together Yet Worlds Apart? EU-ASEAN Counter-Terrorism Cooperation After the Bali Bombings,” *Journal of European Integration*, 36 (7), 2014, p. 699.

¹¹³ Robert D. Kaplan (1994) 2000, “The Coming Anarchy”; in: Patrick O’Meara, Howard D. Mehlinger, Matthew Krain, Roxana Ma Newman (Eds.), *Globalization and Challenges of A New Century: A Reader*, Bloomington, IN: Indiana University Press, pp.34-60; Phil Williams, “Lawlessness and Disorder: An Emerging Paradigm for the 21st Century”; in: Michael Miklaucic and Jacqueline Brewer (Eds.), *Convergence: Illicit Networks and National Security in An Age of Globalization*, Washington, DC: National Defense University Press 2014, pp. 32-33; Nils Gilman, Jesse Goldhammer, and Steven Weber (2013) – ‘Deviant Globalization,’ in Michael Miklaucic and Jacqueline Brewer (Eds.), *Convergence: Illicit Networks and National Security in An Age of Globalization*, Washington, DC: National Defense University Press, pp. 3-13; Chalk and Ungerer ,2008, p. 10; Lewis ,2005, p. 200.

development of more effective national institutions.¹¹⁴ In specific terms, what that means is that professional and social institutions such as lawyer guilds, women's rights and children's rights organizations, and institutions to assist the poor, for example, must be encouraged to thrive unfettered from government interference.

Another lesson related to business preparedness and consequence management already briefly touched on above, draws from Gurtner's work on corporate social responsibility (CSR) measures that could be taken by large-scale business organizations operating in and with Bali. Gurtner suggests that CSR programs in the pre-Bali I bombing context might have contributed to consequence management by making educational opportunities and vocational retraining programs available to Balinese workers, thereby working to increase economic redundancy and societal (and governmental) resilience. Gurtner suggested programs might be funded by the Indonesian national government, perhaps in conjunction with the IMF or the World Bank or with regional intergovernmental organizations (IGOs) or a combination thereof to generate revenue.¹¹⁵

To be sure, many of the problems that ultimately led to a failure to prepare adequately for an event like the Bali I bombings involved policy decisions (or the absence thereof) on the part of the national government that focused its attention at the time on heavy-handed measures to quell threats to national security stemming from communal conflicts and separatism. One lesson to learn is that "hardline" counterterrorism must be augmented with "soft-line" counterterrorism with a focus on political/administrative, judicial, economic, and legislative responses working in coordinated fashion and, if needed, with "hardline" efforts when those "hardline" efforts are really required.¹¹⁶

The tragedy is that the separatist calls for self-determination in Aceh and the fundamentally different separatism in East Timor calling for freedom from Indonesian military occupation. East Timor was originally not a part of Indonesia. The call for protection of natural resources in the case of West Papua, and the communal conflict in places such as Ambon, Poso, and Maluku, came on the heels of structural political change in Jakarta, Indonesia's political epicenter. Had the roots of the fledgling Indonesian democracy run deeper, those events might have been able to be met with negotiation processes in the case of the former and peacekeeping operations rather than suppression strategies in the case of the latter.

The Bali II Bombings (2005)

The Bali II bombings occurred on 1 October 2005, in south Bali, at two family-run eateries in Jimbaran Beach and at a restaurant in the central square of Kuta. Those bombings were carried out by an allied splinter group of Jama'ah Islamiya (JI) known as al-Qaeda in the Malay Archipelago (Tanzim Qaedat al-Jihad), and led by Malaysian JI leader Noordin Mohammad Top. Top was a former JI commander who had been a principal in the Bali I bombings. The Bali II bombings caused much less carnage than the Bali I bombings — twenty people died, while over one hundred

¹¹⁴ Lewis, 2005, pp. 205, p.196, p. 186.

¹¹⁵ Gurtner, 2016; Chasdi, 2014.

¹¹⁶ Richard J. Chasdi, *Counterterror Offensives in the Ghost War World: The Rudiments of Counterterrorism Policy*, Lanham, MD: Lexington Books, 2010.

others were wounded (in the first Bali bombings, 202 people were killed and another 200 wounded).¹¹⁷

What is significant here is the Bali II bombings occurred within the context of substantial change in the structural shape of JI, and of a much-strengthened Indonesian state that by then had the overwhelming support of its citizens following the public's reaction to the Bali I bombings. Even prior to the Bali I bombings, cleavages existed in JI between leaders with fundamental differences in opinion regarding their strategic approach and the overall pace of action. Prior to Bali I, such cleavages existed between leaders of "Mantiqi I," JI's organizational division for Singapore, Southern Thailand, and Malaysia, who advocated for an immediate campaign of violence, and leaders from Indonesia's Sumatra and Java regions in "Manitqi II," who advocated for incremental political change, at least for the immediate future.¹¹⁸

Those JI cleavages became more pronounced in 2002 — some "non-structuralist" JI leaders such as Noordin Top wanted to pursue a global agenda of offensive action to be taken immediately, akin to the al-Qaeda model of confronting the "far-enemy." In contrast, "structuralist" JI leaders, as Gordon and Lindo put it, believed the best course of action after Bali I was, at least temporarily, to pursue incremental change politically, with more local focus on Indonesia and Southeast Asia. At the same time, those JI activists did not renounce violence formally, but postponed the use of violent attacks until a more propitious time.¹¹⁹

Still, as Gordon and Lindo have pointed out, this was a separation characterized more by subtleties and nuance, rather than by a strict separation tantamount to a complete divorce, a notion popularized and embraced by some Indonesian political leaders, as well as the Indonesian public. "In fact," as the authors found, "Non-Structuralist JI members were products of JI-linked schools, consumers of JI publications, and frequently drew on their relationships with other JI members."¹²⁰

Plainly, printing JI documents, running schools, and maintain membership networks required money. In time, JI monetary problems became so dire that public donations, rather than reliance on large sums of money from selective donors, many of whom were now incarcerated, were used to help maintain JI coffers. With the arrest of JI leader Zulkarnaen in December 2020, a network of 20,000 charity boxes in Indonesia, tied to a JI shell organization called "Abdurrachman bin auf" for anonymity purposes, was exposed. Those donations, along with the profits made by JI front businesses selling consumer goods such as palm oil, had become a primary source of JI funding. In addition to the provision of military training and weapons procurement, some authorities believe those monies were held in reserve by JI "structuralist" leaders for a new JI foray into Indonesia's political system in the not-so-distant future.¹²¹

¹¹⁷ International Crisis Group 2006, "Terrorism in Indonesia: Noordin's Networks Asia Report No. 114" 5 May, pp. 7-19. Available at: https://www.files.ethz.ch/isn/16817/114_terrorism_in_indonesia_noordin_s_networks.pdf.

¹¹⁸ Nugroho 2018, pp. 160, 157. In turn, "Mantiqi III" encompassed the southern part of the Philippines, Sulawesi, and Borneo, while "Manitqi IV" covered Australia and Papua.

¹¹⁹ International Crisis Group, 2006, pp. 17-19; Gordon and Lindo, 2011, p. 4; Nugroho, 2018, pp.15, 163-165, p. 128, p. 145; Johnson 2016, p.50.

¹²⁰ Nugroho 2018, pp. 164-165, p. 265, p. 139, p. 132, p. 148.

¹²¹ Llewellyn, 2021; The Jakarta Post, 2020, "Police find thousands of alms boxes allegedly used by Jammah Islamiyah to raise money." *The Jakarta Post*, 18, December. Available at:

JI leaders from the “JI Structuralist” branch included Abu Bakr Ba’asyir, who in 2008 had established what was an ostensibly non-violent JI splinter group called “Partisans of Oneness of God” (Jemaah Ansharud Tauhid — JAT).¹²² Nugroho described JAT as essentially “Janus-faced” with respect to its position on the use of violence. Because, while JAT’s upper-echelon leadership ostensibly placed emphasis on non-violent activities holding theoretical discussions about the role of Sharia law for Indonesia and in broader Southeast Asia in publications, conferences, and promotion of religious schools, that leadership still had connections to Islamic extremist organizations and supported those groups.¹²³

In fact, Gunaratna and Petho-Kiss report that from 2018-2020, Jemmah Ansharud Tauhid (JAT) linked terrorist assaults in Indonesia declined, perhaps partially due to the Coronavirus pandemic, a finding the authors note is consistent with declining terrorist assault rates for many other terrorist organizations in that period. Gunaratna and Petho-Kiss also point to pandemic-related divisions over policy direction within JAT and the arrest of 57-suspected JAT activists as other factors that might have contributed to decline in JAT’s terrorist attack frequency rate.¹²⁴

The establishment of JAT, and with it the notion of what Lasswell might call a JI “maturity cycle” evolution, is particularly notable because the process whereby a non-violent splinter group emerges from a terrorist parent group reflects the importance of “contextual factors” at work. In this case, this was a newly strengthened and rejuvenated Indonesian national government backed by popular support, with a sharp focus on efforts to tackle domestic Islamic extremism.¹²⁵ In addition, those efforts were buttressed by American political, military, and economic assistance, and Australian political, economic, and police assistance from the Australian Federal Police.

The Bali II Operation and Economic Effects

It was during the time of President Susilo Bambang Yudhoyono’s government that the Bali II operation was orchestrated by Noordin Mohammad Top. Noordin Top was assisted by his second-in-command leader known as Ubeid, and with the help of Dalmutin, a close Islamic extremist confederate. Top was also assisted by Dr. Azhari bin Husin (aka Azhari), a high-level participant

<https://www.thejakartapost.com/news/2020/12/18/police-find-thousands-of-alms-boxes-allegedly-used-by-jamaah-islamiah-to-raise-money.html>; *The Jakarta Post*. 2019. “Police track funding of Jamaah Islamiyah terror group.” *The Jakarta Post*, 2 July. Available at: <https://www.thejakartapost.com/news/2019/07/02/police-track-funding-of-jamaah-islamiah-terror-group.html>.

¹²² Gordon and Lindo, 2011, pp. 4, 7; Johnson, 2016, pp. 51-52, p.71.

¹²³ Gordon and Lindo 2011, p. 4; Solahudin 2013, p. 198; Nugroho 2018, p. 170.

¹²⁴ Gunaratna, Rohan and Katalin Petho-Kiss 2020. “Terrorism and the Pandemic: Weaponizing COVID-19” (unpublished manuscript), p. 87.

¹²⁵ Lasswell, Harold D.,, “Terrorism and the Political Process,” *Terrorism: An International Journal*, 1 (3/4), 1978, 261-263; Harold D. Lasswell, *World Politics and Personal Insecurity*, New York: Whittlesey House McGraw Hill, 37, 1935, 107, 110, 252-253; Chasdi, Richard J., 1999, *Serenade of Suffering: A Portrait of Middle East Terrorism, 1968-1993*, Lanham, MD: Lexington Books, 173, 204, 207-209; Richard J. Chasdi, *Tapestry of Terror: A Portrait of Middle East Terrorism, 1994-1999*, Lanham, MD: Lexington Books 2002, 153, 209 n.6.

in the Bali I bombings, who was the chief bomb maker for JI. According to Nugroho, who cites Klaimanee and Nogaj, Top's JI splinter group was small, comprised of only 79 activists.¹²⁶

As Gordon and Lindo, and the International Crisis Group report, both Azhari and Top hid in various parts of West Java, continuously on the run from Indonesian security authorities for three years since the Bali I attack. There were several crucial members of this team that included Noordin Top, Ubeid, Dr. Azhari, Jabir, Cholily, Agus Puryanto (aka Arman), and the suicide bombers Aip Hidayat, Misro, and Salik Firdaus.¹²⁷ As previously mentioned, Al-Qaeda in the Malay Archipelago was one of several "non-structuralist" JI splinter groups that emerged after 2002, led by former JI chieftains such as Noordin Top and Umar Patek.

According to Johnson, Top had strong administrative skills; he was able to work with a range of Islamic extremists from different organizations under the banner of Al-Qaeda in the Malay Archipelago.¹²⁸ It was probably Top and Azhari, perhaps through Jabir, who brought Cholily, a university-age student, into the orbit of Al-Qaeda in the Malay Archipelago (Tanzim Qaedat al Jihad), even though one news account reports that Ahmad Basyir, a member of KOMPAK, itself a DDII "Islamic relief agency," was responsible for Cholily's entry into the Top-Azhari fold.

Cholily served as Azhari's protégé, helping to construct the backpack bombs that would be used, filled with shrapnel, including ball bearings. There were also several other unexploded devices found by police after the 2005 attacks. If that account about Cholily's enlistment into the al-Qaeda in the Malay Archipelago is accurate, that KOMPAK connection, in addition to the enlistment of Agus Puryanto, who had prior DDII experience, resonates with the permeability dynamics between non-violent and violent extremist groups previously mentioned.¹²⁹

It was Agus Puryanto (aka Arman) who helped Top and Azhari with the necessary logistics for the implementation of the terrorist plot, such as finding lodgings for Azhari in Solo, where he lived up to a few months before the Bali II bombings. Azhari also hired Jabir, another logistics specialist, who in turn enlisted the three suicide bombers: Aip Hidayat, Misro, and Salik Firdaus, the latter being one of Jabir's students from the Darusyahada *pesantran* (religious school), near Solo.¹³⁰

What is significant here is the reaction to the Bali II terrorist assaults picked up where the Bali I bombings left off; it served to increase the intensity of the Indonesian public's rejection of Islamic extremism even further. Consequently, Indonesia's national police (POLRI) was given more operational "political space" provided by new counterterrorism legislation. Its new operational Detachment 88 became the lead agency in countering terrorism in Indonesia. As a result, POLRI worked much more smoothly with the military and managed to eliminate JI as a significant threat to Indonesian security in the aftermath of the second Bali bombings.

¹²⁶ Nugroho, 2018, pp. 25, 123 146, 60; "Attachment 4 — Final Project — Disrupting Bali Bombings Networks, Wiphusana Klaimanee, Mariusz Nogaj, DA 699 Dark Networks, June 2008."

¹²⁷ Gordon and Lindo, 2011, p. 17; International Crisis Group 2006, p. 17 n.63; Johnson, 2016, p. 72.

¹²⁸ Johnson 2016, p. 52.

¹²⁹ Gordon and Lindo, 2011; Barton, 2004, p. 114; International Crisis Group, 2006, pp. 7-19; Johnson, 2016, pp. 51-52.

¹³⁰ Gordon and Lindo, 2011, pp. 17, 4; Nugroho, 2018, p. 139; International Crisis Group, 2006, pp. 17-19.

One measure of how conditions had changed profoundly since the pre-Bali I era was the capacity of Bali's local police to participate in national efforts to investigate Bali II and continue with its own efforts, with advice and consent from Indonesian national security forces.¹³¹ Balbi reports there was a new security consciousness in Bali after the Bali I bombings. It made Balinese people more sensitive to terrorism's threat potential, no doubt spurred on by a profound and lasting guilt that many Balinese experienced. Having said that, both Nugroho and Chalk and Ungerer suggest that the formidable and largely successful police and military operations against JI in the post-Bali I and Bali II eras, do not take away the risk that lone operative terrorists will continue the struggle on their own, motivated by JI's jihadist message.¹³²

The international economic effects of Bali I in terms of tourist arrival rates were somewhat larger than the effects Bali II had on that rate, with a 20 percent decline as compared to the 25 percent drop in the case of Bali I bombings.¹³³ Still, the generally recognizable effect of the Bali II bombings was to compound the local economic effects of the Bali I bombings for the hotel management sector, the airline sector (to Bali), and small shops and services related to those sectors that catered to tourists.

Many hotel and bar operations, significantly impacted after Bali I, were forced to close or significantly curtail operations with the end result that many local families were affected even more profoundly than before. For example, some informal industries such as the Bali "beach cowboys," where young men who worked to make amorous connections primarily with wealthy Western women, essentially disappeared. Bali as a tourist venue has never fully recovered economically from the bombings, with Australian and American tourists encumbered by continual security concerns and, as Balbi reports, fundamental differences of opinion about how to memorialize the victims of the bombings.¹³⁴

In terms of lessons learned, one set of lessons intrinsic to the comparatively low levels of economic damage caused by the Bali II bombings derives from the importance of structural political factors at the national level that changed significantly after the Bali I bombings. The effects of the structural transition from Suharto's authoritarian regime to the post-Suharto governments that created problems with identification of domestic terrorism had faded along with concerns about intensive communal conflict and separatism. As those worries passed into eclipse and especially after the Bali I bombings, a change of groundswell public opinion made it possible for Megawati to support fully American-led efforts to respond to global terrorism.

Equally important, the opportunity that this shift in public opinion made for Megawati was to accept and make use of the counterterrorism assistance provided primarily by the US and Australia.¹³⁵ By the time that Bali II happened, a new security apparatus was operational, already working successfully to destroy JI and tackle the challenges associated with violent "non-structuralist" JI splinter groups such as al-Qaeda in the Malay Archipelago. In addition, the

¹³¹ Gordon and Lindo, 2011, p. 8; International Crisis Group 2006; Strickler 2017, pp. 6-8.

¹³² Balbi, 2019; Nugroho, 2013, p. 206; Chalk and Ungerer, 2008, p. 14.

¹³³ Schmid, 2013, p. 216.

¹³⁴ Megan Jennaway 2008, "Cowboys, Cowoks, Beachboys and Bombs: Matching Identity to Changing Socio-economic Realities in Post-2005 North Bali," *The Asia Pacific Journal of Anthropology*, Vol. 9 (1); Balbi, 2019.

¹³⁵ Lisa Paul, "New Levels of Responsiveness — Joining Up Government in Response to the Bali Bombings," *Australian Journal of Public Administration*, 64 (2), June 3005, pp. 31-33.

significant macro-economic effects of the Asian economic crisis (1997-98) had begun to pass into eclipse by 2005. Analysts reported continued confidence about the global economy; moreover, the Jakarta stock market index increased 0.38 percent some two days after the Bali II bombings.¹³⁶

Still, the economic malaise in Indonesia continued with enormous distance between the “haves” and the “have nots” exposed starkly by globalization processes, with effects that probably continued to amplify the disaffection of many urban dwellers about particular economic predicaments such as housing. However, government efforts to uproot JI after the Bali I bombings dovetailed with the abatement of Asian economic crisis effects to probably make living conditions in Indonesian cities at least a little more tolerable or financially stable for many.

It appears that state level factors that aligned to allow for the growth of the threat of domestic Islamic extremists — which had culminated in the Bali I and II bombings — had now fallen out of alignment and that some international level macro-economic factor effects that coincided with those problems did the same. For example, the acute nature of the Asian economic crisis and the SARS crisis had dissipated even though the GWOT continued. While some of the decisions made, especially during the Suharto era and by early post-Suharto governments about political power acquisition, were disturbing and clearly detrimental to the long-haul stability of Indonesia, some comfort can be taken. The reason why is because if those lessons are taken to heart, the end result is an increased understanding about the importance of civil society and democratization to political stability, both nestled in more effective Indonesian national and local institutions. The rationale behind this is that to ease domestic pressures, increased availability of political and economic “opportunity structures” can help to reduce pressures that for some contribute to processes whereby people enter into the orbit of terrorism.

Final Reflections

An appraisal of the Bali I bombings and the Bali II bombings appears to illustrate that several Indonesian national political factors had effects that converged to pave the way for Islamic Jihadism in general and Jama'ah Islamiya in particular to grow. Moreover, effects of those explanatory factors were amplified by a confluence of international level system factors¹³⁷ to multiply political grievances and to exacerbate economic hardships. Nugroho, who draws on work by both Pape and Stern, suggests that the 2003 Iraq invasion accelerated JI recruitment because the GWOT, with what Hudson calls its emphasis on “regime change” and its “military style” approach, proved to be less effective in many instances than counterterrorism programs with the police rather than the military in the lead.¹³⁸

¹³⁶ Wayne Arnold, “This Bali Bombing Seen as Having Less Economic Effect,” *The New York Times*, 4 October. Available at: <https://www.nytimes.com/2005/10/04/business/worldbusiness/this-bali-bombing-seen-as-having-less-economic.html>.

¹³⁷ Such as the Asia economic crisis (1997-1998), the Global War on Terrorism (2001-), the Iraq war (2003), the war in Afghanistan (2001-), and the SARS virus outbreak (2002-2004)

¹³⁸ Nugroho 2018pp. 106-107; Hudson 2016, p. 371. Even though advocates of military style counterterrorism approaches point to how terrorism with its political nature differs from organized crime and common criminal activity and thus requires more than policing, the lesson here is that without the subtleties and nuances that many circumstances dictate, military style counterterrorism can be counterproductive.

Those macro-political factors and effects, both at the state and international level, are multifaceted and interconnected in complex ways. First, Suharto's resignation (1998) created a structural shift in Indonesian politics that opened up several opportunities for malignant Islamic extremist organizations to grow unfettered.¹³⁹ Competing interests between political parties, government-sanctioned Islamic organizations such as Nahdlatul Ulama and Muhammadiyah, and the Indonesian military in the immediate post-Suharto era not only allowed domestic Islamic extremism to grow — it also obfuscated existing problems both within a dysfunctional political system and across the political landscape.

Not only was the fierce competition between political parties and the military a problem, but the process at the heart of that competition reflective of Indonesia's pronounced problem with corruption compounded the problem even more. It is worth noting that the willingness of those parties to exploit a condition characterized by non-violent and violent Islamic parties and movements was tied with the aim to gain political support and advantage. Plainly, the inability or unwillingness of government actors to acknowledge those connections created a condition where Islamic extremists could continue to grow apace. This problem was compounded by the inability of those weak early post-Suharto national governments in Jakarta to exert full political control in many areas far from Jakarta.

In terms of economic impact, the Bali I bombing demonstrates the economic ripple effects that even a single terrorist event can have on entire regions. In this case, local tourism in Bali was affected most profoundly, but the hotel and airline industries in the region also suffered as tourism declined significantly for up to two years after the bombings. While regional tourism from Japanese and Singaporean tourists, for example, helped to compensate to some degree, it did not offset those losses.

The losses incurred in Bali I were compounded by the Bali II bombings in both economic and psychological domains, even though the economic destruction and disruption caused by Bali II was not nearly as large. A direct consequence of the Bali II bombings was a continued loss of consumer confidence in travel to Bali, with consumers looking for "second best alternatives" to reclaim the glamor, romance, and similar sentiments associated with Bali. As Schmid points out, "customers of tourist products are flexible while tourist destinations — except for cruise ships — cannot move."¹⁴⁰ It appears the prevailing result of the Bali II bombings was psychological, compounding the economic problems in Bali already in place, because what were initially more optimistic appraisals made about Bali's future after the Bali I bombings were completely shattered.

What the foregoing suggests policy-wise in efforts to confront terrorism is that Indonesian leaders must work to ensure that the rudiments of civil society, which began to take hold after the overthrow of Suharto, continue to grow more deeply into the Indonesian political landscape. What that means is a condition where there is a high degree of tolerance for political and social institutions that represent women's and children's rights and the poor, for example, to operate unfettered by government interference. Political and economic "opportunity structures" must be

¹³⁹ Nugroho, 2018, 160.

¹⁴⁰ Schmid, 2013, pp. 216-217; Michael D. Greenberg, Peter Chalk, Henry H. Willis, Ivan Khilko, and David S. Ortiz (2006), *Maritime Terrorism: Risk and Liability*, Washington, DC: RAND Corporation, 2006, pp. 73-93. Available at: <https://www.jstor.org/satble/10.7249/mg520ctrmp.15>.

available to channel, at least for some, what Dollard et al. would call the “frustration and aggression” associated with willingness to enter into the orbit of terrorism.¹⁴¹ This becomes even more important within the context of successful police, military, and judicial prosecution against JI in the post-Bali I and Bali II periods.

In fact, Nugroho, Chalk, and Ungerer argue plausibly that lone operatives or small groups could continue the struggle. That problem is compounded even more because of long-standing JI interest in biological and chemical weapons development. Gunaratna and Petho-Kiss report that following 9/11, a JI handbook about biological and chemical pathogens (written by authors such as JI biologist Mustaqum) was discovered in Mindanao, Philippines. Moreover, in August 2004, Mohamad Fadzullah Abdul Razak, a Malaysian engineer inspired by JI, tried to cultivate Botulinum; he then sent his garden variety Botulinum spores in laced envelopes to several diplomatic legations, including the US embassy in Kuala Lumpur.¹⁴²

Overlaid against the basic weakness of effective political institutionalization where political parties and bureaucracies are representative of different segments of society and respond to political demands and aspirations, the unresolved political role of the military and other macro-political factors in the Indonesian national context make control over these conditions even more difficult.¹⁴³ The growth and outbreak of communal conflict and sub-national separatism severely constrained finite military and political resources, making it more difficult to combat Islamic extremism, even if it had been acknowledged as a problem in the early post-Suharto years — which it was not.

All of the foregoing played out against the backdrop of broader international political system factor effects. The Global War on Terrorism (GWOT) created an anti-American political environment for most Indonesians. This, in turn, inhibited Indonesian leaders from meaningful participation against Islamic militancy; that prevailing sentiment would not change until after the Bali I bombings (2002). In the case of Indonesia, the standard neo-realist “three level analysis” of conflict, with “international” (Waltz’s “third image”), “nation-state” (Waltz’s “second image”), and “individual level” (Waltz’s “first image”) factors, has served as the basis of this analysis to illustrate factors and their effects that interact within and across levels, working to explain sources of conflict.¹⁴⁴

To explain events in Indonesia leading up to the emergence of JI and the Bali bombings, primary emphasis is placed on “international political system” and “nation-state” level factors. There was a reinforcing effect between the explanatory variables found at the “international political system” level (such as the Global War on Terrorism, the Asian economic crisis, and even the SARS virus) coupled with political and economic conditions at the “nation-state” level of analysis - which all worked to make the threat of JI so virulent.

¹⁴¹ John Dollard, Leonard W. Doob, Neal E. Miller, O.H. Mowrer, and Robert R. Sears, *Frustration and Aggression*, New Haven: Yale University Press, 1939.

¹⁴² Nugroho (2018), op. cit.; Chalk and Ungerer 2008, p. 14; Gunaratna and Petho-Kiss 2020, p. 14.

¹⁴³ Huntington, 1968.

¹⁴⁴ Waltz, 1959; Nye 1993; Nugroho, 2018, p. 132.

Notwithstanding that, focus on the “individual level” of analysis (Waltz’s “first image”) is also crucial as efforts by the Indonesian political and military leadership to downplay dangers associated with the rise of Islamic extremism appear to have been driven by individual and small, upper-crust decision-making processes. Decision or indecision about the threat of Islamic extremism might have gained traction through conformity in thinking pressures and processes captured in Irving Janis’s notion of “groupthink,” stimulated by the seemingly more urgent need to focus on separatism and communal conflict.¹⁴⁵ Moreover, the outright denial by some political figures (such as President Megawati’s sister) about the threat posed by domestic Islamic extremism and reliance on conspiracy theories about a US war on Islam, that was commonplace to note, fits well with Robert Jervis’s notion of “perception and misperception.” This notion addresses incoming flows of information at odds with preexisting beliefs and norms that cause a condition of “cognitive dissonance,” where psychological processes to make unpleasant information flows manageable and tolerable are triggered.¹⁴⁶

If the Global War on Terror heightened political grievances and subsequent political demands and aspirations due to the mistaken belief, that it was a war against Islam. Subsequently, the Asian economic crisis and to a much lesser degree the SARS virus outbreak exacerbated local economic conditions to create economic hardships that made Islamic extremism more seductive as an answer to political problems. For some, Islamic extremism worked to provide identity and political/social place in the Indonesian polity whose norms and values, and political processes, were evolving after Suharto’s fall.

Indonesian government and society experienced this shift in political norms, process, and function in ways that resonate with Durkheim’s notion of “anomie.”¹⁴⁷ In post-Suharto Indonesia, there was an unfortunate alignment of “international political system” factors and “nation-state” level factors that resulted in a very narrow range of effective policy options that could be implemented by early post-Suharto governments to attenuate the growth of Islamic extremists. The economic effects of Bali I were enormous, and while certain economic programs in response to Bali I had the potential to work more effectively, pre-existing economic conditions, coupled with weak national government agencies, made the likelihood of new post-Suharto economic recovery program success, even with substantial international assistance infused into the system, tenuous at best.

The lessons learned are that first, the alignment of “nation-state” and “international political system” factors can indeed happen with the result of ineffective national security and counterterrorism conditions. Those fragile institutions and processes can pave the way for calamitous domestic developments that fill vacuums created by structural political change. What that requires is anticipatory governance with an emphasis on contingency planning to anticipate different alignment conditions with carefully reasoned consideration of alternate scenarios. At the heart of those scenarios are efforts to harden core economic interests and networks of interconnections to service sectors places like Bali.

¹⁴⁵ Irving L. Janis, Irving L., *Victims of Groupthink: a Psychological Study of Foreign-Policy decisions and Fiascoes*, Boston, MA: Houghton Mifflin, 1972.

¹⁴⁶ Jervis, Robert , *Perception and Misperception in International Politics*, Princeton, NJ: Princeton University Press, 1976; Smith 2003.

¹⁴⁷ Durkheim, Emile, *The Division of Labor in Society*, translated by W.D. Halls, New York: Free Press [1933] 1984.

One way of thinking about the problem involves “smart city” development and applications tailor-made to local conditions. The term suggests a framework of interactive institutions within the boundaries of a city or cluster of cities readily accessible to respond “in real time” to citizen inputs, through kiosks for example, with security alert functions and capacities to process administrative proposals made by ordinary citizens about how to improve municipal effectiveness and efficiency. The goal is a stakeholder pool that is broad and deep — with professional policymakers and ordinary citizens making contributions about security as it pertains to the mixture of residential and commercial infrastructure, available “urban space,” and the security vulnerabilities created. These standpoints as well as tactical instruments of protection such as sensors, biometrics, and CCTV networks, could be used to protect against the economic consequences of terrorist assaults.¹⁴⁸

While the argument can be made Bali II was a second chapter or continuation of the Bali I experience, it is not an especially useful statement to make because Bali II happened against the backdrop of the split between “Structuralist JI” chieftains who decided to suspend the armed struggle against the West and Southeast Asian governments for the time being, and “non-structuralist JI” leaders who opted to continue the armed struggle along the lines of the Al-Qaeda model.¹⁴⁹ Bali I made it possible for President Megawati to retool her security apparatus primarily with American and Australian help. In turn, those windows of opportunity emerged because of changes in international factor effects — Bali I, the emergent reality that communal conflict and national separatism was beginning to pass into eclipse, and the reduction of at least some of the negative macroeconomic effects that stemmed primarily from the Asian economic crisis.

It follows the final lesson learned from the Bali bombings is the importance of foresight — formulation and implementation of national and multilateral efforts to prepare for “spectacular” terrorist assaults ahead of time, to confront the economic ripple effects of terrorism, which are especially pronounced in a world of intensive globalization.¹⁵⁰ Economic diversification efforts, especially crucial to small area economies dominated by one industry, is critical. As previously mentioned, anticipatory governance processes in place might have detected the lack of economic diversity and depth in Bali during the pre-Bali bombing eras with recommendations to diversify

¹⁴⁸ Abrahamson, Mark, *Global Cities*, New York: Oxford University Press 2004, 41-43; Veselitskaya, Natalia, Oleg Karasev, and Alexey Beloshitskiy, “Drivers and Barriers for Smart Cities Development,” *Theoretical and Empirical Researches in Urban Management*, Vol. 14 (1), February 2019, 92-93, 98-99; Brigitte Bach and Wolfgang Loibl, “European Research and Innovation for Smart Cities,” *International Issues & Slovak Foreign Policy Affairs*, Vol. 25 (1-2), 2016, EU ENERGIZED, 44-45, 40; Anne Power and John Houghton (2007), *Jigsaw Cities: Big Places Small Spaces*, Bristol, England: Bristol University Press, 163-185; De Langes, Michael, , “The Playful City: Citizens making the Smart City”; in: Rene Glas, Sybille Lammes, Michiel de Lange, Joost Raessens, Imar de Vries (Eds.), *The Playful Citizen: Civic Engagement in a Mediatized Culture*, Amsterdam: Amsterdam University Press 2019, pp. 349-369. Available at: <https://www.jstor.org/stable/j.ctvemxpd.23>; Steinmuller, Karlheinz, “The World in 2040. Framework Conditions for New Kinds of Terrorism,” in Theodore J. Gordon, Elizabeth Florescu, Jerome C. Glenn, and Yair Sharan (Eds.), *Identification of Potential Terrorists and Adversary Planning: Emerging Technologies and New Counter-Terror Strategies*, Amsterdam: OIS Press 2017, pp. 26-27; Theodore J. Gordon, Yair Sharan, and Elizabeth Florescu (2017), “Potential Measures for the Pre-Detection of Terrorism,” *Technological Forecasting & Social Change: An International Journal*, 123, 1-16. Available at: www.elsevier.com/locate/techfore; Paul J. Werbos (2017), “New Technology Options and Threats to Detect and Combat Terrorism”; in: Theodore J. Gordon, Elizabeth Florescu, Jerome C. Glenn, and Yair Sharan (Eds.), *Identification of Potential Terrorists and Adversary Planning: Emerging Technologies and New Counter-Terror Strategies*, Amsterdam: OIS Press, 35.

¹⁴⁹ Gordon and Lindo 2011.

¹⁵⁰ Nugroho 2018 130; Chasdi 2018.

and create redundancy in the system, and in the process increase government and societal resilience.

In addition, another anticipatory foresight program recommended revolves around the creation of an internationally based insurance program with international resources to be donated by countries, MNCs, and IGOs — the EU, ASEAN, the World Bank, the UN, or the G-20, for example, to provide more effective coverage for small and medium-size businesses to cope with economic losses incurred. Foresight as an intrinsic component of public policy formulation and implementation would work to save untold sums lost to “spectacular” terrorist assaults and sustained terrorism campaigns. This component of a new “multilateralism” in the twenty-first century contemporary world is desperately needed, but has become increasingly elusive since the outbreak of the Coronavirus pandemic.

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Appendix I — A Typology of Terrorism’s Economic Disruptions

Work to conceptualize and categorize specific types of economic disruption caused by terrorism is enhanced by a three-dimensional typology, “A Typology of Terrorism’s Economic Disruptions.” This typology has three distinguishing characteristics: A. “Target Industry”; B. “Scope”; and C. “Time Interval.” The first distinguishing characteristic, “Target Industry,” is broken down into six industries: tourism; transportation; food/water production and distribution; banking/finance; medical facilities; and private housing and commercial stock. The first of these designations – “Tourism” - is inclusive of hotel management and allied sub-industries such as amusement parks, nature reserves, and other sightseeing locales and operations.

The second industry category is “Transportation” — with focus on the economic repercussions of terrorism against airliners, airports, buses, cruise ships, trains, and related infrastructure such as airports, train stations, bus terminals, and harbors. In addition, taxis, Ubers, and the revenue shares of taxi and Uber- or train-related travel *en route* to airports or helicopter pads are included. The third industry is “Food/water production and distribution.” This industry category takes into account production, distribution, maintenance of food and water supplies, as well as water purification.

In turn, “Banking and/or finance” is the fourth industry category, inclusive of a range of financial institutions, including stock and bond markets susceptible to economic disruptions from terrorist assaults. The fifth industry category is “Medical facilities”, inclusive of economic repercussions from terrorism on hospitals budgets, first-responder budgets, and related infrastructure such as the capacity to procure sufficient respirators or personal protection equipment (PPE), dramatically underscored by the recent Coronavirus pandemic. Finally, the sixth articulated industry category is “Commercial and/or private housing stock” where economic disruptions caused by terrorism translate into rent changes and stock availability, primarily as a function of diminished supply.¹⁵¹

The second distinguishing characteristic is the “Scope” of economic effects caused by terrorism. This distinguishing characteristic of “scope” is broken down into six sub-categories that articulate ranges of scope relative to nation-states. The first of those is “national economic effects,” that are inclusive of aggregate effects to specific states, provinces, or departments. The second sub-category, “regional effects,” captures economic effects that span regions, namely across national economies in generally recognizable geographical areas.¹⁵²

The third sub-category is “International economic effects,” that captures disruptions in volume of trade and world economy size and growth. For example, “spectacular” terrorist events such as 9/11, the 2002 Bali bombings, the 2004 Madrid bombings, the 2005 London “7/7” bombings, and the 2008 Mumbai attacks have international economic repercussions on one or more of the target industries listed above - such as “tourism” or “transportation.” In turn, the fourth, fifth, and sixth

¹⁵¹ Drennan 2007, p. 158, p. 181.

¹⁵² Richardson, Harry W., Peter Gordon, James E. Moore II, Soojung Kim, Jiyoung Park, and Qisheng Pan (2007), “Tourism and Terrorism: The National and Interregional Economic Impacts of Attacks on Major US Theme Parks”; in: Harry W. Richardson, Peter Gordon, and James E. Moore II (Eds.), *The Economic Costs and Consequences of Terrorism*, Northampton, MA: Edward Elgar Publishing, pp. 235-253.

categories respectively are “international effects and regional effects,” “international effects, but with no regional effects,” and “no international effects” but with regional effects.

The third distinguishing characteristic in this typology is “time interval.” Time interval is broken down into “short-run”, “middle-run”, and “long-haul” periods even though many scholars debate whether or not terrorist events, over and beyond “ultra-spectacular” events such as 9/11, have long-haul economic or political implications or both. Hence, this “Typology of Terrorism’s Economic Disruptions,” is a three-dimensional 6x6x3 cube-like structure with 108 possible iterations, many of them found in the larger world of action. It should be noted that while the typology can be modified to take into account multiple terrorist target assaults in future work, the typology in its present form can only take into account single-target-type attacks. From those 108 iterations, the ones that can be found in the larger world of action can serve as the basis of hypothesis formation (theoretical propositions) in future work that can be crafted and tested empirically.¹⁵³

Typology of Terrorism’s Economic Disruptions (sample of 108 iterations):

1. A1 B1 C1 – 1, 1, 1 — economic disruption effects of a terrorist assault against a tourist target with national effects in a short-run time interval.
2. A1 B1 C2 – 1, 1, 2 — economic disruption effects of a terrorist assault against a tourist target with national effects in a middle-run time interval.
3. A1 B1 C3 – 1, 1, 3 — economic disruption effects of a terrorist assault against a tourist target with national effects in a long-haul time interval.
4. A1 B2 C1 – 1, 2, 1 — economic disruption effects of a terrorist assault against a tourist target with regional effects in a short-run time interval.
5. A1 B2 C2 – 1, 2, 2 — economic disruption effects of a terrorist assault against a tourist target with regional effects in a middle-run time interval.
6. A1 B2 C3 – 1, 2, 3 — economic disruption effects of a terrorist assault against a tourist target with regional effects in a long-haul time interval.
7. A1 B3 C1 – 1, 3, 1 — economic disruption effects of a terrorist assault against a tourist target with international economic effects in a short-run interval.
8. A1 B3 C2 – 1, 3, 2 — economic disruption effects of a terrorist assault against a tourist target with international economic effects in a middle-run time interval

¹⁵³ Starr, Harvey F and Benjamin Most, “Patterns of Conflict: Quantitative Analysis and the Comparative Lessons of Third World Wars”; in Robert E. Harkavy and Stephanie Neuman (Eds.), *Approaches and Cases Studies. Vol. 1 of the Lessons of Recent Wars in the Third World*, Lexington, MA: D.C. Heath and Company 1985, pp. 33-52; Harvey Starr and Benjamin Most, “The Substance and Study of Borders, International Relations Research,” *International Studies Quarterly*, 20 (4), 1976, pp. 581-620; Harvey Starr and Benjamin Most, “Contagion and Border Effects on Contemporary African Conflict,” *Comparative Political Studies*, 16 (1), 1983, pp. 92-117; Chasdi 1999, pp. 138-142, 198-201, n.15. This typology is based on Harvey Starr and Benjamin Most’s three-dimensional typology of third world conflict.

9. A1 B3 C3 – 1, 3, 3 — economic disruption effects of a terrorist assault against a tourist target with international economic effects over a long-haul time interval.

10. A1 B4 C1 – 1, 4, 1 — economic disruption effects of a terrorist assault against a tourist target with international effects and/or regional effects in a short-run time interval.

11. A1 B4 C2 – 1, 4, 2 — economic disruption effects of a terrorist assault against a tourist target with international and national effect and/or regional effects in a middle-run time interval

12. A1 B4 C3 – 1, 4, 3 — economic disruption effects of a terrorist assault against a tourist target with international and national effect and/or regional effects in a long-haul interval.

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