The Politics of Wealth Distribution in Post-Soeharto Indonesia:

Political Power, Corruption and Institutional Change.

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ABSTRACT

This thesis examines the processes through which the redistribution of political and economic power is taking place in post-Soeharto Indonesia. In order to do this, patterns of 'grand' corruption between the business community and the state are explored in three sites: the allocation of government contracts, the interaction between business associations and the state, and the negotiations over the repayment of debt.

It is found that corruption has become more widely dispersed with the inclusion of new state actors and that the basis of allocation has moved away from the political influence of the Soeharto-era towards the more uncomplicated power of money. It is proposed that the conventional arguments which either invest institutions with the sole responsibility for limiting corruption or alternatively view them as completely irrelevant to the real exercise of power are both flawed. Rather, it is argued in this thesis that institutional change does indeed affect patterns of corruption, freezing out some participants, introducing others and defining new sites of corrupt exchange. The significance of such an analysis lies in the idea that corruption can never be destroyed but rather it is controlled through alterations of its character. Thus, any attempts to limit corruption must be grounded in such an analysis of its particular character.

It is further hypothesised that efforts to limit corruption are badly served by an exclusive focus on the rules inherent in institutions at the expense of the inclusion of corruption's deeper structural causes. In response to this, the idea that corruption is partially driven by the need to foster the domestic capital accumulation process in a context of historic underdevelopment is explored throughout this thesis. Thus, it is proposed that corruption can be viewed as a system of wealth distribution based not just on money and connections, but also ethnicity and nationality.

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NOTES

U.S. dollar equivalents have been given of rupiah value throughout the text. Due to the instability of the rupiah exchange rates, the dollar equivalents given should be taken as a *rough* approximation to the actual value. The rate used in the text is Rp10,000 = US$ 1.

GLOSSARY

ABE	Asosiasi Perusahan Jasa dan Barang Teknik Elektronika (Association of Electronic Services and Goods)
AEKI	Asosiasi Eksportir Kopi Indonesia (Association of Indonesian Coffee Exporters)
AFTA	ASEAN Free Trade Area
APKI	Asosiasi Pulp dan Kertas Indonesia (Association of Indonesian Pulp and Paper)
APKINDO	Asosiasi Panel Kayu Indonesia (Association of Indonesian Plywood Producers)
APRINDO	Asosiasi Pengusaha Retail Indonesia (Association of Indonesian Retail Businesses)
ARDIN	(Asosiasi Rekanan dan Distributor Indonesia) (Association of Indonesian Suppliers).
ASBI	Asosiasi Sarang Burung Walet Indonesia (Association of Swallow Nests)
ASEAN	Association of Southeast Asian Nations
ASI	Asosiasi Semen Indonesia (Association of Indonesian Cement)
ASIRI	Asosiasi Industri Rekaman Indonesia (Association of the Indonesian Recording Industry)
ASMINDO	Asosiasi Industri Permebelan dan Kerajinan (Association of Furniture and Handicraft)
ASPANJI	Asosiasi Pengusaha Pengadaan Barang dan Jasa (Indonesian Supplier and Distributor Association)
BA	Business Association
Bappenas	Badan Perencanaan Pembangunan Nasional (National Development Planning Board)

Benteng	Literally fortress, a government programme in the 1950s to generate an indigenous domestic private business sector
BLBI	Bantuan Likuiditas Bank Indonesia (Bank Indonesia Liquidity Assistance)
BMPK	Batas Maksimum Pemberian Kredit (Maximum Limit for the Provision of Credit)
BPKP	Badan Pengawasan Keuangan dan Pembangunan (Government Financial and Development Controller)
BPS	Badan Pusat Statistik (Central Statistics Agency)
Bupati	Regent or District Administrative Head
CAR	Capital Adequacy Ratio (ratio between a bank's capital and risk-weighted assets)
CGI	Consultative Group on Indonesia (main consortia of major creditor countries)
DEN	Dewan Ekonomi Nasional (National Economic Council)
DPA	Dewan Pertimbangan Agung (Supreme Advisory Council)
DPEK	Dewan Pemantapan Ketahanan Ekonomi dan Keuangan (Council for Economic and Monetary Resilience)
DPER	Dewan Pengembangan Ekonomi Rakyat (Council for the Development of the People's Economy)
DPR	Dewan Perwakilan Rakyat (People's Representative Council, Indonesia's parliament)
DPUN	Dewan Pengembangan Usaha Nasional (Council of National Business Development).
DR	Dana Reboisasi (Reforestation Fund)

ECA	Export Credit Agency (public agencies that lend developing countries funds to buy goods from their home country, or insure commercial bank loans to a developing country. The ECA in the exporter's country effectively takes on the risk of the exporter and often also insists that the developing country government also provide a guarantee to the ECA).
EID	Export, Import and Investment Insurance Department (Japan)
ERG	Geschäftsstelle für die Exportrisikogarantie (Export Credit Agency, Switzerland)
FDI	Foreign Direct Investment
FSPC	Financial Sector Policy Committee (Komite Kebijakaan Sektor Keuangan – KKSK)
GAKESLAB	Gabungan Perusahaan Alat-alat Kesehatan dan Laboratorium (Federation of Medical Instruments and Laboratories)
GAPEKNAS	Gabungan Pengusaha Konstruksi Nasional (Indonesian Construction Association)
GAPENSI	Gabungan Pelaksana Konstruksi Nasional Indonesia (Indonesian Contractors Association)
GBHN	Garis-Garis Besar Haluan Negara (Broad Outlines of State Policy)
GDP	Gross Domestic Product
Golkar	Golongan Karya (Functional Groups) (the ruling state party during the New Order Period)
GP. FARMASI	Gabungan Perusahaan Farmasi Indonesia (Association of Indonesian Pharmaceutical Businesses)
HERMES	Hermes Kreditversicherung-AG (Export Credit Agency of Germany)
HIPLI	Himpunan Pengusaha Lemah Indonesia (Indonesian Weak Business Organisation)
HIPMI	Himpunan Pengusaha Muda Indonesia (Young Entrepreneurs Association)

HPH	Hak Pengusahaan Hutan (Forest Cultivation Rights)
IBRA	Indonesian Bank Restructuring Agency (Badan Penyehatan Perbankan Nasional - BPPN)
ICW	Indonesian Corruption Watch (NGO)
IKAPI	Ikatan Penerbit Indonesia (Indonesian Publishers' Association)
INACA	Indonesian National Air Carriers' Association
INKINDO	Ikatan Nasional Konsultan Indonesia (Indonesian Association of Consultants)
INKOPTI	Induk Koperasi Produsen Tempe Tahu Indonesia (Tempe and Tofu Producers' Cooperative)
IMF	International Monetary Fund
IPIES	Ikatan Pengusaha Industri Es (Federation of Ice Producers)
JBIC	Japan Bank for International Co-operation
Kadin	Kamar Dagang dan Industri (Indonesian Chamber of Commerce)
Kadinda	Kamar Dagang dan Industri Daerah (Regional Chamber of Commerce)
Keppres	Keputusan Presiden (Presidential Decision)
KPEN	Komite Pemulihan Ekonomi Nasional (National Economic Recovery Committee) (Kadin)
KPPU	Komisi Pengawas Persaingan Usaha (Supervisory Commission for Business Competition; anti-monopoly body)
LOI	Letter of Intent (agreement between a state and the IMF in return for a loan)
MITI	Ministry of International Trade and Industry (Japan)

MP	Member of parliament
MPR	Majelis Permusyawaratan Rakyat (People's Consultative Assembly)
MSAA	Master Settlement and Acquisition Agreement
Munas	Musyarawah Nasional (the highest decision-making body within Kadin)
New Order	The period of Soeharto's rule, 1966-1998
NGO	Non-Governmental Organisation
NU	Nahdlatul Ulama (Revival of the Religious Scholars; Indonesia's largest traditional Islamic organisation)
OC	Oversight Committee (For IBRA) (Komite Pemantau Pelaksanaan Tugas – KPPT)
OPIC	Overseas Private Investment Corporation (U.S.)
ORGANDA	Organisasi Angkutan Darat (Organisation of Land Transport)
PBSP	Panitia Bersama Sertifikasi Propinsi (Joint Committee for Provincial Certification; awards certificates to companies so that they can participate in government contracts)
PDI	Partai Demokrasi Indonesia (Indonesian Democratic Party; an amalgamation of nationalist and Christian parties in the New Order)
PDI(P)	Partai Demokrasi Indonesia – Perjuangan (Indonesian Democratic Party of Struggle; the post-Soeharto version of PDI)
Pertamina	Perusahaan Pertambangan Minyak dan Gas Bumi (Indonesian State Oil and Gas Company)
PLN	Perusahaan Listrik Negara (State Electricity Company)
PPP	Partai Persatuan Pembangunan (United Development Party; an amalgamation of Muslim parties in the New Order)

pribumi	Literally 'sons of the earth', denotes Indonesians of Malay descent.
putra daerah	Literally 'sons of the regions', denotes Indonesians who define themselves in regional ethnic terms.
SEKNEG	Sekretariat Negara (State Secretariat)
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
USEXIM	Export-Import Bank of the United States
Walhi	Wahana Lingkunan Hidup Indonesia (Indonesian Environment Association; NGO)
Yayasan	Foundation; organisations intended as charities but often used for political funding.

Box One	Timeline of Indonesian History

1670-1900 With intervening periods of partial British rule, Dutch colonists eventually bring the whole of Indonesia under one government as the Dutch East Indies.

1928 An Indonesian youth conference pledges to work for 'one nation, one language, one people'.

1942 Japan invades Dutch East Indies.

1945 The Japanese help independence leader Soekarno return from internal exile and declare independence. The Dutch only recognise Indonesian independence after a further four years of guerrilla warfare.

1945 – 1959 Freedom of expression and association and a multi-party system form the backdrop to the first national elections in 1955. However, political instability ensues and there is a rapid succession of governments aggravated by elite conflict between political Muslims, an anti-Communist military, secular nationalists and a relatively strong Communist party. Regional resistance to centralised rule from Jakarta also introduces instability into the political system. In 1957 all Dutch-owned companies were taken over by the military.

1959 – 1965 In response to political instability Soekarno institutes 'Guided Democracy', a Presidential style of government based on 'consensus' rather than competition. Political parties are controlled, the press is censored and the National Assembly packed with Soekarno appointees. Soekarno's effort to fuse nationalism, religion and Communism alarms some Muslim and military elites as his anti-imperialist rhetoric moves increasingly further to the left. At the same time, debt, declining exports and spiraling inflation ravage the economy as Soekarno focuses on maintaining a unified Indonesia in the face of increasing regional rebellions.

1965 Soekarno is toppled in a coup. Contention still remains today in Indonesia around the exact circumstances of the coup with some maintaining that it was engineered by Soeharto whilst others claim that Soeharto simply took advantage of a failed coup by a small group of military sympathetic to the Communists. The official line that Communists were to blame is used as a license to ban Communism and hundreds of thousands of suspected Communists are killed in a purge of leftists which descends into vigilantism.

Soeharto establishes the 'New Order' based on military force. Active or retired military officers occupy key national, provincial, and local offices to secure the nation against subversion by what they see as atheistic communists and Westernized liberals on the left and fanatic Muslims on the right. Restrictions on political activities, parties and organisations are introduced where multiple Islamic parties are corralled into one encompassing Islamic party (PPP) and nationalist and Christian parties grouped into a different party, the PDI. The state party, Golkar, receives substantial government funding and enjoys electoral advantages such as compelled support from civil servants and the freedom to campaign in rural areas that is denied to the other parties. Golkar wins every election from the 1970s onwards.

Box One **Timeline of Indonesian History**

1974 Increasing unease with Soeharto's reliance on foreign and Chinese-Indonesian investment leads to the 'Malari Riots' where tens of thousands of student demonstrators protest violently in response to a visit from the Japanese Prime Minister. In the same year sharp rises in global oil prices enable less reliance on foreign investment and nationalist economic policies are introduced in contrast to the relative economic liberalism of Soeharto's early years. Political repression is stepped up.

1982 Oil prices fall and private domestic and foreign investment is again encouraged with partial deregulation of the investment regime. Deregulation increases throughout the 1980s with many state monopolies being transferred to a small group of Soeharto 'cronies' and family. Corruption takes hold throughout the 1990s.

1997 - Asian economic crisis begins and the Indonesian rupiah plummets in value, pushing up the cost of basic necessities. Many firms and banks are pushed into bankruptcy as huge levels of dollar denominated debt spiral out of control.

1998 - Widespread unrest with rising energy prices and increasing student demonstrations turn into rioting as security forces fatally shoot six student protesters. The defection of many of Soeharto's cabinet members eventually leads to his resignation. Soeharto's long time ally and Vice-President, B J Habibie becomes president.

1999 - Ethnic violence breaks out in Maluku. Free elections are held in Indonesia with 48 parties participating. The nationalist party PDI(P) gains 34% of the vote, the state party Golkar 22% and two Islamic parties account for 23%. East Timor votes for independence in a UN-sponsored referendum, after which anti-independence militia go on the rampage. The moderate Islamic cleric, Abdurrahman Wahid, becomes president in a power sharing deal by the major parties. Economic growth recovers very slowly.

2001 Outbreaks of new ethnic violence in Kalimantan as indigenous Dayaks force out Madurese transmigrants. Mass political demonstrations by Wahid's supporters and opponents seen in many major cities as his leadership comes under increasing pressure from the parliament. IMF stops further loans.

2001 July - Parliament dismisses President Wahid over allegations of corruption and incompetence. Vice-President Megawati Soekarnoputri is sworn in as his replacement, even as Wahid refuses to leave the presidential palace.

2002 Top legislators pass constitutional changes seen as a key step towards democracy. For the first time, Indonesian voters will be able to elect their president and vice president.

2004 5th April – General Elections take place. The results PDI(P) has 18.5% of the vote, Golkar 21.6%, PKB 10.5%, PPP 8.15% and the new Democrat Party 7.45%.

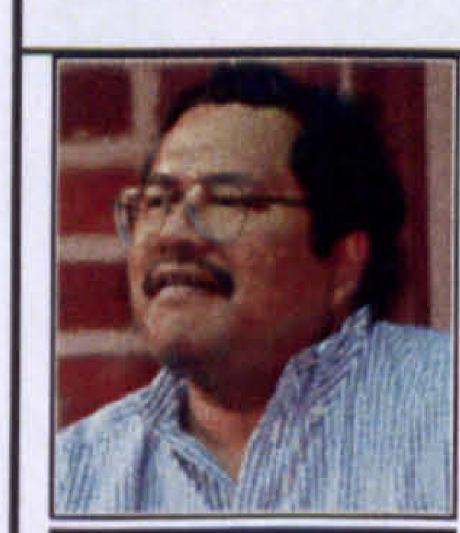
2004 5th July – First direct Presidential elections to take place.

Sources: Sejarah Indonesia, http://www.gimonca.com/sejarah/sejarah.shtml; BBC; Network Indonesia, http://users.skynet.be/network.indonesia/ni6001.htm; Donald K. Emmerson (2001) 'Indonesia', in Joel Krieger (ed.) *The Oxford Companion to the Politics of the World, 2e*, Oxford University Press, *Oxford Reference Online.*

Box Two	Indonesia: Facts and Figures		
Population	235 million (2003 est.)		
Ethnic groups	Javanese 45%, Sundanese 14%, Madurese 7.5%, coastal Malays 7.5%, Chinese-Indonesian 3%, other 23%		
Religion	Muslim 88%, Protestant 5%, Roman Catholic 3%, Hindu 2%, Buddhist 1%, other 1% (1998)		
Life expectancy at birth	**1970-1975:** 49.2 years **1995-2000:** 65.1 years		
Literacy (15 years and over)	**1970:** 66% **2001:** 87.3%		
Net primary school enrolment (% of age group)	**1970-75:** 72% **1993-98:** 99%		
Access to safe drinking water (% of population)	**1970-75:** 39% **1993-98:** 62%		
GDP per capita	**1975:** US$227 **1997:** US$1063	**1998:** US$464 **2001:** US$678	
GDP composition by sector		**1970**	**2001**
	Agriculture:	45%	17%
	Industry:	19%	41%
	Services:	36%	42%
Labour force by occupation		**1970**	**1999**
	Agriculture	66%	45%
	Industry	8%	16%
	Services	26%	39%
Urban population as a % of total population	**1975:** 19.4% **2001:** 42%		

Sources: UNESCO Institute for Statistics; UN Statistics Division; UNDP, *Human Development Report 2003*; CIA, *Factbook*; World Bank, *World Development Indicators, 2001*; ILO, *Papers and Proceedings of the 5th Meeting of Asian Employment Planners*, 29-30 November, 1993, Bangkok, Thailand; UN (2003) *Economic and Social Survey of Asia and the Pacific*, NY, UN.

Box Three	Selected Biographies	
	**Soekarno**	**President of Indonesia 1945-1966** (died 1970). A founder member of the Indonesian National Party in 1927, he was jailed and exiled from Jakarta by the Dutch colonial authorities for over a decade. He returned from exile in 1942 to work with the Japanese occupation force and declared independence for Indonesia in 1945. Showing great ability to unite the disparate elements within Indonesia, his career reached a peak in 1955, when he hosted the first international gathering of African and Asian countries. But his authoritarian 'guided democracy', a confrontational attitude towards Malaysia in 1963-5, a stagnating economy and an increasing affinity with the Communist party eventually led army leaders to turn against him.
	**Soeharto**	**President of Indonesia 1966 – 1998**. Estimated wealth: US$ 16 billion. Rising to power through military ranks from relative obscurity, he seized control of the state in 1966 after an aborted coup to topple the then President, Soekarno. The major characteristics of his regime, known as the 'New Order', were rapid development, corruption and brutal military repression. Adept at handling the various military, economic and political power blocks over his 32 year reign, he came to embody the Indonesian state through a highly centralised system of control. Economic instability and popular discontent with his rule forced his resignation in 1998.
	**Bacharuddin Jusuf Habibie.**	**President of Indonesia, May 1998 – October 1999**. Estimated wealth: US$ 60 million. Regarded as Soeharto's 'right hand man' for twenty years, Habibie's personal relationship with Soeharto began in the 1950s when Soeharto befriended his family and became like a father to him. In his capacity as State Minister for Research and Technology for twenty years, Habibie came to personify the economic development programme he espoused of massive state investments in high-technology industries. Extensive family business interests (65 companies) in sectors ranging from property, telecommunications, transport and agribusiness.
	**Abdurrahman Wahid (Gus Dur)**	**President of Indonesia October 1999 – July 2001**. Grandson of Hashim Ashari, who founded Indonesia's largest traditional Islamic organisation, Nahdlatul Ulama (NU). A Muslim scholar and political moderate who supports the separation of religion and state and rights for women and minorities, Wahid became head of NU in 1984. During the early 1990s he became a high profile opponent of President Soeharto. In poor health, almost blind, and noted for unpredictability and indecisiveness, he was nonetheless a popular figure when he was elected President by the parliament in 1999. His Presidency was dogged by poor management skills and hints of corruption until the parliament voted to remove him from office in July 2001.

Box Three		Selected Biographies
	**Megawati Soekarnoputri**	**President of Indonesia 2001 – Ongoing**. Daughter of Indonesia's founder and first president, Soekarno. Megawati entered politics in 1987 as a candidate of the Indonesian Democratic Party (PDI) and served in parliament for 10 years. She was elected head of the PDI for a five-year term in 1993 but was removed by Soeharto in 1996. Her party won a plurality in the 1999 parliamentary elections, and she ran unsuccessfully for President the same year; she was later chosen as Vice-President under Abdurrahman Wahid. When the parliament voted the following year to remove Wahid from office, she was chosen as President. Criticised for her 'hands off' approach to rule, many observers question her personal ability to govern.
	**Ginanjar Kartasasmita**	**Minister of Mines and Energy (1988-93); Economics Coordinating Minister (1993-1999).** Serving in Soeharto's cabinet since 1988, Ginanjar has been an influential power broker in the state party, Golkar, for many years and is a strong supporter of state economic intervention. Since 1998, Ginanjar has been questioned and even arrested for his alleged role in several high-level corruption scandals from the Soeharto era, none of which have made it as far as the courts. Although now out of government, he remains influential today.
	**Adi Sasono**	**Minister of Co-operatives and Small and Medium Enterprises May 1998 – October 1999.** Co-founded the Association of Indonesian Muslim Intellectuals (ICMI) with former president BJ Habibie in the 1980s. High profile proponent of a 'people's economy' where the linking of SME businesses into economic clusters is emphasised coupled with the provision of credit to rural areas. As Minister of Co-operatives under Habibie, he set up 17 different credit schemes to farmers and SMEs which were poorly managed and ultimately unproductive. Out of favour now with the political establishment, he has set up his own political party (Freedom Party) to contest elections but has received little support.
	**Rizal Ramli**	**Coordinating Minister for the Economy August 2000- June 2001**. As a student activist in the late 1970s, Rizal was jailed for 18 months for his opposition to the Soeharto regime. He worked for many years as an economic analyst in a think tank he helped set up before moving into politics after the resignation of Soeharto. As chief economics minister he was best known for his advocation of a more limited role of the IMF in policy making and later became a leading light in the Indonesia Bangkit group of economists calling for an end to the IMF programme.
	**Kwik Gian Gie**	**Economic Co-ordinating Minister 1999-2000; Minister of National Development/ Head of Bappenas 2001-2004.** Best known as an uncompromising critic of Soeharto-era conglomerates through his writings in *Kompas* daily newspaper, Kwik has for many years been a high ranking member of the PDI. After 25 years as a businessman, he moved into politics and education in 1990. Since obtaining office in 1999, Kwik has been involved in many acrimonious disputes with other members of the establishment and has become somewhat sidelined politically in recent years as a result.

Box Three		Selected Biographies
	**Siti Hardiyanti Rukmana (Tutut)**	**Eldest child of Soeharto**. Estimated wealth: US$ 700 million. Extensive business interests before the economic crisis in more than 90 companies ranging from telecommunications to infrastructure, including most notably toll road projects in Indonesia and the Philippines. Politically ambitious, she ascended to the level of Minister of Social Affairs in her father's last cabinet. Candidate for President in 2004.
	**Sigit Harjojudanto**	**Second child of Soeharto.** Estimated wealth: US$ 800 million. With at least 45 companies under his Arseto Group, Sigit was the first of the Soeharto family to go into business. Interests ranged across the transport, finance, mining, forestry and trade sectors. Known for his gambling, he is said by his friends to have wagered up to US$ 3 million a night in casinos overseas.
	**Bambang Trihatmodjo**	**Third child of Soeharto.** Estimated wealth: US$ 3 billion. Owner of one of the biggest conglomerates in Indonesia, Bimantara, his businesses are said by observers to be the best managed of all the Soeharto family. Interests ranged from transportation, telecommunications, infrastructure, chemicals and finance. When his bank was closed in 1998 by the government, he re-opened it a few days later under a different name before pulling out his ownership.
	**Siti Hediati Harijadi Prabowo (Titiek)**	**Fourth Child of Soeharto.** Estimated wealth: US$ 75 million. Throughout the Soeharto era, she was married to an ambitious army officer who was accused around the time of Soeharto's resignation of brutal violence against some of the country's Chinese-Indonesian minority. Siti is known to have expensive tastes in jewellery and a personal art collection valued at more than US$ 5 million. Major holdings in finance, forestry, chemicals, construction and transportation.
	**Hutomo Mandala Putra (Tommy)**	**Fifth child of Soeharto.** Estimated wealth: US$ 800 million. Reportedly Soeharto's favourite child, Tommy kept a high profile in the Soeharto-era with his stock car racing, gambling and womanising. Through his Humpuss Group, he had business interests in transportation, petrochemical, construction, advertising and oil and gas. When the Supreme Court overturned an earlier acquittal in a corruption case in 2000, he escaped custody and became a fugitive for a year. After recapture, he was eventually sent to prison for conspiring to murder one of the Supreme Court judges involved in the original corruption case against him.
	**Siti Hutami Endang Adiningsih ('Mamiek')**	**Sixth child of Soeharto.** Estimated wealth: US$ 30 million. Emerged in the business world relatively late, Mamiek has stakes in several of her siblings' companies plus interests in fruit, transportation and telecommunications. In 1995 the government appointed her company Manggala Krida Yudha to undertake a US$ 500 million reclamation project expanding the North Jakarta seaport. She in turn tried to subcontract the project to Hyundai Engineering for US$ 100 million, but the deal was cancelled by the government in an effort to purge corruption

Box Three	Selected Biographies	
	**Ari Haryo Wibowo Sigit (Ari Sigit)**	**Grandson of Soeharto.** Son of Sigit Harjojudanto. Head of the Arha Wisanto Group, Ari held several notorious monopolies selling beer, fertiliser, Chinese medicine and the rights over the lucrative birds nest market in Indonesia. A venture to monopolise the supply of shoes to millions of school children in association with the Department of Education was too much even for Soeharto, who put a stop to it in 1997.
	**Sudwikatmono**	**Cousin of Soeharto.** He obtained significant interests in at least 288 Indonesian companies by offering to help foreign investors and others with government approvals and then taking a share of the equity in payment. He is one of the group of four high profile businessmen known as the Liem investors. Of Indonesia's top personal taxpayers in 1990, the Liem investors took 4 of the 6 top positions.
	**Probosutedjo**	**Half brother of Soeharto.** Head of the Mercu Buana Group with significant interests in at least 119 active Indonesian companies including one of Indonesia's largest glassware manufacturers and Hotel Le Meriden in Jakarta. He has become something of a spokesperson for the Soeharto family since 1998. In April 2003 he was convicted of corruption and sentenced to four years in jail for misusing US$11.4 million dollars in state funds that were supposed to have been used for reforestation projects. But he remains free pending a lengthy appeal process and recently had his sentence reduced to two years.
	**Anthony Salim and Liem Sioe Liong**	**Businessman.** Estimated personal wealth: US$ 4 billion (down to US$ 1.7 after the crisis). Arriving in Indonesia from China in 1938, he joined a family business which supplied a division of the army with food and medicine. The quartermaster of the division was the then unknown Soeharto. By the time Soeharto became President Liem had already established himself as a successful businessman, but his fortunes rose exponentially once Soeharto became President. With a very close relationship to Soeharto, he received numerous monopolies and import licenses. Liem's Salim Group was Indonesia's largest pre-crisis conglomerate, encompassing 420 highly diverse subsidiaries and its total revenues (which exceeded US$ 14 billion in 1996) were equivalent to 6% of Indonesia's annual GDP. Its assets included the nation's biggest flour mill, cement producer and private bank and the world's biggest noodle maker. Substantial expansion overseas, Salim is now run by Liem's son, Anthony.
	**Sofyan Wanandi**	**Businessman.** Throughout the Soeharto era, Sofyan was considered the spokesperson of Chinese-Indonesian conglomerates. He is a controversial figure who fell out of favour with Soeharto in the 1990s and fled abroad when the new President Habibie brought corruption charges against him for misusing US$ 16 million dollars worth of state credit. In the final weeks of Soeharto's rule, he was implicated in a bomb plot in probable retaliation for his criticism of then Vice-President Habibie. A close ally of Abdurrahman Wahid, he returned to Indonesia days after Wahid became President before his corruption charges were eventually dropped.

Box Three	Selected Biographies	
	**Aburizal Bakrie**	**Chairman of Indonesian Chamber of Commerce (Kadin) 1994-2004.** Bakrie was a controversial Kadin leader who was often implicated in major corruption scandals. The Bakrie Group was founded in 1942 and was an original beneficiary of the first government programme to promote indigenous Indonesian (*pribumi*) business in the 1950s. When Aburizal Bakrie took over in the late 1980s from his father, aggressive expansion resulted in around 114 subsidiaries operating across the Indonesian economy. However, in the wake of the 1997 economic crisis, the Bakrie family retains only 2.5% of the group's shares.
	**Mohamad 'Bob' Hasan (The Kian Seng)**	**Businessman.** A central Java native who met Soeharto in the early 1950s as the adopted son of Soeharto's superior, he served as Soeharto's financier, golf partner and confidant for many years. He became Indonesia's foremost timber baron as chair of the Indonesian Plywood Association (Apkindo) and has extensive holdings in forestry, pulp and paper, banking and automobile manufacturing through the Nusamba Group. Briefly appointed Minister of Trade and Industry in Soeharto's last cabinet, he was the only major Soeharto crony to be convicted of corruption and in 2001 he was incarcerated in a remote Indonesian prison.
	**Prajogo Pangestu**	**Businessman.** Estimated wealth: US$ 2 billion. Thought to be the second richest man in Indonesia after Liem Sioe Liong. Boss of the Barito Pacific Group, he was involved in many businesses with the Soeharto children. His major source of wealth was his control of licenses to exploit millions of hectares of forest. He also had significant involvement in petrochemicals, agribusiness, pulp and paper and finance. Barito Pacific is one of the most indebted groups in Indonesia today.
	**Marimutu Sinivasan**	**Businessman.** Owner of the Texmaco Group, whose core business in textiles was expanded in the 1990s to include the production of textile machinery, engineering, automobiles and chemicals and is a major exporter. The biggest debtor in Indonesia today, Texmaco has been involved in several highly controversial corruption scandals and is alleged to have obtained US$ 1 billion from state banks through the personal intervention of Soeharto at the height of the economic crisis.

Sources: O'Rourke, K. (2002) *Reformasi: The Struggle for Power in Post-Soeharto Indonesia,* NSW, Allen and Unwin; *Time,* 24.5.99; *The Encyclopedia of Asian History*; *The Columbia Electronic Encyclopedia*; Aditjondro, G. (1998) *Harta Habibie,* Jakarta, Pustaka Demokrasi; *Tempo,* 1.4.02; *Indonesian Business*, July 1998; Backman, M. (1999) *Asian Eclipse: Exposing the Dark Side of Business in Asia,* Singapore, John Wiley and Sons; *Indonesian Business*, October 2000; http://www.tokohindonesia.com; *Jakarta Post*, 9.2.04; *Warta Ekonomi*, 20.8.01, *Warta Ekonomi*, 25.9.00; *Warta Ekonomi,* 11.9.00; *Warta Ekonomi,* 17.8.98; *Warta Ekonomi*, 13.3.00; API (2001) *Panduan Parlemen Indonesia* (CD-Rom); PDBI (2000) *Anatomy of Indonesian National Assets*, Jakarta, PDBI; Data Consult (1998) *Anatomy of Indonesian Conglomerates*, Jakarta, Data Consult.

INTRODUCTION

Background and Overview of Thesis

Straddling the Equator in a chain of islands stretching 3,200 miles, the extraordinarily diverse nation of Indonesia was, until 1998, ruled by the same man for thirty-two years. With the crucial backing of the military and the increasing support of foreign capital, Soeharto's rule mixed a sometimes brutal repression of opposition with a commitment to economic growth and political stability. Political competition was stifled over the years as Soeharto adapted the remnants of colonial era political institutions passed on from the Dutch via Soekarno, Indonesia's iconic first President. At the same time, powerful elite factions based around military force, ethnicity, religion and class were drawn into the Soeharto system of rule through the allocation of national wealth (see Box One). Whilst there were demonstrable gains in development for the population as a whole throughout Soeharto's tenure (see Box Two), such a system of regime maintenance (controlled political competition coupled with co-option of favoured elites) eventually resulted in a high concentration of political power and economic wealth.

The economic growth and political stability which had hitherto legitimised the Soeharto regime came to a sudden end in 1998 after the devaluation of Thailand's currency precipitated a monetary crisis throughout Southeast Asia. Hardest hit was Indonesia where currency losses of up to 75 percent triggered enough capital flight to effectively bankrupt the Indonesian economy. Amidst a sharp rise in poverty, unemployment and inflation, Soeharto acceded to an IMF programme of conditionalities in exchange for a multi-billion dollar emergency loan. As part of this programme, subsidies on fuel and utilities were cut, which then combined with a general climate of unrest to produce spiralling demonstrations, riots and cabinet defections, eventually leading to Soeharto's resignation in May 1998.

This thesis will study the redistribution of political and economic power in the first phases of a post-Soeharto transition in Indonesia. The position which will be developed here views the type of relationship between the business community and the state to be a major determinant of the distribution of political power and economic wealth in a society. It is further theorised that in Indonesia this distribution of power and wealth is, at least partly, performed through a system of corruption. In other words, the primary focus of this research is on changing business-state relations and the redistribution of political and economic power, within which corruption is a component. Therefore, in order to study the redistribution of political and economic power in post-Soeharto Indonesia, it is necessary to both identify changes in the composition of the business community and the state as well as variations in their patterns of corrupt exchange.

The questions guiding this research topic are: Who are the actors now involved in 'grand corruption'? Have there been any changes to how the business community and the state can now be defined? What are the implications of the inclusion of a new set of actors in corruption for the distribution of wealth? On what basis are corrupt opportunities now allocated? What effect have institutional adjustments had on patterns of corruption? In sum, an exploration of who gets what in post-Soeharto 'grand corruption', including the basis of allocation, the mechanisms, the sites and the sources of change.

Using corruption in this way, as a phenomenon which is symptomatic of the particular ways in which the state and the business community interact, corresponds to much of the corruption literature. Corruption is routinely defined as a blurring between the analytically distinct public and private spheres or, in less abstract terms, a particular state-society relation (Rose-Ackerman 1978, Heidenheimer 1989, Medard 1986, 1991 in Andvig et al 2000, p.11). The vocabulary used by different sets of theorists may move along a continuum from more abstract to more specific ('public', 'political' 'state' or 'bureaucracy' on one side and 'private', 'society', 'economic' or 'business' on the other side) but the basic idea of an analytical distinction remains. These concepts are more fully dealt with in Chapter One, but suffice it to say here that corruption is widely understood in the academic literature to be an event which occurs through the particular negotiations between these two spheres.

However, it should also be noted that such public/private distinctions are by no means uncontested. For example, Gupta (1995) found the division of public and private spheres inapplicable to an Indian context (p.384). Similarly, King (1982) explores the existence of 'bureaucratic capitalism' in Indonesia which groups both public (bureaucratic) and private (capitalism) into one single category (p.106). In fact, Gupta's argument actually focuses on the extent to which the blurring of public/private boundaries is socially accepted in different contexts rather than any fundamental disagreement with the validity of these terms. Similarly, what King is actually describing through the bureaucratic capitalism model is a situation where civil servants are intimately involved in the business sector. In other words, they do not question the analytical worth of the distinction per se.

Here we encounter a fundamental problem of objectivity in political analysis, where the very units of initial categorisation are subject to a normative dimension of what *should* happen rather than what *is* happening. In the corruption literature, drawing a distinction between the public and private immediately leads us to be concerned with the degree of separation between the two rather than any number of other issues. Nevertheless, it is undoubtedly useful to keep these two groups analytically distinct, even if it is only to notice that there is sometimes a conceptual overlap.

The definition of corruption in this thesis can be further clarified as focusing on patterns of 'grand corruption' carried out by economic and political elites as opposed to the 'petty corruption' which ordinary Indonesians encounter everyday. Grand or 'political' corruption implies the formulation of policies or legislation that is tailored to benefit politicians by enabling them to extract large bribes from national or transnational corporations. In contrast, petty or 'bureaucratic' corruption occurs at the implementation end of politics where public services in hospitals, schools, police or tax offices are delivered directly to the citizen (Doig and Theobald 2000, p.3). Just as the public/private distinction relies heavily on the works of Weber, so too distinguishing grand from petty corruption depends on the Weberian separation of politics from administration and is open to the same criticisms of a normative bias. However, despite some ambiguities surrounding the point at which petty corruption ends and grand corruption begins, this analytical distinction is useful since it allows the idea of a difference between the *deviation* from formal rules in petty corruption and the creation of formal rules to enable corruption implied in grand corruption (Andvig et al 2000, p.19).

Analysing Corruption in Indonesia

Contemporary analyses of corruption in Indonesia can be grouped into three main categories depending on their analytical focus. This focus in turn dictates how observers in each category see the problem of corruption and thus also the best solutions.

The first category groups those who focus on institutions. The recent ascendance of institutional analysis can be traced back to the highly influential works of March and Olsen who are credited with pioneering a body of theory known as the 'new institutionalism' in the 1980s (March and Olsen 1984, March and Olsen 1989). Since then, institutional analysis has developed several sub-categories depending on the emphasis placed on the particular institutional characteristics which affect the behaviour of individuals within institutions.[1] However, it nevertheless remains the case that they all share a fundamental belief that institutions should be the focus of political analysis.

In analyses of corruption the tendency then is to conceive of the problem of corruption to be one of weak institutions so that the solution involves strengthening

[1] For a useful categorisation of institutional theories in politics see Peters (1999).

those institutions, in other words making them more 'legal-rational' in nature. This approach carries with it a strong normative dimension since it includes a very clear vision of what institutions *should* look like in terms of rules and regulations and how they *should* interact with each other. Most of the very substantial body of literature produced by international agencies such as the World Bank and the IMF focuses on institutions when discussing corruption in Indonesia.

The second way in which corruption in Indonesia has been analysed focuses instead on coalitions of vested interests. In recent years this approach has been popularised in the work of Richard Robison, Vedi Hadiz and Andrew Rosser and is collectively known as social conflict theory (Robison 2000, Robison 2001, Hadiz 2001, Hadiz 2003, Rosser 2002).[2] Throughout these writings the problem of corruption is viewed as a struggle between various factions of class-based vested interests with Rosser making a special plea that international capital be viewed as just another of these factions instead of their antidote. However, the traditional solution for a problem which emanates from class power of changing the mode of production from capitalism to a different economic system does not feature in these analyses. Rather the alternative solution of empowering the working class is implied, most notably in the work of Hadiz where he posits that the repression of organised labour allowed the appropriation of state power by capitalist vested interests but bemoans the continuing disorganisation of labour in the Post-Soeharto period (Hadiz 2001, p.137). Similarly, Robison and Hadiz (2004) have more recently highlighted the need for a coherently organised reformist coalition to counteract coalitions of vested interests (p.258).

The third method of analysis has individuals as its focus and is particularly prevalent amongst Indonesian observers (Alatas 1986, Lopa 1998, Salim 1998 in Harahap 1999). The problem of corruption is here presented as the result of the bad morals of individuals in power. There is some overlap from such an analysis with

[2] Amongst the many other theorists who use class as the central unit of analysis when considering corruption are Bayart (1993) Fatton (1992) and Szeftel (1998, 2000) all writing on Africa.

the institutional approach above where the bad morals of elites are differently described as having a 'lack of political will' but essentially refer to the same sort of personal moral responsibility. Apart from a general appeal to elites to abstain from corrupt exchanges, this moral approach also tends to emphasise solutions which highlight the role of institutions in creating incentives and disincentives to corrupt exchange. One well-developed theory of corruption which focuses on individuals in this way is known as 'principal-agent theory'. It assumes that individuals within an institution pursue their personal self-interest rather than institutional objectives and offers a model of corrupt exchange between three theoretical participants: principal, agent and client (Klitgaard 1988, p.12). Here, the shaping of the institutional environment in which corruption takes place is attributed to public officials which then highlights recruitment, promotion and wage incentive systems as solutions to corruption (Bardhan 1997, Rauch and Evans 2000, Mookherjee 1997 in Andvig et al 2000, p.104).

All three of the above approaches naturally rely on more fundamental conceptual definitions and assumptions derived from more stylised treatments of corruption and concerning the very nature of political discourse. These assumptions will be highlighted in the literature review in Chapter One with a critical appraisal of three major corruption paradigms and differing analyses of business/state relationships.

Analysing Corruption in this Thesis

The theoretical standpoint of this thesis is that both the institutional and the social conflict perspectives have much to offer when considering the causes, patterns, solutions and actors involved in corruption. The technical fixes suggested by the institutional and individuals perspectives are extremely seductive, offering real and practical solutions backed up by sound logic. Similarly, based on the notion that much motivation within the political arena can be sourced back to the maintenance of money and power, descriptions of the patterns of corruption forwarded by the social conflict approach can be intuitively credible.

However, it is proposed in this thesis that a more self-conscious effort is needed to understand how vested interests and institutional transformation *interact* rather than simply using the two perspectives as though in competition with each other. In practice, many theorists do incorporate such a perspective of interaction. For example, Robison talks of the different institutional frameworks that are now needed to secure the interests of ruling coalitions citing political parties, elections and the press (Robison 2000, p.186). Similarly, Beeson recognises that institutions do not exist in a vacuum but both influence and are influenced by other social forces, although he refers to these as the 'social setting' rather than specifically vested interests (Beeson 2002, p.9). Despite such references, it nevertheless remains true that the two approaches are sceptical of each other on some fairly fundamental points. The institutional camp's belief in the universal applicability of sound legal-rational institutions puts them somewhat at odds with the rather more fatalist belief of the class-based approaches that economic and political power inevitably flows to those in charge of the means of production. Meanwhile, proponents of the class-based approach dismiss legal-rational institutions as either being consumed (Szeftel 2000, p.304) or captured (Hadiz 2001, p.120) by coalitions of vested interests or as simply irrelevant to the exercise of power (Robison 2000, p.189).

By making a more concerted effort to link the two approaches and consider how institutional transformation affects coalitions of interest, *modes of change* move nearer to the centre of analysis. Using such a perspective, it will be argued in this thesis that the recent spate of institution building in the intersections between economic and political power in Indonesia has in some cases profoundly affected the shape of coalitions of interest in terms of the participants, group formation and sites of corrupt exchange. However, it will also be shown that such new distributions of opportunities to participate in systems of corrupt exchange are only really effective on the state side of the equation and not the business side. In other words, the redistribution of the political power necessary to maintain a system of corruption has occurred but the inclusion of a set of economic actors beyond those who were already prevalent under Soeharto lags far behind. Interestingly, such a perspective of the transfer of political power without corresponding economic power can also be found in Taylor (1979) when he describes the transfer of power from the colonial to post-colonial administrations in Indonesia. Thus, the effect of institutional change on the composition of coalitions of vested interests is a central concern of this thesis.

Research Questions and Relation to Analytical Framework

In order to fill out such a theoretical framework, the substantive research chapters of this thesis are organised according to three sites of intense interaction between the state and the business community. Chapter Two details the allocation of government contracts in three economic sectors which have in the past been major sites of corrupt exchange. These are oil and gas, electricity and forestry. The research questions which guide this chapter are: Have the old coalitions of vested interests which surrounded Soeharto been ousted from their previous favoured positions in corrupt exchange? Which groups of economic and political interests are now benefiting most from the allocation of government contracts? How have the processes of contract allocation changed?

Chapters Three and Four will move away from a consideration of business/state interactions on an individual and company basis to a focus on formal business representation organisations, that is sectoral business associations and the Indonesian Chamber of Commerce. Chapter Three looks at the multiple functions which business associations fulfil for their leaders and members. This chapter speaks to a consideration of actors in corruption by first disaggregating the business representation community in terms of the different interests they serve thus offering a more complete picture of business representation organisations in Indonesia.

The first part of Chapter Three focuses on sectoral business associations. Here, original questionnaire-based research is used to answer the question of who sectoral business associations represent and for what purposes? This is an important question as it tests the pluralist proposition that business associations have the potential to act as regularising institutions in business interaction with the state in contrast to individualist, corrupt interactions. In other words, it examines the potential of business associations to represent those businesses which do not have personal connections to political and bureaucratic power-holders. The second part of Chapter Three then treats one of these business association functions in more depth. A case study is presented here of a conflict within the business representation community around the issue of obtaining a role in the allocation of government contracts. It will detail recent institutional change to accommodate a greater role for business associations in the government contract process and the effects that this has had on interests embedded within business associations.

Chapter Four stays with an analytical focus on business representation organisations, paying greater attention to the state-sponsored peak Indonesian business association, the Indonesian Chamber of Commerce and Industry (Kadin). It considers whether the corporatist methods applied by the Soeharto government to ensure a compliant domestic business community have unravelled since 1998. It then goes on to detail the effects that changes to corporatist institutions have had on the way that Kadin interacts with the state, arguing that overt state control has now given way to new coalitions of vested interests. The theoretical implications of these developments are then assessed with a consideration of the relationship between corporatism and clientelism.

Chapter Five returns to an analysis of individuals and companies but this time looking at the negotiations between the business community and the state over the repayment of private sector debt. It explains the causes of private sector debt and seeks evidence of the current fortunes of Soeharto era debtors in ongoing debt negotiations with the state. To accommodate the debt negotiations, institutional change here has been rapid thereby providing many opportunities to investigate the effect that these changes have had on already entrenched coalitions of interests. The guiding research questions in this chapter are: Who has benefited most from debt negotiations? Who has the power over the debt negotiation process? How have the debt negotiations impacted on levels of economic ownership?

Thus, the data provided by these chapters on contract allocation, business associations and debt negotiations will provide information about the patterns and actors in corruption under conditions of authoritarian breakdown and rapid institutional transformation. Such information is not only limited to the sites of business/state activity which organise the substantive chapters, but also to a perspective which views business/state activity in terms of the intersection between coalitions of vested interests and institutional change.

Causes of Corruption

However, seeking to stylise patterns of corruption for easier comprehension and refining descriptions of its participants are not the only concerns of this thesis. The argument will also speak to understandings of the causes of corruption by highlighting the role of a major function of all states around the world. Along with other major functions, such as the maintenance of security, all capitalist states seek to promote and protect the process of domestic capital accumulation. There is some dispute over classification frameworks of state functions and whether some frameworks are really describing state functions or something completely different. Anglade et al (1985) suggest that describing state functions as 'repressive, integrative and technical' (Mandel 1978, p. 475) or 'coercive, ideological and economic' (Poulantzas 1978a, p.56, 1978b, p.166) are really representing bases of state domination rather than state functions (p.20). Nevertheless, there is some agreement in the literature that the promotion of domestic capital accumulation is a major state function in capitalist states (O'Connor 1973, Evers 1979 in Anglade et al 1985, p.19).

Yet the idea of the state's role in processes of capital accumulation does not penetrate very deeply into the literature on corruption. Whilst some theorists are prepared to talk about capital accumulation in relation to corruption, this tends to be only as a passing reference, as just another way to describe elite enrichment (Fatton 1992, p.77, Robison 1982, p.148, Khan and Jomo 2000, p.8). Others simply describe corruption as a 'primitive form of capital accumulation' but do not take this idea much further (Wilkie 2002). Lambsdorff uses the link between corruption and capital accumulation to explain why it so difficult to know whether or not corruption promotes GDP growth by suggesting that corruption affects capital accumulation rather than capital productivity. Thus he turns our attention away from the usual focus of the effect of corruption on efficiency and productivity towards one which highlights its effects on the ownership of wealth (Lambsdorff 1999a, Lambsdorff 1999b). Szeftel (2000), Le Billon (2003) and Iyayi (1986) take this concern one step further by representing the state's function of the promotion of a domestic capitalist class as being intimately bound with the form and prevalence of corruption.

Iyayi contends that in a situation where domestic capital is weak and lacks possibilities for accumulation through the exploitation of external, less developed markets, the goal of promoting a domestic capitalist class is achieved through corruption. Indeed he suggests that 'corruption in such circumstances becomes the logical, if not the only, means through which accumulation proceeds' (Iyayi 1986, p.27). Such an approach brings in something of the dependency view of development where developing countries today are seen as handicapped in economic development by a lack of the opportunities which were historically afforded to developed countries through colonialism to secure initial resources and build wealth (Frank 1966). Although the dependency view is today largely discredited due to its sometimes dogmatic views and revolutionary prescriptions for change, it still offers a useful perspective of analysing 'underdevelopment' (and one of its symptoms, corruption) as a product of developing countries' situation in global markets.

In Indonesia, the process of domestic capital accumulation is politicised not only from a rich/poor and international/national dichotomy but also from an ethnic dimension internal to Indonesia where it is commonly understood that Chinese-Indonesians make up 3 percent of the population, but own 70 percent of private sector assets.[3] Debates about corruption in Indonesia are often accompanied closely by concerns surrounding the weak economic position of the *pribumi* or 'native' Indonesians as opposed to Chinese-Indonesian and/or international economic actors. Indeed it is possible to view the history of Indonesian corruption in terms of the creation of a system of wealth distribution from the state to groups based not only on personal connections but also ethnicity.

In the initial post-independence period, the new Indonesian state had a strong desire to foster domestic capital to counteract the still intact colonial economy. With scarce capital and technology capacities but abundant labour and natural resources, the role of domestic business was key to converting what capital and technology there was available into domestic accumulation. The first effort to prioritise domestic capital through direct state economic intervention began in 1950 with the *Benteng Programme* which identified a small group of *pribumi* businessmen and extended preferential loans and import licenses, effectively insulating a group of domestic businesses from competition to allow them to grow.[4] This programme to nurture private domestic business failed in its goal for many reasons and in the years immediately prior to Soeharto's take-over in 1965, the state instead became the main domestic economic vehicle.

In the Soeharto period an initial opening up of the economy to treat Chinese-Indonesian capital in law as fully domestic and to encourage foreign investment

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[3] This figure has been routinely used in a vast array of literature on Indonesian political economy, from academic literature through to media reports and studies from international institutions. However, it is important to note that it is by no means uncontested. For arguments which refute this figure, see Adicondro (2001), Kian Gie (1978) and Hadiz (1997). Nevertheless, it can be said with some confidence that there is a high concentration of private assets in the hands of Chinese-Indonesian businessmen.

gave way to greater controls on Chinese-Indonesian and foreign capital with the state's windfall gains from the rise in oil prices. Yet, whilst the controls on foreign capital were strictly enforced, those for Chinese-Indonesian capital were not and the numerous pro-*pribumi* government policies were not implemented. From the mid-1980s onwards, as the oil money dried up, domestic private business was again protected resulting in a network of dominant, mainly Chinese-Indonesian, conglomerates. In his latter years Soeharto then turned to nurturing the political and economic power of his own children in the name of a greater *'pribumisation'* of the economy.[5]

From such an historical perspective, it becomes easier to view corruption as the method used by the state to choose particular groups of domestic business (based on personal connections and ethnicity) in a project of wealth distribution. This is indeed a problematic viewpoint because it appears to offer a veneer of respectability to the extraordinarily unjust corruption which occurred under Soeharto. Indeed practically all observers, from international institutions to Indonesian NGOs and academics, simply dismiss the project of *'pribumisation'* of the economy as nothing more than a thin justification for personal gain, and with good reason.

The concept of wealth distribution has been largely replaced in the political and economic literature by the idea of poverty, which is unfortunate because the two concepts are in fact quite different. The less political concept of poverty carries with it connotations of a levelling up of the poor in a movement towards the living standards of the more wealthy. As well as the levelling up of the poor, the idea of the redistribution of wealth also implies a certain levelling down of some of the wealthy as part of the process of ensuring poverty reduction. However, the point here is that wealth distribution is rarely specifically mentioned in the academic

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[4] Such a policy of protecting 'infant industries' was first propounded by the nineteenth century German thinker List for protecting German industries from British competition and continues today to be a popular strategy for governments all over the world.
[5] This micro-economic history has been taken largely from an informative review in Sato (2003).

literature beyond the radical Marxist and *Dependencia* perspectives of the late 1960s and 1970s.

There is some work on the links between corruption and income inequality, but it is of little relevance to the concerns of this thesis for two reasons (Johnston 1989, Alam 1995 in Husted 1999, Dabla Noris 2001). The first reason is that income inequality and wealth inequality are different since measures of wealth take in ownership of assets rather than income (Johnson and Tanner 1998). Secondly this body of work has little to say beyond the idea that corruption preserves and can widen inequalities in income distribution whilst inequality of income promotes higher levels of corruption (Husted 1999, p.342). Meanwhile, Scott (1972) suggests that there is a connection between the distribution of wealth and corruption insofar as the more equal the distribution of wealth, the more likely there is to be a middle class which will in turn organise to protect themselves against the particularistic demands which promote corruption (in Husted 1999, p.342). Thus, rather than viewing corruption as a project of wealth distribution, Scott views corruption as a product of an unequal distribution of wealth. However, at least one of his assumptions, that the middle class will inevitably be self-organising against particularistic demands, has been already questioned in Indonesia (Robison 1996). Otherwise, the concept of wealth distribution is most often referred to in relation to educational subsidies, income tax, inheritance tax or pensions (Jensen 2001, Hill 1999, Legros 1996, Johnson and Tanner 1998, Huston 1999).

This is in stark contrast to the situation in Indonesia where the more direct distribution of state assets and contracts is at the top of the political agenda and, as the following chapters will show, is intimately bound to the discourse on corruption. Dismissing the government project of the *pribumisation* of the economy as a thin justification for corruption does not do justice to the role of this idea in systems of corruption. For, it is not necessary to decide when a government decision can be described as corrupt and when it can be described as the legitimate promotion of the domestic capitalist class to understand that this idea has a substantial role to play in corruption.

Thus, in addition to purely personal monetary gain and the benefits to political leaders of an unaccountable system of political finance, it will be argued in this thesis that a third function of corruption is to fulfil the need for domestic capital accumulation.[6] As such, the landscapes of corruption which are analysed in this thesis will also include a consideration of the issue of wealth distribution based on ethnicity and argue that until donor strategies take into account the problems of capital accumulation within a context of historic underdevelopment, efforts to eradicate corruption will inevitably fail (Szeftel 2000). In this way ideas around the causes of corruption derived from class-based and institutional approaches will be supplemented by this explanation based on the structural exigencies of delayed capitalism.

Conclusion

In sum, the three main aims of this thesis are firstly to develop a perspective which focuses on the intersection of institutional transformation and coalitions of vested interests in order to provide insights into changes in the patterns of Indonesian corruption. The second main aim is to contribute to understandings of the causes of corruption by highlighting the structural exigency to promote domestic capital accumulation. The third aim is simply to provide some systematically organised data to try to fill the deficit of empirical data on corruption trends in Indonesia. Once these aims have been fulfilled, a clearer picture can emerge of the redistribution of political and economic power in post-Soeharto Indonesia.

Finally, although this thesis clearly uses a case study approach, if the conceptual and theoretical frameworks outlined above are found to be a useful additional way to

[6] There is also a body of work from Huntington (1968) through to Johnson (1986), Campos (1999) and Kaufman et al (1999) which debates the thesis that another of corruption's functions is to 'grease the wheels' of economic growth.

understand corruption in Indonesia, then these can be applied to other settings both in the developing and developed world. A conviction that patterns of corruption can be better understood from a perspective which focuses on the intersection between institutional change and vested interests can be easily relevant to other country's experiences at such an abstract level. Moreover, the thesis that the problem of domestic capital accumulation should be addressed when considering corruption in Indonesia is also relevant to other developing countries which are all in the same position of lacking possibilities for accumulation through the exploitation of weaker external markets. At the same time, it should be noted that the special twist in Indonesia's case of an ethnic split in the domestic capitalist class is only directly comparable with a small number of countries worldwide, such as Nigeria or Malaysia where a similar politicisation of ethnic groups' control of resources exists.

Chapter One

STUDYING CORRUPTION BETWEEN BUSINESS AND THE STATE: IDEALS, ANALYSES AND METHODOLOGIES

1.1 Introduction

The study of the distribution of political and economic power is covered by several distinct theoretical traditions. Since economic and political power are treated in this thesis as the product of the business/state relationship, whose method of interaction is corruption, the theories reviewed in this chapter are centered on these concepts. Moving from the abstract to the particular, notions regarding the ideal relationship of business and the state will first be explored before turning to analytical frameworks and finally methodologies of empirical investigation. The assumptions and consequent analytical biases of each body of theory will be especially highlighted.

The next section of this chapter will trace the evolution of the philosophy behind the dominant definition of corruption through a focus on the notion of the legal-rational state and the ideals it embodies. The third section will move away from these more abstract concerns to first consider the different ways in which corruption is analysed. Since the definition of corruption already developed in the introduction to this thesis views corruption as symptomatic of the way that business and the state interact, different models of business/state interaction will be explored in section four. Section Five will then move on to a more focused consideration of the debates surrounding the best way to analyse political and economic change in Indonesia. Finally, the sixth section will give way to a more focused consideration of exactly how to go about observing the state/business relationship. In other words, this section will discuss the various methodologies offered in the literature before detailing the methodology that was finally employed in the preparation of this thesis.

Within this review of the relevant theoretical terrain, indications of how each theory deals with the major concerns of this thesis will also be sought. Definitions of the state and the business community, stylised accounts of how they interact and how their relationship changes, the processes and patterns of corrupt exchange and the causes of corruption are all accordingly emphasised throughout.

1.2 Ideals: The Notion of the Legal-Rational State

Defining corruption is a difficult and much contested matter. As already touched on in the introduction to this thesis, the most widely accepted definition of corruption today is 'the abuse of public office for private gain'. However, such a definition has been increasingly criticised by observers questioning not only the relevance of public/ private distinctions in all contexts but also an excessive reliance on the violation of rules and laws (Williams 1999, Olivier de Sardan 1999, p.27 in Andvig et al 2000, p. 66). Szeftel (2000) contends that definitions of corruption change according to who is making the definitions and in what terms their judgements are made. He argues that lawyers and public officials tend to view a particular action in terms of what is legal and what is illegal, whereas the public are more likely to have broader ideas, speaking in terms of what is right and what is wrong. Thus, there may be cases where officials behave in ways that break the rules but have public support or where officials follow the law yet the public still consider their actions to be improper (p.300). The latter was in fact the case in Soeharto's Indonesia where he regularly released Presidential Decrees encodifying the tariff and contract deals gifted to his children in the face of an increasingly cynical public.

These difficulties of definition lead us to ask who is calling who corrupt and what is being described as corrupt (Leys 1965 in Szeftel 2000, p.291). Such a proposition is indeed relevant to Indonesia where Wertheim's classic 1956 study of Indonesia's colonial transition observed that government actions considered to be 'normal' under the colonial administration were immediately labelled 'corrupt' once Indonesians began to govern (Wertheim 1956 in Baswir 2003, p.170). Similarly, in the immediate post-Soeharto era there has been a huge upsurge of criticism from, amongst others, international institutions against corruption whereas in Soeharto's days these same institutions more quietly complained of 'leakage'. It is, of course, the case that following the break up of a violent dictatorial regime there will properly be much higher levels of government criticism in a more liberal atmosphere. Nevertheless, it can still be held that definitions of corruption also change and are in principle inherently flexible.

However, the definition of corruption which is overwhelmingly used at present remains 'the abuse of public office for private gain'. Since, as we have seen, definitions of corruption are not inherently fixed, it is important to examine more critically the assumptions behind this particular definition.

The most fundamental of these assumptions is the idea of the separation of the state from the rest of society. The people who work within the state are expected to behave according to different motives from the rest of us, and the environment (or 'structures') and patterns of formalised relationships (or 'institutions') which exist around them should ideally operate to support this behaviour. In the hands of political theorists the separation of state and society is re-conceptualised as a distinction between public and private where the public sphere should be distanced as far as possible from private, particularistic concerns. In order to ensure that the personal concerns of state officials do not impede on their public decisions, two related ideals are operationalised: (1) the rule of law (2) the prohibition of the use of public office for private gain. The 'rule of law' here refers to a conception of fair and impartial rule rather than subjugation to human whim so that everyone, regardless of status or power, is equal under the law. Essentially, law and not the ruler is sovereign (Hasnas 1995, p.201; Lee 1995, p.28; Sabine 1973, p.32).

All of these ideals, the separation between public and private, the rule of law and the prohibition of using public office for private gain, can be grouped together in the single notion of the legal-rational state. The legal-rational state model has reigned supreme in the world throughout the twentieth century and continues to do so. Even in the countries where it is not established, the idea itself is nevertheless used to judge such orders as sub-standard or defective (Lee 1990, p.1).

The idea of the legal-rational state is presented in the literature as the political expression of a completely new way of understanding the world which began in seventeenth century Europe. Known as the positivist philosophy of science, this new method of looking at the world initially consisted of using mathematics as a tool to study and unlock the secrets of nature, thereby introducing the possibility of quantification and hence objectivity as desiderata of scientific activity. Essentially, it can be thought of in opposition to the immediately preceding worldview of medievalism (distilled into the theory of natural law) where God was thought to be the maker *cum* controller of the universe. In contrast, the positivist worldview 'deposed God and enthroned Man in His place' (Lee 1990, p.2).

Hobbes subsequently applied this scientific method to his thinking on the legal social order to establish 'legal positivism' where Man's will becomes supreme *via* the laws he makes, the positive laws. Here, the legal sovereign is the legislative will which is omnipotent, supreme and absolute, issuing positive law overriding all other forms of obligation that may compete with it for the allegiance of the citizen, otherwise known as the doctrine of the rule of law. Writing a few years later, Locke developed Hobbes' notion of the rule of law to include the crucial stipulation that those who make the laws must themselves be subject to these same rules that govern everyone else (Hampsher-Monk 1992, p.104). In order to achieve this aim, Locke further theorised that a separation of powers was required where the legislature makes the laws, the executive implements them and the judiciary interprets and enforces the law.

The emergence of positivism and the concept of a new legal order also coincided with and assisted the emergence of a new economic order based on individualism, private property and the profit motive, known today as capitalism. Under the old economic order medieval natural law conceptions of property predominated where ownership was attached to the performance of definite social functions. Those who owned property had to give it up for the poor in times of need, for example in a period of famine. Owners had neither absolute rights to use and abuse their property according to their will nor exclusive rights under all circumstances from use of their property. Essentially all natural law theorists agreed that, at least in the extremities of famine, the needs of the poor must predominate over the rights of ownership. Yet, however egalitarian this may sound, it is important to note that not only did property owners have paternalist duties to the poor, but the poor were subjected to all kinds of personal obligations to the propertied, obligations which expressed relations of dependence, servility and bondage (Fine 1984, p.18).

Hobbes sought to break from these natural law conceptions of property, positing instead exclusive and absolute private property, thus granting the freedom to dispose of one's property as one wishes and so providing the philosophical underpinnings of capitalism. Yet he did not reject natural law theory in order to release private property from any and every kind of social obligation, but he transformed the character of such obligations and transposed them onto the state (Fine 1984, p.23). It is with this last point that the significance of the legal-rational state becomes most apparent. For if the state was to take on such responsibilities, then the establishment of a rational authority whose decisions were objectively reached became paramount.

It should also be noted that the latest, and currently most influential, manifestation of the legal-rational ideal was developed by the German philosopher Max Weber at the end of the nineteenth century. This is not the place to visit the very substantial body of work produced by Weber, other than to mention in the most general terms that he considered the West to be 'peculiarly rational' in its economic, legal and administrative capacities when compared to Asia (Brubaker 1984). Indeed, he spent most of his life creating an analytical, methodological and normative system around these ideas and must be regarded as one of the most influential philosophers of our times.

In contrast to this rather neat historical narrative of the development of these ideals in the West, scholars struggle to use the same terms to adequately explain the absence of a legal-rational state in non-Western contexts. Jayasuriya (1996) maintains that East Asian legal institutions will follow a trajectory fundamentally different from that traversed by Western European legal institutions, thereby denying the possibility of a legal-rational state developing there. Expanding on his thesis, he detects stark differences in the functions and emphases of legal institutions in East Asia and Western Europe. Whereas East Asian legal institutions play a policy implementing role to enforce government policies, the legal institutions of Western Europe play a conflict resolution role between autonomous private parties (p.378). Similarly, where private legal regimes in Western Europe place emphasis on the distribution of rights and entitlements, in East Asia more weight is placed on the performance of public duties (p.380).

Such a divergence in the form and function of legal regimes is attributed by Jayasuriya to differences in the development of capitalism and more specifically differences in the level of involvement of the capitalist class. He suggests that in the Western European situation the emerging *bourgeoisie* saw legalism as a means of *restraining* the power of the state which is evident in the gradual shift from the feudal notion of property as service to the idea of property as a universal right. In contrast the *incorporation* of the *bourgeoisie* into East Asian state-managed systems has made it possible for the East Asian state to use legalism to expand and consolidate - rather than restrain - the exercise of its power. Essentially, then, this is a restatement of Barrington Moore's thesis that democratisation occurred as a result of the distancing of the *bourgeoisie* from the state, but couched instead in legalistic terms.

Dezalay (1997) also identifies indications of a distinctive type of East Asian legalism in place of a Western-style legal-rational order. Interestingly, he also attributes this lack of legal rationality to differences in the development of capitalism. However, where Jayasuriya focuses on the state co-option of the capitalist class, Dezalay points instead to a distinctive East Asian 'relational capitalism' which is so termed because it owes its success to family and personal relations (Dezalay 1997, p.110). In arguments such as these, the conflict resolving mechanisms of an independent judiciary are not needed in business networks based around kin or ethnicity. For example, contracts, which are central to capitalism since they facilitate existing exchange and encourage additional transactions, do not rely on law for their enforcement in much of East Asia. Rather, they rely on the close knit character of ethnic or kin-based business systems where default or deceit is more conspicuous and more easily dealt with. Yet, how far this type of capitalism developed in response to an inadequate legal framework or how far the typical Western type of legal framework did not develop because it was not needed is a crucial question which can be endlessly debated.

In the context of Indonesia, other scholars have also written about the absence of legal rationalism along with its indicators of, for example, state strategies to employ legal institutions in a policy implementing role and the widespread use of particularistic legal standards in place of the general application of law. The economist Hal Hill recognises that trade law has in the past and continues to be an "explicit instrument of industrial policy" (Hill 1996, p.113) thereby providing illustration of the use of legal institutions to implement policy. He also supplies an example of the use of legal standards by noting that:

> there is a wide range of decrees emanating from the bureaucracy, from different departments, from different tiers within departments, and from both central and regional offices. It is not uncommon for these decrees to be inconsistent, either in the letter of the law or in the spirit of its implementation (Hill 1996, p.116).

Similarly Gray points to the practice in Indonesia of the executive branch making a lot of policy through presidential and ministerial decrees and notes that although by law the courts can oversee the compatibility of regulations and decrees with their underlying laws, this is rarely practised (Gray 1991, p.771). Moreover, she identifies legal processes in Indonesia as inseparable from general policy-making and administrative functions, concluding that "direct regulation and government policies of intervention in the market place can be seen at least in part as substitutes for an independent, well-functioning legal system." (Gray 1991, p.775).

Hill offers no explicit explanation for such a state of affairs, and presumably sees it as simply a product of the authoritarian nature of the state in Indonesia. In other words, he does not search beyond the political process for possible reasons. On the other hand, Gray interprets the situation as an adaptation to the high cost of risk and information which is in turn attributed to a lack of technology and education.

Thus, it seems that the legal-rational model of state administration emerged in the West as the political manifestation of the same rational logic which could be found in its economic cousin, competitive capitalism. It is argued in contrast that the form of capitalism in non-Western countries, that is a weak and co-opted capitalist class and/ or a 'familial' way of conducting economic relations, similarly accompanies corrupt, personalistic and inefficient state administration. A lack of technology and education are also seen as contributing factors in explaining the absence of a legal-rational state.

However, there is a large and persuasive body of literature which denies that legal rationality can ever exist. For example, Dezalay repackages the debate as one between Weber and Confucious, but sees it as an essentially false opposition. He contends that the rule of law represents less the antithesis of *guanxi* (the Asian equivalent of the English old-boy networks) than its continuation in a different framework (Dezalay 1997, p.133). He presents the causes of this false opposition as originating from both an elitist representation of authoritarian governments within Asia and an idealised representation of relations between law and the economy in the US.

Hasnas also has fundamental problems with the concepts of legal rationality and the rule of law. In a highly provocative and entertaining piece concentrating on the U.S., he contends that there is no such thing as a government of laws and not people and that the belief that there is constitutes a myth that serves to maintain the public's support for society's power structure (Hasnas 1995, p.199). After delineating numerous examples of the impossibility of objectivity in law, he goes on to maintain that the myth is necessary because "people are more willing to support the exercise of authority over themselves when they believe it to be an objective, neutral feature of the natural world. This was the idea behind the concept of the divine right of kings" (Hasnas 1995, p.217).

There are also those who, rather than doubt the possibility of legal rationality in principle, question whether the form of capitalism in the West today still supports the rule of law. Neumann maintains that in the course of capitalist development in the West there has been a transition from the competitive society of entrepreneurial capitalism to a corporate society of monopoly capitalism, dominated by cartels, giant business enterprises and other mass organisations. This, he argues, 'marks the conditions of crisis for the liberty creating role of the rule of law' (Neumann 1986 in Cotterrell 1996, p.456).

However, the point of this section is not so much to undermine the concept of legal rationality as to present it as a contested idea. Such commendable principles as the rule of law and freedom from the arbitrary exercise of power may on some levels be just illusions, but they are nevertheless powerful illusions which are themselves capable of initiating change. The inclusion of the role of law as an additional variable in considering business/state relations is also a valuable contribution to analyses of corruption. For, as we will see throughout this thesis, the role of law in business/state relations has indeed changed following the resignation of Soeharto.

At such a level of abstraction, the body of theory surrounding the legal-rational state has little else to offer more detailed considerations of changes to the patterns or actors in corruption. However, a link between the type of capitalism and the absence of the legal-rational state (and therefore the existence of corruption) is established, speaking to a consideration of causes of corruption. It is posited here that a 'relational' type of capitalism or alternatively one which coopts the capitalist class are the main determinants of the absence of legal-rationality. Such an analytical perspective will prove useful in this thesis where it will be argued that another quality of capitalism in Indonesia, its 'delayed' nature, has influenced both the form and nature of corruption.

1.3 Analysis: Theoretical Paradigms of Corruption

The academic literature on corruption is both extensive and diffuse, approaching the subject from many different angles. There are strands which look at the effect of corruption on economic growth, the relationship between regime type and corruption or the institutional characteristics of corruption. Decentralisation, international trade or political rights are amongst the other concerns raised in relation to both the impacts and causes of corruption.[1] However, overarching and encompassing all such questions are three fairly distinct paradigms, each with their own conceptual vocabulary and explanatory logic. Following Hutchcroft (1997, 2000) these three paradigms are identified as rent-seeking, clientelism and corruption.

1.3.1 Rent-Seeking

A 'rent' is an economic concept which describes earnings in excess of all relevant costs, and corresponds to what most people think of as monopoly profits. The orthodox approach to rents views them as being created when states restrict the operation of the market resulting in unproductive investment and economic inefficiency. However, rent-seeking, the effort to acquire rents, is not necessarily banned by law or regarded as immoral in society, or necessarily uneconomical in terms of development if reinvested productively (Coolidge et al 2000 in Andvig et al 2000, p.12).

The most frequent criticism of the rent-seeking literature is its assumption that the logic of the market mechanism can be usefully employed as an explanatory

[1] See Andvig et al (2000) for a useful general overview of research on corruption and Lim et al (2002) for a review of corruption research on Southeast Asia.

framework. Whilst Hutchcroft concedes that the rent-seeking approach can help to understand the allocation of particularistic advantages, other critics argue that rents are *not* allocated solely according to market processes, but also according to a range of non-market considerations including ethnic, regional and party ties (Jomo et al 1995 in Hutchcroft 1997, p.641). Indeed as this thesis will show, ethnicity has long featured as a non-market allocative mechanism in Indonesia and is now increasingly joined by both party and regional considerations.

Since the state is usually implicated in the rent-seeking literature as the source of rent creation, another criticism of the approach is its over-reliance on the withdrawal of the state from the market as a solution to rent-seeking. Economic liberalisation and privatisation of state assets then become the main policy prescriptions. However, such simplistic conclusions have been proven erroneous in many country contexts, including Indonesia, where the scale, timing and transparency of such measures have proven crucial to their success or failure. In any case, Khan (2000) has by now moved the rents literature along a few stages with his contention that not all rents are created by the state and that they do not necessarily result in economic inefficiency. Similarly, one of Hutchcroft's other criticisms of the rents approach, that there is scant regard for distinguishing between who is capturing the rents, is also now being addressed by Khan et al (2000), Ross (2001) and Kang (2002) who all attempt to classify rents as emanating from either state or society.

Generally then, the rent-seeking approach does not condemn outright the capture of rents, but rather focuses on the negative consequences of using the rents in an unproductive manner. It highlights the allocation of rents, using the market metaphor as its explanatory logic and recommends the withdrawal of the state from the economy if excessive rent-seeking is to be avoided.

1.3.2 Clientelism

Clientelism and patrimonialism together constitute a second major paradigm which is defined by their focus on *informal* relations of power. Clientelism describes a relationship between a patron (relatively high social status) and a client (relatively low social status) where the patron is also usually employed by the state and the client comes from society. Such patron-client relations are conceived of as being long term and 'woven in to the very fabric of society' rather an 'episodic, marginal departure from some Weberian norm of legal-rational administration' (Bayart 1993). Whilst patrimonial analysis stays with the idea of the informal aspects of power rather than power vested in formal political institutions, here the head of state is at its centre, dispensing material rewards to preserve their position. Essentially, both clientelist and patrimonial approaches perceive personal relationships to be the foundation of the political system (Andvig 2000, p.54).

Formal institutions in this view are simply a façade that masks the realm of personal relations where the real political power flows (Hope 2000; Chabal 1999; Bayart 1999; Bratton 1994 in Andvig 2000). A 1979 article by Harold Crouch successfully applied the patrimonialist perspective to Indonesia and throughout the Soeharto period Crouch's descriptions of power relations both within the state and between state and society carried much resonance. However, a post-Soeharto re-distribution of political power within the state to include political parties and regional administrations has reduced the relevance of thinking of the Indonesian state as a single unified patrimonial system under one ruler. Yet the patrimonial approach still has value in the Indonesian context if it absorbs the new 'multi-polar' shape of the state by positing numerous parallel patrimonial structures instead of focusing on the head of state.

Like most theories, clientelism and patrimonialism are not on their own adequate to describe the whole reality of the exercise of political and economic power. Political conflict in Indonesia is not merely a competition over access to material rewards as more widely based policy conflicts have by now become too widely documented for such an argument to be accepted.[2] Similarly, the relegation of state institutions to the background of patrimonial and clientelist analyses does

[2] See MacIntyre (1991) and Chapter Four for some examples of broad-based policy conflict.

not seem to do justice to the very considerable power vested in formal state institutions such as the Presidency and the parliament.

However, the strength of these analyses of informal power are in their identification of a system of power which runs parallel to that contained in formal institutions. As Reno notes in an essay on Sierra Leone:

> most external actors, including Western governments and the World Bank, failed to grasp the actual dynamics of power in Sierra Leone. With their eyes fixed on the formal institutions in the capital, they did not see that real power and authority was wielded through informal political and market networks. Due to the power of this "shadow state", attempts to impose economic reform and rationalise formal state functioning often had the opposite effect, driving the authorities from the president on down, to deepen their reliance on secret economic networks" (Reno 1995, p.3).

Such a possibility is certainly something that international actors should keep in mind when considering anti-corruption prescriptions for Indonesia.

1.3.3 Corruption

The third and final paradigm describing the allocation of particularistic privilege is the literature on corruption. Hutchcroft distinguishes the corruption literature from rent-seeking and clientelist approaches by its concerns with the public/private distinction inherent in the very definition of corruption 'the misuse of public office for private gain'. The state then becomes a major focus of analysis as the character of state agencies is highlighted. Hutchcroft also maintains that within the corruption literature there is a greater attention to broader political interactions as corruption is often conceived of as an element of such interactions (1997, p.644). In contrast to the rent-seeking approach, Hutchcroft further detects greater space within the corruption literature for the allocation of privileges based not just on market considerations of who can pay most, but also non-market considerations such as ethnicity and kinship.

In the last few years corruption theorists have increasingly turned to the question of the different impacts of corruption in different settings. MacIntyre has usefully employed a framework from Shleifer and Vishny (1993) in the Indonesian context to propose that a highly centralized state system run by a strong political leader minimises the damaging effects of corruption even though it is likely to extract relatively high levels of bribes. This is in comparison to a less centralized state system where political control is relatively weak, resulting in less bribes being taken but more damage to the economy. The logic of this theory is that the more tightly controlled corruption is, the more likely it is that bribes paid by a business to state officials will secure the required state service (such as a license), thus enabling the business to continue its economically productive activities. In contrast, weak political control in a less centralized polity will inevitably lead to independent and uncoordinated extraction by officials pursuing their own individual interests. In turn, this raises the unofficial price of state services and makes the delivery of state services somewhat less predictable than under a centralized system (MacIntyre 2003b).

Yet here again market logic appears as an explanatory framework for the actions of individuals. One of the assumptions of this approach is that a business will go on to economic productivity once the required good or service is secured from the state, if only they could predictably do so. This of course does occur and more often than is admitted in the literature on Indonesia. There are very many cases in Indonesia where special licensing privileges were granted to particular businesses close to political power-holders enabling them to profit enormously. But two very experienced Indonesian business analysts both point to examples where special privileges were granted to a number of businesses but only one used the opportunity optimally to become genuinely productive.[3] Thus,

[3] Yuri Sato cites Probosutedjo's success with Mercu Buana in Sato (2003) whilst Wilson Nababan pointed out in an interview that the notorious flour mill owned by Liem Sioe Liong's Salim Group was only one of many businesses which received privileged licenses at the same time.

receiving special licensing privileges does not necessarily preclude the possibility of productive and socially beneficial economic investment.

However, there are also many examples from Indonesia which could confound the assumption that companies receiving special privileges will necessarily go on to benefit the economy. This is because companies which obtain special privilege based on kinship, ethnicity or money are not by definition those which are likely to be most productive in their use of that privilege. Moreover, there is additional empirically-based research which could indicate in the opposite direction from this model. Instead of distinguishing the economic effects of corruption based on a centralised or decentralised state system as MacIntyre does, this research classifies the economic effects of corruption based on the method of state/firm interaction. The three methods of interaction are state capture, influence or administrative. 'State capture' refers to firms shaping the formation of laws and regulations through illicit private payments to public officials, 'influence' refers to firms having an impact on laws and regulations though not necessarily through payment to state officials and 'administrative' is defined as private payments to public officials to distort the prescribed *implementation* of official rules and policies (Hellman et al 2000). The salient point for this discussion is the findings from this research that state capture has a much more negative effect on economic productivity than the other two types of corruption and that the more concentrated that state capture is in terms of firm numbers, the more deleterious will be the effects on the economy. Thus, if centralised corruption involves a smaller numbers of firms than decentralised corruption, then the economic effects of centralised corruption will be more grave.

In other words, the model employed by MacIntyre only takes in one half of the participants in corrupt exchange, state officials. If the firm is also included in analysis then the link between a more centralised state system and a relatively low negative impact on economic productivity becomes more tenuous.

In the absence of systematic empirical data[4], the idea that the cost of bribes automatically rises for a business in a less-centralised system cannot be automatically accepted either. For conclusions to be drawn about whether a rise in uncoordinated extraction by public officials leads to higher overall bribes being paid by firms, a distinction should be made between a situation where a greater number of public officials have the authority to issue licenses and where the same number of officials can issue licenses as under a centralised system but there are now more payment stages in the process. For example, the section on the Indonesian forestry sector in Chapter Two shows that under Soeharto's centralised system of corruption only the Ministry of Forestry could issue forest exploitation licenses, whereas decentralisation has resulted in an expansion of such authority to include regional governors and Bupatis. With more outlet points for the issuance of forestry licenses, then following the market logic, it might be expected that the price of the licenses decreases.

This discussion about the impact of different types of political arrangements on patterns of corruption is part of an increasing body of literature looking at the effect of democratisation on corruption. Here, the proposition that the degree of corruption varies inversely to the degree that power is consensual remains dominant (Andvig et al 2000, p.52). However, in recent years this proposition has been developed to suggest that the relationship between the prevalence of corruption and the level of democratisation is not linear but rather bell-shaped. In other words, in an immediate post-authoritarian period, corruption initially spreads in the absence of authoritarian control and before democratic checks and balances can be 'embedded'. Only if and when these democratic institutions start to function optimally can corruption begin to decline and only then after around forty years of consecutive democracy (Treisman 2000, p.439).

[4] A major study on corruption in Indonesia was completed by the Partnership for Governance Reform in 2001 which includes the incidence of businesses bribing state officials. However, this study does not include a comparison with the situation under Soeharto. The only other data found which measures the cost of corruption over time is from a survey by Gadjah Mada University where respondents claimed that the level of illegal bribes in the wake of decentralisation is the same as before it (Gadjah Mada University, 2002).

Although MacIntyre speaks of corruption rather than clientelism or rent-seeking, his analysis stretches out from the corruption literature towards a rent-seeking approach with the inclusion of the market logic. Indeed, the rent-seeking, clientelism and corruption approaches all regularly intermingle in any one analysis and many scholars would undoubtedly question the schemata used here and in Hutchcroft, for example preferring perhaps to view rent-seeking and clientelism as forms of corruption. However, the value of dividing the literature into rent-seeking, clientelist and corruption approaches is found in the clearer view such an exercise affords of some of the assumptions upon which these theories rest. For example, the market logic of the rent-seeking approach, the separation of business and the state in the corruption literature and the rejection of the significance of formal institutions in clientelism.

Each of these three analytical frameworks has some relevance for the concerns of this thesis. The emphasis on the exercise of informal power in clientelist approaches provides a useful angle through which processes of corruption can be viewed, acting as an antidote to the excessive concentration on institutional formation elsewhere. Discussions in the rent-seeking literature also add to understandings of the processes of corruption through the inclusion of ethnicity as a non-market mechanism of allocation and the identification of different types of rents depending on whether they are captured by the state or society. The following chapters in this thesis will build on these insights, adding more detail to considerations of the informal nature of power by including the effect of institutional change on it. Under what circumstances ethnicity acts as a non-market allocation mechanism will also be explored in the rest of this thesis, along with a further disaggregation of the state and society categories found in the rent-seeking literature. By breaking down these state and society categories, a greater understanding of the effects that democratisation has on corruption can be achieved beyond the observation that it initially becomes more prevalent.

In terms of Hutchcroft's classifications, this thesis sits within the corruption literature. The central distinction between business and the state, the emphasis on non-market mechanisms of allocation and the inclusion of a broader political context all describe more accurately the approach taken to corruption in this thesis compared to the other two frameworks. Scott contends that by including a regime's political dynamics in analyses of corruption, the possibility that corruption can have a 'counter-hegemonic influence by promoting the entry of new forces' arises (Scott 1972 in Hutchcroft 1997, p.644). This is another idea which will be explored in connection to the empirical evidence throughout this thesis.

1.4 Analysis: Theoretical Paradigms of Business and the State

Since it has already been established that the business/state relationship is central to the analysis of corruption in this thesis, this section will now examine more closely the assumptions and biases inherent in another set of more general political theoretical paradigms that define business and the state as well as describe their interaction. These paradigms are pluralist, elitist, Marxist and statist. This section will then conclude with a discussion of the 'relative autonomy' of business and the state, which on this theoretical terrain comes closest to the concerns on the separation of public and private in the corruption literature.

1.4.1 Pluralist Analysis

In the pluralist tradition the state is seen as a neutral arena of conflict where a plurality of different centres of power compete. These centres of power, or pressure groups, emanate mostly from society but can also exist within the state itself. However, the crucial point is that the state has no collective interests of its own. As a whole, the state is simply seen as a cash register that totals up and then averages the preferences and political power of actors (Krasner 1984, p.226).

In this way politics becomes a problem of allocation. The business community may have more influence than most on the state but this is simply because they tend to possess more political resources. There are no systemic constraints on the state elite and no overriding pattern of social and economic power relations within which contestation and organisation operate (Robison 1992, p.553). Pressure exercised on the state by business groups has no special significance and must take its place amongst the pressures exercised by other societal actors.

The reliance of pluralist analysis on the market mechanism to distribute state benefits in turn implies a certain neutrality of context and a belief in the power of individual rational choices leading to optimal outcomes. These are the same assumptions which underlie the institutional approach to studying corruption mentioned in the introduction to this thesis where the 'efficiency' of institutions in containing corruption is measured according to such neo-classical principles as rational choice and market logic (Beeson 2002, p.11). Indeed, institutional theorists can see institutions as 'systems of rules and inducements to behaviour in which individuals attempt to maximise their own utilities' (Weingast 1996 in Peters 1999, p.19).

In pluralist analysis, individuals are rather conceived of as *groups* rather than *individuals* but the market logic remains the same. The power of business is seen as contained not only by the pressure of other interests but also by its own internal diversity. Thus, it becomes apparent that definitions of the business community do not include the notion of the business community as a potentially cohesive actor, but rather irredeemably split. Similarly, the state, which has become merely a site of interaction, is usually divided into policy domains which form distinct sub-governments involving for example parts of the bureaucracy, committees and interest groups. It is in this way that the intrusion of a strong central authority, such as a reified state, is resisted (Ripley and Franklin 1978; McFarland 1983 in Knoke 1990, p.154).

Furthermore, it is often noted that pluralist analysis contains within it a strong normative dimension so that it is often unclear whether this model is actually describing a reality or proposing an ideal pattern of relationships. In any case it is clear that pluralist models have a limited application in authoritarian contexts where the role of the state in politics is always much more pronounced than in liberal democracies (Alatas 1997, p.313). This has not, however, stopped theorists from attempting to perceive pluralist tendencies even in the most authoritarian of contexts.

One of the best known and most influential books on the interaction of business and politics in Indonesia, called *Business and Politics in Indonesia,* attempts such an analysis. The author, Andrew MacIntyre, characterises the business/state relationship as one following a corporatist pattern which itself shares one of the fundamental assumptions of pluralist analysis that 'politics is about group politics' (Mitchell 1997, p.16). Thus, by focusing his analysis on business groups, any indication that these groups are not completely controlled by the state leads him to a conclusion that pluralism indeed exists in Indonesia. Although he concedes that such pluralisation and diffusion of power has only just begun to emerge and even then only in some parts of the business sector (MacIntyre 1991, p.259), the question of how important these pockets of pluralism are in relation to corrupt particularistic relations remains unanswered.

Corporatism also shares the pluralist assumption that politics is about groups. The most important difference between corporatist and pluralist analyses is the centrality which corporatism attaches to a high degree of institutionalised interaction between societal interests and the state. In other words, under a corporatist system the state is intimately involved in both the initial organisation of societal groups as well as the basis upon which they interact with the state. Thus, the traditional distinction made in pluralist analysis between public and private is fatally undermined (Mackie 1990). The corporatist paradigm was frequently applied to Indonesian labour organisations, business organisations and political parties under Soeharto and one of the major concerns of this thesis is to test the validity of using corporatism to explain post-Soeharto politics. As such, corporatist theory is dealt with more substantially in Chapter Four.

In sum then, it is apparent that a pluralist model of state/business interaction presupposes (1) a neutral, unreified state with no interests of its own (2) a neutral context where the market mechanism can function rationally to distribute benefits throughout society optimally (3) groups are the most important actors. Even though some pockets of pluralism may have been detected throughout the Soeharto period, it is clear that the general winners were not *groups* of businesses but rather a small selection of *individual* ones. Similarly, an unreified state does not describe the state under Soeharto which was exceptionally centralised through his personage. The task then is to discover whether there have been any changes in these regards since the fall of Soeharto.

1.4.2 Elite Analysis

Here privileged individuals and groups are seen as occupying positions of power and authority. However, their dominant position is not associated with class positions, class associations or even economic power, but rather their personal attributes and values such as superiority of intelligence or character and political skill coupled with their situation in an elite network of personal connections (Alavi 1982, p.290). An elite-mass dichotomy exists with the masses distinguished by their passivity and incompetence (Schwarzmantel 1993, p.83). It therefore follows that those in the business community who do not possess the personal attributes or connections required to be a member of the elite have no special influence on state policy. The state is conceived of as neutral but in the hands of elites.

The most persuasive proponents of the elite theory in recent times have been Michael Useem and William Domhoff, whose work has been referred to as power structure theory and takes its inspiration largely from Mills' 1956 book entitled *The Power Elite.* Writing in the US from the mid-1970s onwards, Useem and Domhoff detected an elite group, variously called an 'inner group' (Useem 1979, p.552) or a 'power elite' (Domhoff in Knoke 1990, p.156) who occupy the controlling positions of the most important economic, political and social organisations. Domhoff sees the ruling class in the U.S. as a three sector power elite made up of (1) the upper social class: the top half percent of wealth holders where class consciousness and cohesion is achieved through social clubs and private schools (2) the corporate community: the owners, major stockholders and top level executives of the largest corporations and financial institutions (3) the policy planning network: non-partisan organisations, and research institutes which bring together academics, business men and political leaders to discuss general problems and propose policy solutions.

Mills offers a different classification suggesting that the power elite be divided instead into (1) executive: those who occupy the top posts in the executive branch of government (2) corporate: those who occupy the top posts of major corporations (3) the leaders of the military (Mills 1956 in Alatas 1997, p.290). But these classifications do not have to be made in opposition to each other. The difference between Domhoff's and Mills' classification may be attributed to changes in the American political system in the twenty years that separates them, coupled of course with a personal inclination by each theorist to emphasise some sections of the elite over others.

In any case these classifications should certainly be redesigned when thinking about countries other than the U.S. In the case of Indonesia the inclusion of the upper social class and the policy planning network into the power elite can certainly be thought of as more tenuous than in the U.S., whilst Mills' inclusion of the executive and the military was very important in an authoritarian context like that found in pre-1998 Indonesia. Interestingly, in a recent survey of Indonesian business associations undertaken for this thesis, the respondents considered the most powerful policy-making constituents after the President and the cabinet to be the IMF, the parliament and the media, well above the military, research institutes and domestic and foreign conglomerates (see Table 3.6 in Chapter Three). Although such a survey can only measure perceptions of policy power, business associations might be thought of as being in a better position than most to give an accurate representation. Based on these survey answers then, an Indonesian 'power elite' could include the IMF, parliamentarians and journalists as well as the executive. Military and conglomerate categories could also be included on specific security and business issues respectively.

Apart from who makes up the power elite, there is also the question of their basis of power. Useem sees elite networks in the USA as all emanating from the corporate sector and forming an 'inner circle' to act as a conscious vanguard of the capitalist class across many sectors (Useem 1979). In contrast, Knoke suggests that in principle the elite concentration of power reflects not class interests but institutional and organisational imperatives (Knoke 1990, p.153). A reflection on the Indonesian context would suggest that different elite constituents have different bases of power. For example, the military's basis of power is undoubtedly its control over the means of violence, whereas control over the means of production is clearly the basis of power for both domestic and international business, the latter operating through the IMF. As for the executive and members of parliament, their basis of power is likely a more complex mixture with institutional imperatives also playing a role.

Focusing exclusively on the section of the elite whose basis of power is the ownership of the means of production, the question of how far these elites represent the whole of the capitalist class is also of concern in this context. A related question is their degree of cohesion and solidarity as well as the possession of common interests and common purposes (Miliband 1969, p.47 in Useem 1979, p.554). In regard to the first question, in the case of Indonesia elites are all from large corporations and as such cannot be said to represent the whole of the capitalist class which must itself include small businesses. In answer to the second question it would seem sensible to conclude that it depends very much on the issue at stake or the historical conditions. For example, if the state were to try to impose a tax increase on all firms over a certain size, concerted co-ordinated action by those firms would likely follow. By the same token, if a tariff reduction was introduced on the import of a particular type of machine, then those who used that machine in their factories would support it and presumably those who manufactured that machine themselves in country would oppose it.

The importance of deciding on the cohesion of the capitalist class elites is derived from the pluralist interpretation of the existence of elites that they bring the divergent views of a multiplicity of social groups into greater harmony (Heinz 1990, p.357). Mills and Domhoff both refute this in the U.S. context and it is also unlikely in the Indonesian context for the reasons explained above. However, it should also be remembered that groups are defined in relation to each other so that if one is willing to speak at such a level of abstraction as 'the state' or 'labour' then 'business' automatically becomes a cohesive group with its own very general common interests such as the provision of infrastructure or the protection of private property rights.

One of the major concerns of elite network analyses is to trace the personal and inter-organisational connections amongst different elite constituents which are necessary for policy consensus and concerted action (Knoke 1990, p.157). The relevance of elite analysis for Indonesia lies particularly in this idea of a 'coincidence of interests' which Mills thought of as crucial for an elite network to function (Mills in Alatas 1997, p.290). Such an idea is echoed in the corruption literature through Bayart who talks of a 'reciprocal assimilation of elites' that downgrades to secondary importance such common distinctions as public/private, bureaucracy/business and military/civilian (Bayart 1993 in Andvig 2000). However, the empirical work of this thesis in the chapters to follow indicates that the level of elite cohesion within Indonesia now is in fact much less than under Soeharto, as the state elite in particular has fragmented creating a 'multi-polar' state.

1.4.3 Marxist Analysis

Marxism postulates that the state is subordinated to private property. However, once it is accepted that political domination of the capitalist class is achieved through control over the state it still remains to be explained exactly how this is accomplished. There are two viewpoints:

1.4.3.1 Instrumentalist

This view has long been held to be Marxist orthodoxy. As its name suggests the state is seen simply as an instrument in the hands of the capitalist class, whether it be through class-based parties, recruitment into the state apparatus or ideological hegemony. Personal positions and relationships are also emphasised. The state in this perspective is thus conceived of as neutral but in the hands of capitalists, the 'ruling class'. The state may be a repressive force used by the *bourgeoisie* to keep itself in power, but all that is needed to change things is a victory for the proletariat who can then grab the state and use it for its own ends.

As described above instrumentalism may seem rather crude and it may also seem rather unlikely that the strong states representative of so many authoritarian states are only possessed of the typical motivations of the capitalist class. All states take actions which are either not related to capital accumulation at all or act against the interests of capital accumulation. Defenders of the instrumentalist point of view would counter that the state can take actions against capital accumulation in the short term but they could very well turn out to benefit capital in the long term. However, this is the kind of theory which can never be refuted and so has only limited value. For, short of total collapse or a communist revolution, it can be presumed that a capitalist economy will go on evolving into the future so that if a scale is used which is long term enough anything can be said to benefit capital.

In the Indonesian context, some scholars may reject outright instrumentalist conceptions of how business and the state interact citing the perceived weakness of the domestic capitalist class and its dependence on the state. But, as mentioned in the introduction to this thesis, in recent years there has been a resurgence of a class-based social conflict approach which views the state as having been captured by a ruling oligarchy. Hadiz is most explicit about his instrumentalist approach, maintaining that 'the consolidation of an oligarchy in the 1980s virtually transformed the apparatus of the state into a committee that presided over the protection of its interests' (Hadiz 2001, p.120). Such are the diverging views of the Indonesian capitalist class in the literature, as a weak group dependent on the state or as part of a rapacious oligarchy in complete control of the state. The apparently mutually exclusive viewpoints here can be reconciled by examining differing definitions of the capitalist class, which will be returned to at the end of this section.

1.4.3.2 Structuralist

Derived from Marx's theory of the Bonapartist state, structuralists deny the idea of a class conscious ruling class implicit in instrumentalism. Instead attention is paid to the relative autonomy of the state from society without losing sight of the structural constraints on the state (Hawes 1993). These structural constraints arise out of the idea that in the long term the state cannot contradict the logic of the economic system or override the interests of the capitalist class because capitalist power stems from the very indispensability of the capitalist class as the machine which drives the economy. In this sense capitalists exert a veto power over the state, whose leaders, although exercising a degree of autonomy, must always consider the consequences of policies which threaten the flow of investment (Robison 1992, p.87). Variations in this theory have been forwarded by, amongst others, Poulantzas (1978a, 1978b) and Alavi (1972, 1982), but the core idea described above remains the same.

The structuralist approach was reinvigorated in the 1970s from the U.S. with the highly visible 'conversion' of two of its most prominent pluralists, Charles Lindblom and Robert Dahl, reflecting a growing trend in political theory away from treating business as just another interest group (Vogel 1987, p.386). Whilst Dahl contended that corporations should be subject to social control and governed by democratic processes, Lindblom revived structuralism with his seminal work, *Politics and Markets*. He maintained that business enjoys a privileged position within the political economy because society has given business the responsibility for mobilising and organising society's resources. In effect corporate executives 'decide a nation's industrial technology, the pattern of work organisation, location of industry, market structure and resource allocation' (Lindblom 1977, p.171). Thus corporate owners and their executives must be induced to perform these primary social functions through, for example, monopoly rights, limited liability, subsidies and tax incentives. The power of business is such that the slightest reforms that run counter to business interests are enacted only after a ransom is paid in the form of new inducements (Vogel 1987, p.392). Essentially, then, the state must act in the interests of the business community.

Vogel critiques the structuralist viewpoint in principle on a number of issues. For example, he concedes that the government *is* dependent on the decisions of businessmen, but argues that businessmen are equally dependent on the government for such safeguards as the protection of property rights and reasonable levels of taxation. Moreover, in response to the idea that the economy is dependent on investor confidence, he maintains that consumer confidence is just as important economically.

However, such a critique is again derived from the questionable market logic that different sources of power can somehow balance each other out. This may work well in theory, but in practice it is rarely as neat. For example, it may be true that consumers also have a lot of power, but the point is that they only have this power *collectively*. Following Olson, it is accepted that such widely dispersed and unorganised constituencies as consumers will find it much more difficult to organise than businesses.

One of the more valid criticisms of the structuralist thesis is that, just as in the case of instrumentalism, structuralism can never be refuted. If, for example, a political outcome hurts workers and benefits big corporations, structuralists can say that the state is acting to sustain existing arrangements because such outcomes preserve the unequal relationships that are fundamental to capitalism. If, on the other hand, the state acts to help the subordinate classes while hurting the largest corporations, a structuralist can still argue that capitalism is being sustained because these political outcomes legitimise current economic and political arrangements while undercutting dissident justifications for action against the existing order (Jacobs 1985, p.6).

In his earlier writings Richard Robison used structuralism to describe the way in which the business community and the state interact in Indonesia. He states 'while the New Order may politically exclude the dominant social forces from direct access to political power, it rules nevertheless with their general acquiescence and in their general interests. It provides the conditions for economic growth and the stability of the existing social order' (Robison 1986, p.120). He does not argue that the 'state is a powerless cipher whose responses are predetermined by some structural mechanism', but rather that within this framework of structural constraints the state has become a central element in the mediation of the conflicting interests of different segments of the capitalist class (Robison 1986, p.121).

However, Indonesia's economy is, for better or for worse, a capitalist economy and there is no serious debate within Indonesia about whether this should change. As such it is overwhelmingly accepted that certain minimal levels of fiscal, monetary and economic infrastructure and the protection of private property *should* be provided by the state. For whilst the benefits of capitalism may be greatly skewed in favour of the owners of capital, it is undeniable that workers benefit to some extent from the smooth functioning of a growing economy. Thus, it could be argued that state provision of such fundamentals as infrastructure and private property rights do not benefit the capitalist class exclusively but rather society as a whole so that it would be erroneous to suggest that it forms evidence of the influence of the capitalist class.

Furthermore, Hal Hill makes a point which has often been repeated that 'there remains a deep-seated mistrust of market forces, economic liberalism and private (especially Chinese-Indonesian) ownership in many influential quarters in Indonesia' (Hill 1996, p.93). If this is indeed the case then it would follow that the structural influence of the capitalist class is weak in Indonesia. However, in the light of the recent economic crisis in Indonesia is there likely to be a strengthening or a weakening of business power? In theory, Vogel argues that good economic performance decreases business political power, as the public raise their expectations about what business can afford. Conversely poor economic performance, through its effect on public perceptions, increases business political power (Vogel 1989, p.7). In contrast, Mitchell contends that poor economic performance decreases public confidence in business and so weakens its political power (Mitchell 1997, p.20).

However, any explanation which relies on the state responding to public views encounters difficulties when applied to the Indonesian context where public resentment towards the biggest Indonesian conglomerates is palpable whilst at the same time many are still receiving government bailouts. Post- economic crisis, some administrations have seemed keener to attract back domestic capital into Indonesia than others. Playing to his role as protector of *pribumi* interests, President Habibie asserted that the Chinese-Indonesians who left the country with their capital as a result of the May 1998 riots could stay away and that their positions would be easily filled by others (Eklof 2002, p.232). Yet under President Wahid there was a great deal of effort expended to try to persuade conglomerate capital to return to Indonesia which is likely to have continued under President Megawati. The power of the domestic capitalist class relies not only on political power holders' needs for personal and political funds but also from its domestic status. The increasing international take overs of domestic businesses in the wake of the economic crisis have fuelled a nationalist agenda of the promotion of the domestic capitalist class.

External sources of economic power can be divided broadly into the power of international capital and the power of international organisations such as the IMF and the World Bank. It should be noted that these two dimensions of external power should not be conflated, for, whilst they share the same broad goals of opening up recalcitrant economies in the long term, in the short term they diverge considerably. The IMF ostensibly seeks to impose procedures of accountability, transparency and efficiency whereas international business does not. It is a fallacy to suggest that private foreign investors seek efficiency, rules and standards for their investments; rather their priorities are to protect their investments and to maintain a profit. Economic rationality may be a defining feature of business in general, but rationality is a context-specific term. For example, it was economically rational under the Soeharto regime for foreign investors to make use of the illegitimate channels of personal influence in order to secure their investments, as evidenced by the steady stream of revelations concerning the role of foreign investment in corruption which have surfaced since the fall of Soeharto.

Assessing the relevance of the structural approach to Indonesia is thus rather complex. For example, distinctions have to be made between the structural power of international and domestic business. However, despite some theoretical weaknesses, the structuralist approach can be used effectively in Indonesia to at least partly explain capitalist class power over the state, especially in a situation where private investment is desperately needed in the wake of economic collapse.

1.4.4 Statist Analysis

Most of the other theories reviewed here have the state at the centre of analysis. Marxist analyses regard the state in relation to class formation, patrimonial analyses concentrate on the ways that modern state structures and traditional rule interact and modernisation theory (along with its contemporary theoretical equivalents) define the state as an institutional amalgam which is more or less legal-rational. In these analyses the state is a major character in the story of political power but crucially can not act independently.

Popularised by Skocpol and taken to extremes by Anderson, statist analysis sees the state as an autonomous structure with a logic and interests of its own not necessarily equivalent to or fused with the interests of the capitalist class (Miliband 1983, p.27). From this perspective the state should be seen as an institution, comparable to the university, the church or the modern firm. Like other bureaucracies, state institutions have their own memory and perpetuate self-preserving and self-aggrandising impulses which are articulated by particular officials, but are not simply a function of passing personal ambitions (Anderson

1983, p.478). At the heart of this analysis is the idea of a fundamental disjunction between the interests of the state and society. The state is almost entirely detached from and unresponsive to societal interests, including those of the capitalist class.

According to this theory we should not conceive states as simply the place where social groups fight it out. States should be conceived of as autonomous actors in the policy process (Mitchell 1997, p.26). In order to achieve this, a certain degree of state autonomy in relation to societal influences is necessary. But critics have pointed out that the boundary between state and society is indeterminate, an imprecision which often obscures the fact that explanations based on state autonomy usually end up referring to the motivations of civil servants or elected officials. As Mitchell continues:

> We are indebted to the concept of state autonomy for its notion of autonomy, not for the state. Its value lies in encouraging us to estimate the degree of independence that public officials exercise in the policy process and the sources of this independence. Its value diminishes as these officials are wrapped in the loose-fitting concept of the state. There is more to be gained from disaggregating the state, and, society too, for that matter (Mitchell 1997, p.27).

Wibisono agrees in the Indonesian context, criticising the state-centric approach for failing to cope with differences of viewpoint within the government apparatus. He concludes that 'it is not unusual to find agencies with different levels of expertise, authority and interest that cannot always be co-ordinated (Wibisono 1989, p.32).

Apart, perhaps, from a fundamental disagreement over whether individuals can ever be left out of an analysis of an institution such as the state, the debate in the theoretical literature about the use of statist analysis is really one about the cohesion of the state. There is often a degree of ambiguity in the literature on Indonesia surrounding distinctions between the President, the state and the regime precisely because the state and the regime were highly centralised around Soeharto. Whilst Anderson's view of the Indonesian state as possessing its own 'self-preserving and self-aggrandising impulses' was useful in tracing its colonial roots, one suspects that what he was describing had more to do with Soeharto's role as integrator of state, regime and President than with any essential state characteristics. This is evidenced by the spectacular fragmentation of post-Soeharto state power which is a definite theme throughout this thesis.

1.4.5 Relative Autonomy

The relationship between business and the state is also explored in this literature through the concept of 'relative autonomy'. Some theorists suggest that the state in Indonesia did not have enough autonomy from the capitalist class to avoid sinking into corrupt relations (Gomez 2002, p.9). Alavi, however, maintains that post-colonial states are more autonomous from their domestic capitalist class compared with the situation in the West. This, he argues, is because a post-colonial capitalist class is made up of both metropolitan and indigenous *bourgeoisie* as well as a landed class and it is this complexity which enables the post-colonial state to be relatively autonomous towards each of these sections within the capitalist class (Alavi 1972, p.62). Although Alavi is criticised for failing to recognise that relative autonomy is a general condition of capitalism everywhere (Alatas 1997, p.292), the Indonesian state has been portrayed elsewhere as impervious to the influence of the capitalist class in policy networks (MacIntyre 1991, 1995).

Reconciling these two views hinges on definitions of the capitalist class. Where Gomez is probably thinking of a tiny favoured section of the capitalist class, MacIntyre uses a broader definition to encompass the whole of the Indonesian business community. This imprecision over how the capitalist class is defined is sometimes matched by confusing the capitalist class with civil society. For example, Weiss begins an article on state capacity in East Asia by quoting the orthodox argument that the state in authoritarian contexts has a high degree of 'operational autonomy' which implies both insulation from social forces and a certain 'hardness' in the implementation phase. Then, through a case study of Japan, she suggests that fostering ties across the public-private divide, such as pulling into the state's orbit economic bodies such as banks, conglomerates, industry associations and trading companies, actually acts to preserve state autonomy at the same time as transforming this autonomy into capacity (Weiss 1994, p.88). Her point is that state autonomy is strengthened by collaborative state-industry relations, which 'inverts the conventional understanding in which the state's autonomy increases in direct proportion to actions taken against, or in spite of, capitalist interests' (Weiss 1994, p.92).

But the definition of state autonomy is that it takes little account of extra-state input, so how can a state which takes more account of extra-state input be said to be more autonomous? The fundamental weakness in her analysis is that she conflates the business sector with society as a whole. For surely the point is that through such institutional linkages with business as she suggests the state is not becoming more autonomous from society as a whole, rather it is becoming more autonomous from all other sections of society which do not originate from the business community. In other words the state becomes less autonomous towards business, but in so doing becomes more autonomous towards all other sections of society.

Debates around the strength of the capitalist class suffer from the same confusing apparent contradictions. For example, Hadiz speaks of a 'powerful domestic capital-owning class' (Hadiz 2001, p.121) whilst Eklof maintains that 'the political strength of the *bourgeoisie* is limited in spite of their domination of the economy' (Eklof 2002, p.222). Again, such an ambiguity is simply enough dealt with by fencing off the most highly visible few favoured business people from the rest of the capitalist class. However, it should also be remembered that the *whole* domestic capitalist class in Indonesia is as dependent on the state now as it was under Soeharto as government consumption and investment continue to be the main pillars of economic growth.

Mirroring the experience of Thailand and the Philippines following democratisation (Gomez, 2002, p.15) there has been a new development in the role that the capitalist class plays in Indonesian governance as business people increasingly move into formal politics. Although members of the business community have for many years been involved in the MPR and to a lesser extent the DPR,[5] the *reformasi* era has seen a substantial increase in the number of parliamentarians from a business background.[6]

Throughout the New Order period, the positions given to business people in formal politics functioned mainly as an exercise in mutual legitimisation between the regime and the business community and were devoid of any real power. Yet, post-Soeharto this situation seems to be changing as more and more business people are chosen by political parties to become members of an increasingly powerful parliament,[7] in some cases occupying positions of considerable power.[8] Moreover, a glance at the biographies of members of parliament suggests that many MPs with a business background have moved up through the ranks of New Order business associations such as REI, Kadin and HIPMI.

Analyses of the relationship between business and the state have most to offer this thesis in terms of defining the two terms. Definitions of the state in statist analyses as a cohesive actor in its own right may have been more acceptable under Soeharto, but when compared to the situation today have much less explanatory value. Whilst the neutral contexts implied in pluralist analysis are blind to the political realities of Indonesian political economy, its description of an unreified state now has more resonance in the post-Soeharto era. Meanwhile, the elite cohesion found in elitist theory has similarly become more questionable post-Soeharto. Marxist and elitist models have most resonance in Indonesia because they are the only two theories here to define the business side of the

[5] See for example, *Warta Ekonomi,* 12.10.92.
[6] See *Indonesian Business,* October 2000.
[7] The Indonesian election system as it stands means that people vote only for political parties and not particular individuals. The political parties decide themselves who will fill the positions for parliament.
[8] For example, Arifin Panigoro (founder of the larget private oil company in Indonesia) is Chairman of the biggest faction in the DPR (PDIP) and PDIP Deputy Chairman. Jusuf Kalla (PT Bukaka executive) was briefly Minister of Trade and Industry, as was Rini Soewandi (long-term executive of PT Astra) for 3 years.

relationship as a small number of favoured individuals. All the other analyses attempt to group the capitalist class as a whole, which is out of place in Indonesia where there are important differences in the way that different segments of the capitalist class interact with the state. Nevertheless, it has been argued elsewhere that Marxist theories are of limited use in describing Indonesia because of their presupposition of rigid social classes and their consequent neglect of ethnic or religious based ('aliran') divisions (Mackie 1990, p.1). This is an important point in regards to this thesis, where an attempt will be made to include the ethnic dimension into an analysis of the distribution of power.

1.5 Analysis: Political and Economic Processes in Indonesia

As already explained in the introduction to this thesis, analyses of corruption in Indonesia can be grouped into several categories depending on their analytical focus. These categories can also be employed to analyse political and economic processes in Indonesia in more general terms. Broadly speaking there are three categories of analysis: neo-liberal, institutionalist and social conflict. This section will describe and critically appraise some of the arguments which run through these categories of analysis whilst revealing each school's particular assumptions and biases.

1.5.1 Neo-liberal Approaches

The neo-liberal label is most often used to describe the work produced by the major international institutions such as the World Bank and the IMF.[9] There is also a sizeable body of academic literature which analyses political and economic processes in Indonesia on the same terrain and in the same terms as these international institutions.

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[9] Some recent examples of major reports on Indonesia are: World Bank (2000a) *Indonesia: Accelerating Recovery in Uncertain Times*, Brief for the Consultative Group on Indonesia, Report No. 20991-IND; World Bank (2001b) *Indonesia: The Imperative for Reform*, Brief for the Consultative Group on Indonesia, Report No. 23093-IND; World Bank (2000b) *Indonesia: Public Spending in a Time of Change*, Poverty Reduction and Economic Management Sector

The neo-liberal approach is based on the ideal that business-state relations should be characterised by the state's retreat from the activities of business, with the state's role limited to providing the support necessary for the market to function optimally. The major themes found in this literature are therefore concerned with assessing the degree to which Indonesia measures up to this ideal in terms of its progress in deregulation and privatisation. For example, some of the most prominent issues explored include an assessment of the deregulation measures which the Indonesian government has undertaken to attract foreign investment (Dick 2001, p.2; World Bank 2003a; Pangestu 2001, p.142, p.147; Siregar 2001, p.290, p.295) and the speed and progress of the sale of state owned assets (Dick 2001, p.21; Pangestu 2001, p.142; Pangestu 2001, p.171; Siregar 2001, p.290; World Bank 2001b; World Bank 2000a)

Macroeconomic policies, such as those concerned with inflation, interest rates, exchange rates and consumption levels, also feature heavily in this literature as the key to ensuring economic growth or as an explanation for the economic crisis (McLeod and Garnaut 1998, p.36). Although such an emphasis can be seen as a reflection of the fact that many neo-liberal analysts have a background in the discipline of economics, it is also an indication of one of the major limitations of their analysis: their view of economic processes taking place in isolation from political and social processes. Thus, where economic changes are analysed, they tend to descend into technical economic debates concerned with the appropriate level of interest rates, bond issues or fiscal austerity. Such an analysis is again derived from the neo-liberal ideal that economic decisions should be divorced from politics. In this regard, another theme of the neo-liberal literature concerns complaints about the interference of 'politics' in 'economic decisions' (Mcleod and Garnaut 1998, p.35; Pangestu 2001, p.143).

Because the neo-liberal route to reform in business-state relations lies in the retreat of the state from the economic sphere, their analyses of the post-Soeharto reform process tend to focus exclusively on the progress of deregulation. When

Unit; World Bank (2003a) *Maintaining Stability, Deepening Reforms*, Report No. 25330-IND; IMF Country Reports published every two or three years entitled: *Indonesia: Selected Issues*.

explaining the lack of such reform, their faith that the economic and political domains *can* operate independently of one another means that any political decisions which do not conform to the neo-liberal agenda are simply attributed to a lack of political will (Dick 2000, p.7; Siregar 2001, p.292). Where there is some acceptance of the idea that the interests of broader coalitions are at work, only the *domestic* rent-seekers standing behind nationalist economic policy are identified. These groups, it is argued, block the good intentions of the technocrats to introduce efficiency-maximising deregulatory policy. Reform to business-state relations is thus conceived of as a matter of enlightened policy makers, insulated from the influence of rent-seekers, introducing deregulatory economic policies and thus freeing the potential of the market to benefit all. The key, then, is to persuade (or force) policy makers into agreeing that this is the right course of action to take.

But as the social conflict theorists point out, 'technocratic' policies of deregulation and privatisation are not naturally efficient but predominantly benefit a different group of interests: international capital. In other words, most deregulatory policies and some anti-corruption strategies do not divorce politics from economics, but rather shift economic gains from the domestic elite to the international elite.

Such a viewpoint will be developed in this thesis where it will be shown that the political influence of domestic rent-seekers on state economic decisions can be compared in some places to the political influence of international business. Where the influence of domestic business is more direct, the influence of international business is mediated through the leverage which international institutions and international states have gained as a result of Indonesia's sovereign debt. Similarly, it will also be shown that post-Soeharto governments face more complicated decisions than the neo-liberals allow for. Decisions over the level of debt forgiveness for domestic rent-seekers or reductions in their stranglehold over government procurement are more a matter of juggling the interests of both domestic and international interests. This is because one of the most important legacies of the economic crisis is that the coincidence of interests which occurred between international business and domestic rent-seekers under Soeharto no longer exists.

1.5.2 Institutionalist Approaches

Although institutions appear in most political analyses, institutionalist approaches are distinguished by their particular emphasis on institutional configuration in explaining political and economic processes. There are several sub-categories of institutionalist analysis which diverge on questions of method and theory. For example, to rational choice institutionalists, institutions are an intervening variable capable of affecting an individual's choices and actions but not determining them. To historical institutionalists, institutions can play a determinant role since they shape the actions of individuals but are at times affected by collective and individual choices. To sociological institutionalists, institutions are themselves dependent on larger 'macro level' variables such as society and culture, and the individual is a dependent and rather unimportant variable (Koelble 1995, p.232).

In terms of the application of institutionalist analysis to Indonesian political and economic processes, there have recently been two major works which broadly follow rational choice institutionalism and historical institutionalism. These are, respectively, Andrew MacIntyre's *The Power of Institutions* (2003c)[10] and Natasha Hamilton-Hart's *Asian States, Asian Bankers* (2002).

In a bid to explain the varying impacts of the economic crisis across Southeast Asia, MacIntyre focuses on the dispersal of decision-making authority in political institutions in order to discover its effect on the policy environment. He links institutional configuration to the impact of the economic crisis by maintaining that investors' decisions to withdraw from or remain in various Southeast Asian economies were dependent on the type of policy chosen by national governments. In the second half of his book, he also maps post-crisis

[10] The major part of his work was first published as an article in 2001 in *International Organization.*

institutional reform, but rather than explaining the changes to institutional configurations, he himself states that he simply describes them (2003c, p.107). Throughout this informative section of his book MacIntyre states explicitly that institutional reform can be explained by coalitions of actors seeking to advance certain interests (2003c, p.106). However, because he does not expand on this, the changes to the dispersal of decision-making authority which he (quite rightly) detects may seem to the reader to have arisen from some sort of happy consensus.

The first part of the book does address causality. Here he contends that the fragmented nature of veto authority over policy in Thailand led to 'policy rigidity' in response to the economic crisis. In other words, at the time of the economic crisis there were so many different actors with the ability to block ('veto') policy in Thailand, that policy reform in response to the crisis was woefully slow and thus ineffectual. At the opposite end of this scale, the concentration of veto authority over policy in Indonesia led to a severe form of 'policy volatility'. Here, Soeharto's sole veto power over policy-making meant that policy 'vacillated wildly' (2001, p.84) in response to the economic crisis, thus scaring off investors and further aggravating the effects of the crisis in Indonesia. By comparison, Malaysia and the Philippines fell in between these two extremes.

MacIntyre is well aware that such a 'tight analytical focus' on institutions is only partial in nature. He repeatedly points out that other factors matter in explaining the impact of the economic crisis, such as short-term capital flows, financial regulation and patterns of business-government relations (2001, p.84). Nevertheless, he claims an 'independent and significant relationship between institutions and investment that sheds light on the dynamics of the economic crisis' (2001, p.84). However, MacIntyre's argument that such an 'independent' relationship exists between institutions and investment rests on the assumption that at the time of the crisis investors were making rational decisions about their investments based on each government's policy responses. Yet, it is also possible to look beyond such a level analysis, which only really scrapes the surface of causality. For example, some analysts eschew explanations for the economic crisis based on investor motivation in favour of such factors as the openness of capital accounts, changes in the international and regional balance of power (Pempel 1999, p.6) or more fundamental problems with particular capitalisms (Rodan et al 2001, p.25).

Another caveat which MacIntyre applies to his own work is that he is not arguing about the appropriate *content* of policy but rather its *form* (MacIntyre 2003c, p.9). Yet, this is in fact something of a misrepresentation because it is also possible to view his arguments as explaining these governments' failure to adopt neo-liberal policies in terms of malfunctioning institutions. For example, the Philippines' policy process is described as 'steady, coherent and timely' (MacIntyre 2001, p.116), but it also closely followed the advice of the IMF with cuts in government expenditure, liberalisation of the oil sector and the introduction of new banking oversight arrangements (MacIntyre 2001, p.101-106). In the section on Malaysia, MacIntyre clearly states that he sees a 'strong connection among the configuration of veto authority, the government's policy posture and the severe investment reversal' (MacIntyre 2001, p.106). Yet, his analysis is actually entirely based on the struggle between the orthodox neo-liberal policies of the ill-fated Anwar and the nationalist tendencies of President Mahathir.

In the case of Indonesia, MacIntyre's argument rests on the idea that Soeharto's policy signals to investors were 'hopelessly changeable' (MacIntyre 2001, p.115) and 'wildly vacillating' (MacIntyre 2001, p.116) when in fact they only really changed once. As MacIntyre himself notes (MacIntyre 2001, p.113), at the beginning of the crisis Soeharto followed IMF advice, producing orthodox neo-liberal policy such as floating the rupiah, cutting government expenditure and lifting restrictions on foreign ownership. Yet a few months later Soeharto's policy changed direction sharply away from the IMF policies with a programme of bank bailouts and the resumption of government spending on mega-projects. The point here is that it wasn't so much the fact that policy had changed that was the problem, but rather *how* it had changed. It seems more likely that investors were troubled by the direction of policy rather than the fact that it had changed. For, when the economic crisis forced Soeharto to choose between international and domestic interests, he eventually came down firmly on the side of the latter.

MacIntyre's point that the speed and ease of such a policy reversal is only really possible under conditions where a single veto over policy exists is a useful one. He searches for greater analytical clarity by self-consciously isolating the effect of institutions on the policy environment and in doing so has produced a stimulating and valuable addition to the theoretical literature. However, by professing to disregard the actual *content* of policy, he is in danger of leaving the reader with the false impression that political change is an apolitical process which can be brought about by better institutional design.

Institutions are important, but they do not work in isolation, something which MacIntyre himself concedes when he recognises the significance of other factors such as 'interests, ideas and international systemic forces' (MacIntyre 2003c, p.11). For the purposes of this thesis, the most interesting section of his work touches on the issue of how institutions interact with the interests that surround them.

MacIntyre recognises that his 'veto player' analysis does not take into account the influence of important groups operating outside formal institutional structures such as big business, but makes the case that they should be kept out of his analysis in order to see more clearly the effect of these formal institutions. Interests such as these, he claims, are ultimately mediated through formal veto institutions that differ fundamentally across country settings and it is precisely these differences and their consequences which interest him (MacIntyre 2001, p.90). Yet, as this thesis will show, it is equally possible to describe formal political institutions as being mediated by such interests. In other words, not only do institutions dictate how and when interests are articulated, but also the manner in which they function is also dependent on the interests which constitute them. Thus, institutions in this thesis are not only conceptualised as a set of rules which *guide* the behaviour of political and economic elite, shaping the way interests are expressed, but their functioning also *reflects* the configuration of these interests. Where MacIntyre's analysis seeks to separate institutions from interests, the analytical framework developed in this thesis rather attempts to bring the two together. For, if it is accepted that the way institutions function is a reflection of coalitions of interests, then it becomes meaningless to speak of them in isolation from those interests as does MacIntyre.

Hamilton-Hart's work on the configuration of financial institutions, such as central banks, across Southeast Asia has many similarities with that of MacIntyre. Where MacIntyre maintains that policy responses to economic crises are most effective when they are *reasonably* fast and based on *some* consultation, no matter what the actual content of the policy, Hamilton-Hart considers financial policy to be best when it is implemented *consistently* and in an *organised* manner, regardless of its content. Thus, where MacIntyre's analysis explicitly isolates the effects of institutional configuration from the interests and policies which flow through them, so too Hamilton-Hart explicitly states that she wishes to 'disentangle arguments about the effects of organisational characteristics from arguments about the effects of different policies' (MacIntyre 2003c, p.9).

Hamilton-Hart begins by tracing the evolution of central banks' internal 'governing capacity' across Malaysia, Singapore and Indonesia, where the optimum governing capacity is roughly equivalent to the Weberian legal-rational ideal (Hamilton-Hart 2002, p.12). Anchored 'within the institutional framework of the broader state system' (Hamilton-Hart 2002, p.9), her descriptions of the historical evolution of these central banks provides a detailed picture of the different 'structures, routines and norms' of each.

She then goes on to delineate her central argument, that 'within a fairly wide range of policies, policy choice is less critical to determining financial stability or economic sustainability than consistent implementation of declared financial policy (Hamilton-Hart 2002, p.6). As evidence for this proposition, she cites the success of interventionist financial policies in Taiwan, Singapore and Malaysia compared to the costly results of the same type of policies in the Philippines and Indonesia (Hamilton-Hart 2002, p.23). She then links the various levels of governing capacity across these countries with the success or failure of these same types of interventionist policies, concluding that it is this internal governing capacity of financial institutions which determines financial stability rather than the actual nature of the policy. In other words, in a country like Indonesia where governing capacity is weak, it doesn't matter whether policy revolves around heavy government subsidies or follows a more deregulatory path, neither can produce a financial system that is both stable and efficient (Hamilton-Hart 2002, p.6).

She further develops her argument by stating that 'organisational characteristics that underlie state capacity are likely to predispose government actors towards certain goals and away from others' (Hamilton-Hart 2002, p.9). In this regard, the lack of governing capacity in Indonesia has meant that 'financial-industrial policies tend to *degenerate* into costly exercises in channelling rents to favoured interests' (Hamilton-Hart 2002, p.22, italics added) and that 'the disorganisation and indiscipline of most state organisations ...meant that they were vehicles for private interests' (Hamilton-Hart 2002, p.40).

This is in contrast to the position taken in this thesis where 'grand' corruption is explicitly described as a system of wealth distribution. In other words, the corruption which exists in Indonesia today is not seen as some sort of primordial original condition which occurs because institutions have not yet developed robust administrative practices, or because their staff are uneducated in the ways of Weberian organisation. Rather, grand corruption is a system created and perpetuated by economic and political elites in order to both benefit themselves personally and support their own structures of power.

This is not to deny Hamilton-Hart's position that organisational characteristics predispose government actors towards certain goals and away from others, which certainly is the case *to an extent*. But again, like MacIntyre, Hamilton-Hart only tells part of the story because the evolution and reform of institutions occurs more organically than either seem to suggest. The view taken in this thesis is that institutional change occurs not only as new rules are introduced aimed at transforming internal organisational characteristics, but also as a result of the interplay between these new rules and the interests which surround them. It may be that organisational characteristics predispose government actors towards certain goals, but it is also the case that certain goals (corruption) pre-dispose actors towards creating institutions with those organisational characteristics. This may seem like unnecessary pedantry, but the very important corollary of this is that if it is accepted that private interests dictate how far institutional reform is implemented as much as institutional configuration affects private interests, then the seeds of institutional change must also be sought from changes to the composition of these interests; something to which the social conflict theorists of the next section are most attentive.

Hamilton-Hart touches briefly on the way she sees other factors interacting with institutions, acknowledging that 'the attributes of particular state organisations are a product of the specific contexts in which they evolved' (Hamilton-Hart 2002, p.20). However, rather than identifying coalitions of vested interests as part of the specific context of state organisations, she instead points to the existence of political cleavages, the degree of political insecurity, the dispersal of political power and abundant natural resources (Hamilton-Hart 2002, p.20).

Hamilton-Hart's certainty that 'organisational-level characteristics have enough independent significance to be considered as explanatory variables in their own right' (Hamilton-Hart 2002, p.20) is carried through from her book on Southeast Asian banks to an article on anti-corruption strategies in Indonesia (Hamilton-Hart 2001). Here, she makes the case that anti-corruption measures should focus not only on monitoring mechanisms which are *external* to organisations, but also on the *internal* self-discipline of organisations. Again, this point is both astute and useful, since if such internal self-discipline did exist then corruption would undoubtedly decline. However, the difficulty of her analysis lies in the absence of an explanation as to how this is to be achieved. Identifying best practice for institutions is certainly beneficial, but it does not contribute towards an understanding of how and why institutions evolve in reality. As this thesis will show, attempts to impose new internal and external institutional structures in Post-Soeharto Indonesia have simply resulted in changes to the composition of interests. For this reason, the approach taken in this thesis towards analysing political organisations is very different from that taken by Hamilton-Hart. For example, Chapter Three deliberately avoids an analysis of business associations based around their internal organisational features in favour of one which distinguishes business associations based on who they represent and for what purposes, thereby establishing their connection to the wider political economy.

1.5.3 Social Conflict Approaches

If political change is all about economic deregulation for the neo-liberals and institutional design for the institutionalists, for the social conflict theorists the story is one of contending groups of social interests. The approach taken in this thesis owes most to this type of analysis, although it will be complemented by the sort of attention to institutional configuration which the institutionalists perform so rigorously.

Whereas the neo-liberals and the institutionalists view the reform process as a struggle between inherently efficient and inefficient political and economic systems, the central proposition of social conflict theorists is that the struggle is one between ' shifting coalitions of state power and social interest' (Robison and Hadiz 2004, p.5). Markets and the institutions that define them are 'forged in system-level processes of social and political conflict' and cannot be understood away from these power relations (Rodan et al 2001, p.7). Such a view is particularly aimed at counteracting the neo-liberal belief that markets are naturally and universally efficient constructs driven by 'their own internal laws and the rational choices of individuals who seek to maximise their gains (Rodan et al 2001, p.2).

The manner in which social interests interact with institutions is dealt with more comprehensively in this body of theory. Particular institutional configurations, it is argued, exist because they are integral to specific power relations which are located within them (Rodan et al 2001, p.7). Social conflict over production, profits, wealth and power, both drives the policies which create new institutions and defines the social forces which capture them.

This is precisely the position taken in this thesis with the rejection of the institutionalists' idea that institutions can be understood in isolation from vested interests. The approach taken in this thesis agrees that institutions can only be conceived as a reflection of the interests which flow through them. However, it is also important not to underplay the very significant role that institutions play in defining these interests. Within this body of theory, the tendency is to concentrate on the ways in which social conflict shapes institutional change. Their analyses of the 'contests over reforming political institutions and the vested interests involved' (Robison and Hadiz 2004, p.227) are both persuasive and informative. But presenting coalitions of vested interests as reconstituting themselves within new institutions (Hadiz 2003b, p.593; Robison and Hadiz 2004, p.225) leaves the impression that they are untouched by institutional reform, able to avoid its effects and recapture these new institutions at will. By comparison, this thesis builds upon the social conflict analytical framework by drawing attention more explicitly to the ways in which institutional changes have created new divisions within the coalitions of vested interests, redefining who they are and where they operate. For, institutional change in post-Soeharto Indonesia has opened up new opportunities for many to participate in corruption, and because the pool of wealth is not infinite, this inevitably means that these new participants benefit at the expense of more established interests.

Andrew Rosser (2002) presents a persuasive case when he argues that the struggle over economic liberalisation in Indonesia must be understood as a political process of winners and losers rather than a technical process of choosing the right policies. He identifies the international interests which lie behind technocratic policies of economic liberalisation in the same way that this thesis identifies them behind anti-corruption strategies. Although Rosser focuses on different sectors from the empirical research in this thesis, the approach is broadly similar and in many ways this thesis represents a continuation from where Rosser's work ended in 1999.

However, there is also a slight refinement in the approaches used by Rosser and in this thesis which is derived mainly from this difference in time-scale. The majority of Rosser's work relates to the pre-crisis struggle over economic liberalisation which means that he is largely concerned with charting the ways in which conglomerates accepted or blocked reforms depending on whether they represented a threat to their interests. In this way, when he describes the difficulties the technocrats encountered in introducing prudential 'legal-rational' type reforms, he does so in terms of their power relative to the conglomerates. For example, he describes the way in which prudential reforms were seriously compromised at the outset when only partial reforms in the capital market and banking sector were able to be introduced (Rosser 2002, p.67; p.72; p.101) or the way in which technocratic power was enhanced in the wake of reported scandals surrounding the conglomerates (Rosser 2002, p.97; p.103; p.108).

In contrast, the research undertaken for this thesis was carried out at a time when it was not necessary for the technocrats to struggle so hard because of an old ally with an extraordinary new level of influence in the policy process: the IMF. Although the IMF certainly did not achieve everything it wished for, it did manage to push through very many comprehensive programmes of institutional reform. This means that it became less relevant in the immediate post-Soeharto era to analyse the relative power of the technocrats and the conglomerates in introducing new reform and more relevant to assess the ways in which the packages of reform pushed through by the IMF have interacted with conglomerate interests. Similarly, since new electoral laws and decentralisation laws were only just being enacted at the time of Rosser's work, the effects of such far-reaching institutional redesign were not yet clear. Thus, the slow and fitful struggle over economic deregulation and corruption of the Soeharto years which Rosser describes has been replaced in post-Soeharto Indonesia with comprehensive and far-reaching *programmes* of institutional reform, so that the concept of institutional reform must move closer to the centre of any analysis.

Because 'social interests' are at the forefront of analyses by social conflict theorists, another major concern of this body of theory is in delineating exactly who makes up these forces. Most recently Hadiz (2003b) and Robison and Hadiz (2004) have produced insightful and detailed accounts in this regard. Again such an approach corresponds closely to that taken in this thesis where the identification of new interests, such as new local interests, small and medium businessmen and medium level civil servants (Hadiz 2003b, p.597) are confirmed by the research undertaken for this thesis. However, accounts of 'reformist' forces are less developed with the strange bed-fellows of labour and neo-liberal technocrats often brought together under the banner of 'reformers' (for example, Hadiz 2003b, p.596). It is conceivable that organised labour may share some of the neo-liberal goals if the latter's agenda can be characterised by the liberalisation of civil rights as well as property rights. However, in post-Soeharto Indonesia, labour has only really been involved in the negotiations of such classic labour issues as wage levels and redundancy pay, pitting them strongly against the neo-liberals. In any case, it is undoubtedly true that reformist forces are slow to organise and are still in their infancy in Indonesia at present. Nevertheless, it would be useful to have a more in-depth analysis of who reformers are and what change they are actually advocating.

Another reason for this may be connected with the way in which this body of theory undervalues the role of ethnicity in Indonesian political economy. Where 'nationalist' or 'pro-*pribumi*' sentiments are acknowledged, they tend to be described as part of the anti-reform movement (Rosser 2002, p.197) because of their potential to be captured by rent-seekers (Hadiz 2003b, p.599). All forms of state intervention carry rent-seeking opportunities, just as deregulated markets carry especially attractive opportunities for international interests, but to immediately consign pro-*pribumi* sentiments to the anti-reform camp effectively concedes the neo-liberal point that the only route to reform is for the state to retreat from the economy. Scepticism of pro-*pribumi* policies is well justified based on past experience where it was effectively used as a euphemism for corruption and there have been few indications that this has changed substantially in recent times. But neither has the traditional representatives of the working class, labour unions, proved themselves particularly reformist, beset as they are by elite infighting and disorganisation. The possibility must therefore remain that those who advocate pro-*pribumi* policies form an important element of a reformist working class. However, such a proposition only becomes possible if it is accepted that ethnicity is woven into class issues in Indonesia, something which this thesis will attempt to show.

1.5.4 Theoretical Inter-Connections

Finally, it may be useful to briefly review the connections between these three schools of theory and those from the business-state and corruption literature. The neo-liberal category of analysis is clearly linked to the pluralist ideal reviewed in the business-state literature, not because the state *is* a neutral arena of conflict or because business *represents* just another interest group which must compete for influence in government with all the other interest groups, but because according to the neo-liberals, this is the way it *can* and *should* be. There is also something of the elitist view of politics within neo-liberal analysis, where political and economic processes can be explained as a matter of political will from the prevailing political elite.

Institutionalist approaches may in some ways be seen as a latter day version of statist analyses. Where Anderson (1983) made the case for state institutions to be seen as having their own memory and perpetuating self-preserving impulses (p.478), the institutionalists build on this fundamental idea by re-asserting the value of regarding state institutions as independent variables in explanations of political change. However, Mitchell's entreaty (see section 1.4.4 above) that statist analyses move towards disaggregating the state seem to have been adhered to by the institutionalists who very carefully consider state institutions individually. Having said this, however, it is clear that the institutionalist approach owes more to the type of organisation theories which are taught on business studies syllabuses the world over.

The tendency of the social conflict approach to view political and economic processes as the product of social conflict which is itself 'intimately bound to the trajectory of various classes' (Rodan et al 2001, p.8) situates this body of theory broadly within Marxist analysis. Although much of the most recent literature produced by social conflict theorists explicitly links their analyses to the instrumentalist view where the state is in the hands of the capitalist class, there are also elements of structuralism, especially where the power of international business is considered.

The analyses of corruption reviewed earlier in this chapter tend towards focusing on the internal dynamics of corruption as an independent phenomenon rather than linking it to wider political and economic processes. However, there are still some connections, with the rent-seeking literature, for example, viewing the solution to corruption as intimately bound up with the withdrawal of the state from economic activities. On the other hand, clientelism, with its analysis of corruption based on relations of power, has something of the social conflict approach in it. However, the difference between the two approaches is derived mainly from the clientelist focus on power at an individual, personal level and the social conflict focus on the power of wider aggregations based on class.

1.6 Methodologies: Observing Business/State Relations

Constructing methodologies which are capable of adequately describing the interaction between the state and the business community is an exercise inevitably fraught with difficulty. Not only is such an endeavour hampered by the often secretive, or at least obscure, nature of such interactions but it also serves to highlight the highly subjective nature of scientific enquiry in politics. This section will describe the main approaches to observing the relationship between business and the state found in the literature, concluding with a brief discussion of methodologies used in this thesis.

1.6.1 Inference of Business Power from Economic Structure

This method looks at the impact of the business community on political decision-making by observing the economic structure of society, translating this into corporate control of resources and then using this information as a variable in models of political outcomes.

The first stage of this methodology is to calculate the industry share controlled by the largest firms, usually a four firm concentration ratio (Grant 1997, p.454). The hypothesis that concentrated resources enhances organisational capabilities and improves the likelihood of political outcomes which are consistent with firms' interests is then tested against political outcomes. The most commonly used indicator of a beneficial political outcome is a lowering of tax rates since it is assumed that when firms pay more, it is improbable that their political influence is expanding (Jacobs 1988, p.854). Salaman agrees about the suitability of using tax rates as indicators of corporate power, but for different reasons, suggesting that because tax policies are examples of re-distributive policy arenas, class conflict and opposition to economic elite dominance are usually evident here. Thus, if the corporate sector is successful in obtaining its desired outcomes in this policy arena, *despite the contentious nature of such a success*, this will indicate corporate power even more forcefully (Salaman 1977, p.1035).

The hypothesis that economic concentration gives rise to greater political influence, as indicated by levels of tax, is usually tested using time series regressions. So, for example, one could take a measure of economic concentration in a sector in the years 1980, 1985, 1990, 1995 and 2000 then look at the tax rates levied against this sector for the same years. If the results show that in the years where economic concentration was greatest tax rates were lowest, then the hypothesis that economic concentration equals greater political influence will be proven.

Although such a methodology has a certain elegant simplicity, it nevertheless contains within it some questionable premises. Firstly, it is tacitly assumed that the major unit with shared interests is the narrowly defined industry rather than the capitalist class as a whole or individual corporations. The underlying assumption is that firms pursue only the parochial interests of their industry and ignore or actively oppose the legislative goals of other industries. This, it is argued, constitutes an unstated preference for a pluralist worldview with its corresponding emphasis on interest groups instead of class (Jacobs 1988, p.856).

A second difficulty with this methodology is that there is potentially a multitude of reasons why taxes could go up or down. Even if attempts are made to control for such exogenous factors in the research design, it nevertheless remains true that the researcher cannot know all of the additional reasons why tax rates fluctuate. It may be, for example, that the manufacturing sector has historically had low taxes levied against them for reasons of national development, but that a new change of government has brought a different perspective in this regard. Such a rigid methodology, attempting as it does to quantify the political power of business, will inevitably run into difficulties in a real world situation if only for the simple reason that social science research cannot operate within a closed system as research in the natural sciences can. Rather there will always be other factors at work, both known and unknown, which influence results in unpredictable ways.

Attributes of a firm derived from its market position undoubtedly can have an impact on the political power of such firms if only for the reason that the market leaders have more resources to finance political parties or figures (either legitimately or not) and to purchase expertise to generate information in the policy process and liaison agents to transmit this information to the relevant policy makers (Salaman 1977, p.1031). However, the ability of such a methodology to uncover the extent of business power in Indonesia is limited. For, although the issue of tax rates is as crucial to Indonesian businesses as it is anywhere, the 're-distributive policy arena' in Indonesia also includes a more direct struggle over government contracts, licenses and debt deals. There is little evidence of sectoral alliances between businesses in Indonesia where the influence of individual corporations on more particularistic issues is more keenly felt. In other words, such a methodology is not suitable for accessing the reality of corrupt exchange.

1.6.2 Policy Networks

In contrast to the above methodology, which attempts to measure the interaction between the state and the business community in terms of beneficial *outcomes* for business, this methodology looks instead at the *processes* by which business and the state interact. In other words emphasis is taken off corporate *control of resources* and replaced by an analysis of elite *behaviour*. However, it should be remembered that these distinctions are not absolute and a consideration of outcomes will inevitably be included in any analysis of processes of interaction whilst control of resources tends to determine, or at least benefit, participants in the policy process.

In order to study these processes of interaction the general concept of networks is utilised. Although there are as many different ways of using this methodology as there are writers on the subject, in general a research design would include first identifying organisations/elites who are attempting to influence policy in a specified policy domain. A sample based on the level of policy-making activity from these organisations/elites would then be taken before situating them in a network and following their progress in terms of their success in achieving their preferred outcomes. This can be done through interviews with participants and/or the collation of relevant media reports (Heinz 1990).

One of the most contentious issues within this general framework centres around the first step above of how to decide who to include in the network. Those with a pluralist view tend to concentrate on *participants* in decisions, whilst elitists use *reputational* analysis (Berg 1978, p.136). For those following the reputational approach two specialist journalists are first chosen for a particular policy field to nominate around twenty people who they regard as the most influential people in their field. The researchers then write to those nominated by the journalists and ask them in turn to nominate around twenty people who they regard as the most influential in their field. The snowball is kept rolling until a near-consensual list is arrived at, that is until almost no new names are being nominated. At no stage is any nominator shown lists prepared by anyone else (Muller and Headey 1996, p.138).

The pluralist view, concentrating on the actors involved in the making of important decisions, has been criticised for its case specific nature and its neglect of those dimensions of power involved in keeping subjects off the agenda of political decision-making altogether. On the other hand, the reputational approach has been criticised for focusing on presumed rather than actual power, and for beginning with a self-fulfilling prophecy in positing the existence of a power structure at the outset (Salaman 1977, p.1027).

The concept of networks can be employed to good effect in thinking about the actual process of policy-making. However, if used strictly, difficulties arise which stem mainly from its esoteric language and schemata. Many practitioners end up by plotting the networks they have discovered onto computers using graph theory or smallest space analysis which in practice means little to the uninitiated and at best describes frequency of contact rather than relations of power.

Focusing on the interaction between the business community and the state in the policy process may offer some insights into the power of business in relation to the state but it obviously does not provide any insights into the more informal nature of corruption. However, the network approach has also been used to identify the existence of a dominant segment of the capitalist class, which moves closer towards the idea of a favoured section of the business community found in analyses of Indonesia which emphasise oligarchic rule.

Here, networks are used to theorise the relations that exist *between* corporations, emphasising the social networks in which corporations are embedded through the study of interlocking directorships. An interlocking directorship exists when a particular individual sits on two or more corporate boards. The boards of large corporations include both internal executives and outside non-executives among their members with the outside directors including a number of public and political figures. Many hold only outside directorships, but others are internal executive officers (generally presidents or chief executives) of companies in which they have their principal business interest. Their directorships spread throughout the economy, and they form a business elite, an 'inner circle' of corporate decision-makers with power and influence across the business system as a whole (Scott 1991, p.182).

The best known proponent of research on interlocking directorships is Michael Useem whose work is limited to the U.S. In order to discover a network of interlocking directors, he first drew up a list of the directors of 800 of the largest U.S. corporations in a particular year. The identities of over eight and a half thousand directors of the 800 corporations were then compiled from standard sources enabling the identification of those individuals who held two or more directorships among the 800 firms (Useem 1979, p.558).

The resultant data highlights the existence of a dominant segment of the capitalist class which can then be used to explore the link between, for example, interlocks and political donations (Koenig and Gogel 1981 in Scott 1991, p.189), interlocks and corporate profitability (Burt 1983, Richardson 1987 in Scott 1991, p.189) or interlocks and business crises (Glasberg 1981 in Scott 1991, p.189). Useem most famously used his data on corporate interlocks to find the involvement of the 'inner group' in the governance of other institutions such as government advisory bodies and business associations (Useem 1979, p.559).

Potentially such research has the ability to uncover both a dominance by business people of positions of governance and also the existence of a certain degree of class unity. However, it could be argued that a dominance of business people in positions of governance can only be proven if a comparison is made between business involvement and involvement by other sections of society in governance. Similarly, class unity cannot be presumed as there is no indication of agreement between the 'inner group' on the issues raised in these institutions. It should also be cautioned that overrepresentation of inner group members in governance does not automatically imply that they are decisively shaping the policies of the subject institution. For, as Useem himself recognises, power cannot necessarily be equated with participation, although there is usually a strong relationship between these analytically separable dimensions (Useem 1979, p.568).

These network methodologies were all developed for use in the U.S. and have limited value when translated into the Indonesian context. For example, there is a much higher incidence of owner-managers in Indonesian corporations than there is in the U.S., so that directors of Indonesian corporations are less likely to be in complete charge which means that they do not hold as much significance as in the U.S. Another difficulty is that in Indonesia most business power is expressed through the attainment of state privileges rather than any involvement in forums such as government advisory bodies. Finally, and most seriously, an elite class of Indonesian business people is not derived from *private* sector co-operation ('interlocks') but rather from *business/state* co-operation. Basically, the use of both corporate and policy network methodologies in the Indonesian context would lead the researcher to search for indications of the business/state relationship in precisely all the wrong places.

1.6.3 Measuring Structures of Power

The structural power thesis states that business is in an inherently privileged position in relation to the state compared to other interest groups because state officials need to maintain business confidence to keep the economy and ultimately the nation-state from collapsing. But how can the structural power of business be measured?

Attempts to measure the less visible face of power have ranged from Bachrach's theory of nondecision-making power (the capacity of groups to restrict the scope of decision-making) to 'anticipated reactions' (*A* may influence *B* because *B* is fearful of the reactions of *A*) to 'potential power' (Stone 1980, p.979). But, as critics have pointed out, it is simply not possible to study non-events.

Clarence Stone distinguishes these attempts from his own attempt to study systemic power by stating that systemic power is purely situational. He argues that in order to study systemic power its consequences can be observed since,

> systemic features impinge on the behaviour of official decision-makers and that impingement can be translated into power terms by means of the concept of 'opportunity costs'...If some actors encounter less resistance than others, they must expend fewer resources to achieve their goals - in short their opportunity costs are lower...Because system features predispose officials to favour some interests and to oppose others, those system features lower the opportunity costs for some groups while raising them for others (Stone 1980, p.981).

In other words, 'the weak must struggle while the strong have only to ask' (Stone 1980, p.981). However Stone's attempts to further develop these ideas into concrete methodologies never really amount to anything more than a vague idea that the behaviour of public officials should be examined. How far the behaviour of public officials can be attributed to structural (or in the lexicon of Stone 'systemic') power is never really explained.

Looking at the problem from a different angle, many researchers have provided some indirect evidence for the structural power argument by looking at the importance of 'economic voting', that is asking voters how important the economy is in casting their votes. But herein lies the fundamental problem of those who argue from the structural point of view: keeping business happy is only one dimension of running a functioning economy and as such the two cannot be directly equated.

Perhaps the most compelling approach to the problem of how to study structural power is provided by Mitchell who contends that:

> the connotation of structural power is that it has an impersonal and constant quality that operates independently of other dimensions of

> business power. However, accepting governments' general predisposition to improving or maintaining business confidence, the measures that governments need to take, or the actions they should avoid, to achieve these goals, are not self-evident. They must be communicated to government officials, and officials must make choices in the context of their own economic-theoretical assessment of the policy problem. Business lobbyists and economists represent the 'structural power' of business in the arguments that they make to policy-makers, and in this way governments gather information relevant to anticipating the impact of their decisions on business decisions (Mitchell 1997, p.5).

In general, there are enough difficulties in measuring readily observable dimensions of power in terms of data availability without trying to measure invisible dimensions. As such, these attempts to measure the structural power of business have not developed far enough to even be considered a methodology, let alone examine its relevance to Indonesia.

1.7 Methods and Sources used in this Thesis

The above methodologies have the limitations of only being concerned with the influence of business on state decisions over policy and are thus unsuitable to provide insights into the sort of complex interactions between the state and the business community which give rise to corruption in Indonesia. Because the scope of this thesis is so wide, covering many different sectors and constituents, the methods used for the collection of data do not add up to a single methodology such as those outlined above but rather draw on many diverse sources is a less rigidly stylistic way. Such an approach is perhaps less scientific, leaving as it does much more room for both the interpretation of the data and its organisation into meaningful narratives. Nevertheless, a topic as broad and complex as corruption would be badly served by anything other than the widest possible selection of materials.

As such, the methods used in this thesis were designed to access both qualitative and quantitative types of data in order that a degree of triangulation could be achieved wherever possible to ensure reliability and validity. Most of the information presented in this thesis was obtained from archival research of printed media, but this was enriched by interviews, official documents and, for the chapters on business associations, a postal survey. Each will be dealt with separately below.

1.7.1 Printed Media Archives

Magazine and newspaper articles are the main sources of information on corruption in Indonesia. The public exposure of journalists gives them a large supply of informants and necessitates that they handle data carefully in order that they are not later sued (Andvig 2000, p.36). However, there are also a number of quite substantial biases inherent in an exclusive reliance on the print media. The media tend to concentrate on the more spectacular stories of corruption and often report only on initial accusations without any depth of analysis or even following up the progress of investigations. In part, this is a reflection of the reality of the public exposure of corruption in Indonesia where accusations are often made by opposing groups of political elites for short-term political gains.

Another serious drawback to using media reports is that the number of stories on corruption are not likely to be determined only by how many stories that exist out there, but is also a question of press freedom, the market for corruption stories, journalistic professionalism and resources available (Andvig 2000, p.37). Immediately following Soeharto's resignation in Indonesia, the press was filled with reports on Soeharto family corruption, attesting to the sensitivity of corruption reports to the freedom of the press. Whilst this meant that there has been an upsurge in information available on corruption through the press in recent years, it also tends to lead researchers to automatically conclude that there has been an *actual* rise in corruption.

However, with these caveats in mind, media reports are really the only way to gather large volumes of detailed information on corruption and business/state relations which can offer a semblance of nation-wide patterns. In an environment such as Indonesia's, where events quickly overtake each other, gathering articles from the press can also be the only way to obtain information which has not yet been picked up by secondary reports.

I decided early on in the research design for this thesis that reports in the Indonesian media were a crucial source of information which meant that it was necessary to first learn Indonesian. For, although there are some excellent English language newspapers and magazines in Indonesia,[11] the quality of detail in the Indonesian press cannot be matched. Arriving in Indonesia without any contacts also meant that the Indonesian press became a source for the names of people who would later become key informants for interviews. The newspapers and magazines consulted for this research are listed in the bibliography.

1.7.2 Interviews

The types of interviews conducted for this research were both semi-structured and unstructured. Lists of potential interviewees were gathered from press articles, conferences attended, as authors of reports by international institutions or official lists of Indonesian government employees. Depending on their area of expertise, interviews were then conducted using several sets of relevant questions which were asked in roughly the same way each time. However, there was a good deal of flexibility in these questions, allowing for further probing where appropriate.

The types of respondents varied widely from Kadin and sectoral business association staff, government officials of SOEs or government departments, employees of Indonesian NGOs and research organisations, Indonesian academics and employees of international business consultants and international

[11] *The Jakarta Post* is a solid daily newspaper in English and the weekly news magazine *Tempo* now publishes an identical English language version.

institutions such as the ADB, World Bank and the IMF. Following Manheim et al (2001) these could be termed 'elite interviews' where 'their elite status depends not on their role in society but on their access to information that can help answer a given research question' (p.320). However, none of the interviewees were elites in the broader definition of the term in political science, ministers or top businessmen for example, whose contact details were difficult to find or who declined to be interviewed when contacted.

Interviews were conducted from October 2001 to June 2002 in Jakarta. Around 45 semi-structured interviews were recorded and later fully transcribed, with a further 29 non-structured interviews which could be regarded more as leads to other sources of information rather than as interviews. Around a third of the semi-structured interviews were conducted in Indonesian. Qualitative interviews of this nature have the benefit of allowing the interviewer to observe both the verbal and non-verbal behaviour of the respondent as well as allowing a higher degree of mutual understanding of the meaning of questions and answers. This is especially important when researching the sort of highly polemicised issues found in a treatment of business/state relations, as a number of the respondents gave indications of being disingenuous in their answers which could only be detected in personal interviews. These interviews also allowed a deeper treatment of topics which were sometimes dealt with in a cursory way by the Indonesian press.

Although only a handful of respondents asked that they remain anonymous, interviewer sensitivity and respondent confidentiality is an obvious issue when dealing with research on corruption. In view of this, respondents' anonymity has been preserved in more cases than was actually requested. A list of interviews is included as Appendix One.

1.7.3 Official Documents

A wide range of documents from various government sources were also consulted for this thesis. The staff at Kadin were very helpful in providing documentation as were the anti-monopoly commission and Indonesian National Office of Statistics (BPS). The Department of Public Works, Bappenas, the Department of Trade and Industry and the Department of State Owned Enterprises were amongst those other government agencies which were prepared to provide assistance in a search for relevant information. In terms of state-owned enterprises, Pertamina was the most accessible, Bulog moderately so and Jasa Marga the least. Extraordinarily, the State Audit Agency, the BPK, does not allow the public to view the audits placed in their library.

Reports from international institutions provided rigorous and detailed information on many aspects of this thesis, most of which are easily accessible from the internet. In Jakarta, the libraries of the World Bank (WB) and the Asian Development Bank (ADB) were a useful source of reports, although some of the project documents from the ADB were off limits to the public. In contrast, it took a great deal of effort to even find the address of the IMF in Jakarta, let alone gain access to their archives.

Indonesian NGOs and research institutes are increasingly at the forefront of research into the topics addressed in this thesis and were invariably extremely helpful in the provision of final reports and other documentation. In contrast, there are a few business research organisations whose output is prohibitively expensive for ready consultation; however many such publications can be found in business libraries across Jakarta, such as the small but comprehensive collection at the British Chamber of Commerce in Jakarta.

Total reliance on any one document from the organisations reviewed above would inevitably create biases arising from an organisation's particular remit or basis of funding. However, generally these are biases in the *scope* of an organisation's output rather than the *quality* of information presented.

1.7.4 Postal Survey

A mailing of self-completion questionnaires was conducted in February 2002 to Indonesian business associations. This method was used in order to cover as wide a range of business associations as possible since time constraints precluded individual interviews with the same size of sample. The use of questionnaires also opens up the possibility of a more sophisticated statistical analysis of the data gathered and allows a more objective collection of data in the absence of interviewer bias. This point is made by May who maintains that questionnaires are more objective since:

> if all respondents are asked the same question in the same manner and if they express a difference in opinion in reply to those questions, then these variations result from a true difference of opinion rather than as a result of how the question was asked or the context of an interview' (May 1997, p.84).

Designing the questionnaire was a long process that began in July 2000 with my attendance at the Essex summer school in survey methods and also included much background reading on the structure, wording and style of surveys in general as well as learning from other surveys aimed at the same sort of potential respondents.

In the end 46 completed questionnaires were returned. The process of obtaining these responses is detailed below:

- A database of all known business associations in Indonesia was compiled from any lists that could be found. In the end, the database contained 390 entries for business associations and groupings of entrepreneurs, including some co-operatives. The main sources for the database were:

✓ Richard Mann (1999), *Business in Indonesia,* Indonesia, Gateway Books
✓ The Jakarta *Yellow Pages*
✓ Official Kadin List of Business Associations from Kadin office, dated 10.8.01
✓ *Indonesian Business Associations* (1998), Asia Pulse from World Reporter at: Http://www.asiapulse.com/

- ✓ DTI (UK), *Indonesian Trade Associations 1995/96*
- ✓ Masindo (2000), *Associations and NGOs in Indonesia,* Jakarta, Masindo
- ✓ Kadin, *Kadin Indonesia Directory 2001 – 2002,* Jakarta, Kadin
- ✓ *Business in Indonesia 2000-2001* (document from The British Chamber of Commerce in Jakarta)
- ✓ Interview with Amrir Kotto, *Departmen Perindustrian dan Perdagangan, Direktorat Bina Usaha dalam Negeri.* Mr Kotto is in charge of maintaining the registration of BAs for the government.
- Each of the 390 entries into the database compiled was then contacted by phone. Out of the 390, only 232 could be contacted to confirm their address and name of the present Chairman. 25 organisations whose addresses could not be confirmed by phone were then added to this figure, resulting in a mailing of 257 questionnaires in total.
- Follow up/reminder calls were then made one week later to those BAs which had not yet replied. 49 of the 257 reported that they had not received a copy of the questionnaire. These 49 were then re-sent using a private courier to avoid the inconsistencies of the Indonesian post office.
- Statistical analysis of the completed questionnaires was carried out using SPSS.

Despite these efforts, the response rate of 46 seems low but a few words can be said in mitigation. Firstly, in separate interviews three Kadin employees and one independent researcher who had been involved in a recent project on business associations (BAs) estimated the number of *active* BAs in Indonesia to be from 100 – 160. In view of this, 46 completed returns represents a sizeable proportion of all Indonesian BAs. Secondly, the only comparable survey of BAs is that carried out by Anek Laothamatas in 1992 for Thailand which received 56 responses, only slightly higher than the amount obtained here. A copy of the questionnaire and covering letter can be found in Appendix Two in both English and Indonesian.

1.8 Conclusion

This review of the literature surrounding corruption between business and the state has provided some useful points of departure in answering the major questions of this thesis. It was found that the Indonesian state has been defined variously as unreified, a cohesive actor in its own right or as neutral but in the hands of a 'ruling class'. On the other hand, definitions of Indonesian business have varied from business groups to a broad class to a select few conglomerates.

Definitions of Indonesian business based on *aliran* (ethnic or religious identity) were also touched on. Throughout the rest of this thesis, these definitions will be tested against the empirical data gathered at the sites of grand corruption in government contract allocation, business associations and debt negotiations to find evidence of changes in how business and the state can be defined in the post-Soeharto era.

The terms in which political and economic processes in Indonesia are currently analysed were also touched on. Here, it was found that the social conflict approach to analysing the political and economic changes which are presently underway in Indonesia has the most resonance for this thesis since deeper explanations of change than those provided by the neo-liberals or institutionalists will be sought throughout. However, it was also concluded that social conflict theory's exclusive focus on class at the expense of ethnicity and their underestimation of the effect of institutional change on Indonesia's power structure are two areas which need further refinement.

In terms of another major question of this thesis, patterns of post-authoritarian corruption, the literature suggests that corruption initially expands before democratic checks and balances are embedded, but does not attempt further clarification of new sites or actors in corruption. In order to fill in these empirical gaps, the following chapters will highlight any new information of relevance. Staying with new patterns of corruption, the informal exercise of power found in clientelist interpretations will be built on in this thesis by adding the variable of institutional change. Similarly, the idea of ethnicity as a non-market allocative mechanism of corruption will be taken up in this thesis and expanded to include the conditions under which such a situation occurs.

Finally, theorists of corruption have forwarded many different explanations of the causes of corruption. A 'democratic deficit' (Amundsen 1999), a lack of modernisation (Myrdal 1968), economic undevelopment (Treisman 2000) or cultural obligations of mutual assistance (Sissener 2000) have all been suggested as broad determinants of the existence of corruption. From this chapter, it was also seen that too much state involvement in the economy, not enough state/business autonomy and a particularly 'relational' or co-optive type of capitalism are also implicated in the prevalence of corruption. Bearing in mind that the causes and effects of corruption can rarely be separated which means that correlations rather than causes are in fact being talked about here, this thesis will contribute to this debate by highlighting the role that 'delayed capitalism' plays in the existence of corruption.

Chapter Two

GOVERNMENT PROCUREMENT

2.1 Introduction

Since independence, the allocation of government contracts to private business has been a major source of corruption in Indonesia. Although there is a widespread perception that the government mega-projects of the Soeharto era have declined, overall levels of government procurement remain high, with the government spending an estimated US$ 6.1 billion on procurement nation wide in 2001 (Asian Development Bank 2002a, p.5).

Since the resignation of Soeharto there have been some substantial changes in patterns of procurement as new decentralisation laws have enabled the regional administrations to gain a higher share of government spending relative to that of the central government (World Bank 2003, p.2).[1] There has also been rapid institutional change in the procurement regime with the introduction of new laws and regulations aided by a strong donor commitment to reform. At the time of writing, a new law aimed at encompassing all government procurement and creating a single oversight body is in its pre-drafting phase.[2] In the meantime, there are a number of often contradictory and overlapping laws and regulations governing procurement and, following the dissolution of WASBANG in May 1998, there is no longer a central oversight body for procurement policy and compliance.[3]

So far, the most significant reform of government procurement in the post-Soeharto era is *Keppres 18/2000* (Presidential Decree) which was preceded by *Keppres 16/1994*. The effect of the new decree on the business association community is

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[1] This point was also made in an interview with Graham Rettke (12.4.02).
[2] Including one year to be debated by parliament, it is estimated that this law may be in operation by around 2006 (interview with Stuart Andrews, 26.4.02).
[3] WASBANG was a state-run body located within the Ministry of Economic Co-ordination. The dissolution of WASBANG is mentioned in World Bank (2001), p.17. Other procurement oversight bodies which have come and gone in the post-Soeharto period are *"Lembaga Pengembangan*

examined further in Chapter Three, but for the purposes of this chapter its significance can be found in the decentralisation of state authority to grant contracts. As Table 2.1 below shows, project managers, ministers, governors, mayors and SOE executives all now have more sole responsibility in allocating government contracts than they did under the previous decree. Even taking into account the devaluation of the rupiah since 1994, the rise in the worth of contracts which various levels of authority are permitted to grant without the requirement to refer to higher authorities is quite substantial.

Table 2.1 Responsibility for Authorisation of Public Procurement: A Comparison of Keppres 16/1994 and Keppres 18/2000

	Keppres 16/1994	Keppres 18/2000
Head of Office/Project Manager	Up to Rp5 billion.	Up to Rp50 billion, no approval from Ministers.
Minister	Rp5 billion – Rp10 billion. Over Rp10 billion requires approval from EKUIN/WASBANG.	Over Rp50 billion.
Governor	Rp2 billion – Rp5 billion. Over Rp5 billion requires approval from Minister of Home Affairs. Over Rp10 billion requires approval from EKUIN/WASBANG.	Over Rp50 billion, no approval from Minister of Home Affairs.
Regent/Mayor	Up to Rp2 billion. Over Rp2 billion requires approval from Governor. Over Rp5 billion requires approval from Minister of Home Affairs. Over Rp10 billion requires approval from EKUIN/WASBANG.	Over Rp50 billion , no approval from Minister of Home Affairs.
SOE Board of Directors	Up to Rp10 billion. Over Rp10 billion needs approval from EKUIN/WASBANG.	Over Rp50 billion, no approval from Minister of Home Affairs, Regents or Governors.

Notes: Rp 1 billion = US$ 100,000
Sources: Keppres 18/2000, Chapter II, Paragraph 5, Article 11; Office of the Co-ordinating Minister for the Economy, Finance and Development Supervision, *An Overview of the Indonesian Procurement System*, 21.10.96, p.16-18.

Kebijakan Pengadaan Barang dan Jasa Pemerintah" under *Bappenas* and BP4S-PU under the Department of Public Works.

Within this general framework of the redistribution of state authority over procurement, this chapter will examine more specifically the allocation of government contracts in three important sectors: oil, electricity and forestry. A brief background sketch of each sector will give way to a consideration of the structure of contracts between the state and private business before and during the Soeharto period. Finally, post-Soeharto changes will be explored in terms of processes of contract allocation and final beneficiaries. Only then will it be possible to engage in some of the theoretical concerns of this thesis in relation to the approaches of the social conflict theorists, institutionalists and the neo-liberals. For example, it will become possible to provide evidence for the proposition that institutional change has a very real impact on the composition of interests as well as bringing attention to the way in which international interests benefit from anti-corruption measures and deregulation in general. The role of ethnicity in considerations of the distribution of wealth will also be highlighted throughout this chapter as a step towards a greater understanding of the way that ethnicity interacts with class.

2.2 The Oil and Gas Sector

If politics is fundamentally a struggle over the control of resources, nowhere in Indonesia has that struggle been more obvious than at Pertamina, the state oil and gas company. Since the early days of its exploitation, Indonesia's oil and gas reserves have been a crucial economic resource with oil and gas output accounting for 42 percent of Indonesian domestic revenues and 48 percent of all export income in 2001.[4] Vast amounts of money flow through Pertamina with an average of US$ 6 billion per year contributed to state coffers from Pertamina's operations.[5] This means that control over and access to these funds has in the past, and will continue to be, a major source of political contention.

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[4] *The Jakarta Post*, 29.10.01.
[5] *The Jakarta Post*, 29.10.01.

But Pertamina's significance in the Indonesian economy goes beyond its monetary value. More than any other state owned enterprise (SOE) it has attained a certain symbolism of Indonesian, as opposed to foreign, control of national resources. In other words, the issue of who makes money from Pertamina is particularly sensitive to nationalist sentiments of developing a native or *pribumi* tier of companies that are able to develop and profit from the oil and gas sector. This last point should be kept in mind throughout a reading of this section as it provides the context within which Soeharto and his 'cronies' were able to legitimise their involvement in Pertamina's operations.

2.2.1 The Structure of Contracts at Pertamina

Up until 1951, Indonesian oil and gas were completely owned and managed by Dutch and American companies, which meant that the Indonesian government had no claim over any profits made. Throughout the 1950s and 1960s Indonesian SOEs gradually took over these individual foreign companies, and several reorganisations later Pertamina eventually emerged as an umbrella under which these state companies were unified. Over the period 1960 – 1966 contracts of work began to appear where ownership of the oil was returned to the state, but the management of the exploration and processing of oil and gas remained in the hands of foreign investors.[6]

Then in 1966 the production-sharing contract (PSC) was conceived and has remained the main type of government contract used in the oil and gas sectors today. Foreign companies continue to be crucial to Indonesian oil and gas exploitation because the sector depends on extremely complex technology, requiring huge levels of both investment and expertise, commodities which are at present more widely available from foreign companies.

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[6] *Indonesian Commercial Newsletter*, 23.11.98.

Under PSCs, Pertamina manages the operations of a foreign contractor but the contractor is obliged to provide all funds for operations, only recovering its start up costs after commercial production begins. Most PSCs last for 30 years and the profit-sharing split is on a net income basis of 85/15 (government/ contractor) for oil, and 70/30 for gas (U.S. Embassy 2001). Another aim of PSCs is to promote the use of Indonesian firms through a clause compelling all oil and gas foreign companies working in Indonesia to use a minimum local content of 35 percent of goods and services in their activities. However, in practice the local content figures are far below this, usually ranging between 10 and 20 percent. The PSCs also carry a stipulation that Indonesian companies be used in any domestic trade by foreign companies such as the sale of petroleum equipment or services.[7]

Thus, co-operation with foreign firms means that the Indonesian government can still gain a substantial share of the profits from oil and gas without having to find initial investments. However, the contract stipulations surrounding the level of local content in oil and gas projects highlight the fostering of domestic involvement in the sector as an additional government aim. Many might question the efficacy of such schemes in principle, arguing perhaps that the best way to foster domestic business is through the provision of better education, infrastructure or similar less direct approaches. Nevertheless, such pro-*pribumi* schemes find support in Indonesia because they address the very real domination of ownership in the oil and gas sector by foreign firms.

Corruption occurred through these schemes as the general class of Indonesian companies which were supposed to be fostered in practice became conflated with companies owned by those close to Soeharto and especially his children (See Table 2.2). The scale of corruption at Pertamina can be inferred from a 1999 PriceWaterhouseCoopers (PWC) audit which calculated that in the two years covered by the audit (1996-1998), an astonishing US$ 6.1 billion was lost through

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[7] *Indonesian Market Profile: Oil and Gas*, http://www.goldglobal.com/data/oilgas.html.

'inefficiencies'.[8] The forms which corruption took at Pertamina ranged from fees to sales intermediaries who were not in fact needed, to mark-ups in the costs of refinery construction to the granting of exclusive exploitation permits. In exchange, PWC estimated that Pertamina officials pocketed around US$ 128 million in commissions from collaboration with Soeharto-connected companies from 1996 to1998.[9]

Table 2.2	Soeharto-Linked Partners of Pertamina		
No.	**Owner**	**Company**	
		Number	**Percent**
I. Individuals		65	47%
1	Bambang Trihatmojo	22	16.0%
2	Hutomo Mandala Putra (Tommy)	16	11.5%
3	Siti Hardiyanti Rukmana (Tutut)	7	5.0%
4	Sudwikatmono	5	3.5%
5	Siti Hediati Haryadi Prabowo (Titiek)	3	2.0%
6	Ari Haryo W. (Ari Sigit)	4	3.0%
7	Siti Hutami Endang Adiningsih (Mamiek)	3	2.0%
8	Probosutejo	2	1.5%
9	Mohammad 'Bob' Hasan	2	1.5%
10	Indra Rukmana	1	1.0%
II. Soeharto Relatives and Business Partners		43	31%
III. Consortiums		27	19%
IV. Other		4	3.0%
Total amount of Pertamina's Partners		**139**	**100%**

Source: From various sources, processed by *Prospek's* research department (*Prospek*, 6.7.98).
Explanatory notes: *Consortium* relates to a grouping of Soeharto family, foreign, Pertamina and other known business partners; *Other* is given where there are no known relations with Soeharto.

2.2.2 Post-Soeharto Reforms

On the 21st of May 1998, after months of political uncertainty and weeks of student protests, President Soeharto resigned. The country was racked by fears of instability and no-one could yet be sure what the future held; the new President Habibie may

[8] This figure was later revised down to US$ 4.7 billion after discussions with Pertamina who maintained that the difference between the two figures was due to discrepancies in accountancy terminology. It should also be noted that 'inefficiencies' cannot be directly translated as corruption, although corruption is considered one of the main causes of 'inefficiencies'. However, this figure still gives an idea of the scale of abuses at Pertamina.

[9] *Far Eastern Economic Review*, 30.5.02.

not be accepted, there may be a military coup, massive street protests could continue. Yet, under these circumstances, just four days after Soeharto's resignation, the Minster of Mines and Energy announced that two notoriously inefficient contracts between Pertamina and two Soeharto children were to be reviewed.[10] In a matter of weeks after this Pertamina began to announce its own audit of contracts suspected of containing elements of corruption. A good deal of publicity was created around these announcements which eventually resulted in a list of 159 contracts between Pertamina and Soeharto-related companies which were thought to be corrupt.

To be sure, Pertamina has gone further than any other SOE in its attempts to rid itself of corruption. It has not only released relatively systematic details of specific contracts involving the Soehartos, but has also been forthcoming with estimations of how much the cancellation of these contracts will save Pertamina. However, many have questioned why the audit only concentrated on Soeharto companies and why there has, until now, been no systematic data released to the press on the progress made in cancelling these corrupt contracts. At times Pertamina officials have been very candid in discussing contract details, whilst at other times refusing to elaborate on even the names of the companies involved.

Some sources suggest that the majority of the questionable deals have been cancelled[11] but others are more cautious.[12] In November 1998, it was reported that 32 of the 159 contracts had been cancelled,[13] in February 2000 this had risen to 59 cancellations[14] and by May 2000 it was reported that 82 had been cancelled, 26 renegotiated and 51 left to proceed as there were no irregularities found.[15]

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[10] The contracts are between Pertamina and Perta Oil Marketing and Permindo Oil Trading, See *The Jakarta Post*, 29.5.98.
[11] For example, IMF; *Tempo*, 18.2.02; *The Jakarta Post*, 12.8.99; *Indonesian Commercial Newsletter*, 23.11.98; Interview with Ibrahim Z. Fahmy (October 2001).
[12] For example, *Tempo*, 5.3.01; *Warta Ekonomi*, 4.8.98.
[13] *Indonesian Commercial Newsletter*, 23.11.98.
[14] *Prospektif*, 7.2.00.
[15] *The Jakarta Post*, 3.5.00.

My own detailed analysis of all the information reported in the Indonesian media over a period of 3 years from 1998 to 2001 shows that 125 out of 162 Soeharto-related contracts at Pertamina have been cancelled (see Appendix Three). Despite the reliance of this data on unidentified and sometimes contradictory sources, it nevertheless indicates something of the complexity of the negotiations at Pertamina. Appendix Three shows that at least sixteen of the 125 cancellations were for projects which had just made the proposal stage and a further seven had been completely finished for some time anyway. Six of the cancelled contracts were partner buyouts where the original foreign partner of a Soeharto company was asked to buy out the Soeharto shares to proceed with the contract.

These last six caused some strident debate between various sections of the state concerning the high degree of foreign ownership left in these projects which indicates that there is still a good deal of commitment in political circles for the inclusion of *pribumi* partners in Pertamina. Towards the end of 1998 the Minister for Mines and Energy released a number of statements calling for foreign partners to buy back Soeharto partner-company shares as Pertamina did not have the financial resources to do so themselves. He later amended these statements to include requests that these foreign companies should not pay their Soeharto company partners for their shares but rather redirect their payment towards the government or otherwise sell them on to other local companies. Although it seems that in the end many of the foreign companies have acquired 100 percent ownership and have not included other local companies, there was a good deal of pressure on the Minister of Mines and Energy from the DPR Commission V assigned to oil and gas issues to make sure that this would not be the case.[16]

Given that well-known Soeharto-related companies have become very conspicuous in the post-Soeharto era, it may seem like a relatively simple task to root out their involvement from Pertamina activities. But it is not. For example, some of the

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[16] See *Suara Pembaruan*, 10.10.98; *Bisnis Indonesia*, 24.11.98; *Bisnis Indonesia*, 10.12.98; *Kompas*, 10.12.98.

Soeharto companies entered into partnership with Pertamina quite legally through the Jakarta Stock Exchange[17] and some through open tenders. It seems that the government attitude to Soeharto companies involved in Pertamina is that if their contracts can be renegotiated in light of new open tenders for the same projects, then these companies should be kept on.[18] In other words many of the better-run Soeharto companies will have their special facilities taken away but will remain operational within Pertamina.

Another complication is that if contracts are not proven in a court of law to have been involved in corruption or nepotism then any company whose contract is cancelled unilaterally by Pertamina has the right to claim compensation from Pertamina for the capital they have already invested.[19] It is extremely difficult to prove nepotism in the courts under the best of circumstances, but when the extremely corrupt nature of the Indonesian courts are taken into account, it seems like an impossible task. Indeed, until the promulgation of the 1999 corruption law there were not even any provisions in the previous corruption law for prosecuting nepotism and, in principle, laws cannot be applied retrospectively.[20]

As with the many thousands upon thousands of incidences of corruption across the whole of the Indonesian economy, the legal process to convict for corruption at Pertamina has been slow, incoherent and practically non-existent. Until the middle of 2002, out of the 159 cases of corruption suspected at Pertamina, 23 have been forwarded to the Attorney General's Office and out of those 23 only nine have so far entered the stage of criminal investigation. Out of those nine to have reached the stage of criminal investigation, four relate to a set of projects which were already cancelled as far back as 1995.[21] Pertamina has announced that if no evidence can

[17] Bimantara through PT Elnusa is one such example, in *Tempo*, 11.9.00.
[18] *Kompas*, 13.6.98.
[19] *Koran Tempo*, 11.10.01.
[20] Interviews with Arya Dwi Paramita (12.12.01) and Adiatma Sardjito (20.2.02).
[21] The companies involved are: PT Ustraindo Petrogas Pendopo; PT Ustraindo Petrogas Prabumulih; PT Ustraindo Petrogas Jatibarang; PT Ustraindo Petrogas Bunyu.

be found of losses to the state then the contracts are technically allowed to proceed without revision.[22]

Thus, it seems that the majority of the 159 contracts which were suspected of containing elements of corruption at Pertamina have been either cancelled or renegotiated. This indeed represents a significant achievement even if it is recognised that the figure of 159 probably only represents at most three-quarters of the total amount of corrupt contracts at Pertamina. It should also be noted that many of the companies affected by cancellations were companies which were so indebted as to be close to collapse anyway and whose external sources of foreign finance had already dried up. In other words, the cancellations are as much a result of the economic crisis and the withdrawal of foreign funds as any substantial shifts in policy towards the Soeharto-related companies. Even if foreign companies cannot be said to have been actively involved in corruption, this point nevertheless highlights the pivotal role that foreign involvement in the economy has played in systems of corruption. However, with or without foreign involvement, many of the stronger Soeharto-related companies will retain their contracts at Pertamina albeit without the special facilities which they had previously enjoyed.

Another reason why a clean-up at Pertamina has been relatively successful is because of the installation of genuine reformers into the top jobs of Pertamina director and the Minister of Mines and Energy. In the post-Soeharto period so far, Habibie, Wahid and Megawati have had a relatively strong presidential commitment to reform at Pertamina. Across all sectors of the economy, who becomes the head of large state firms is often the result of political horse-trading between political parties at the DPR who promise the President support on other issues if their preferred candidate is chosen. It is often alleged that this enables an indebted candidate to then channel the proceeds of corruption to the political party that helped put them there. In this context, it is nothing short of miraculous that a widely respected professional, Baihaki Hakim, has survived as director of Pertamina

[22] 'Jangan Memvonis', *Bulletin Pertamina*, Http://www.pertamina.com.

throughout not only several changes of cabinet but also the transition from President Abdurrahman Wahid to President Megawati.

However, all of these changes in Pertamina are fairly *ad hoc* and vulnerable to sudden swings in political fortune and it is important not to confuse the freezing-out of one section of the business community (Soeharto-related companies) with potentially long-term change in the system of political and economic power. It is important therefore, to also consider change in terms of control over the decision-making process at Pertamina.

In 1996 Pak Gandhi, the then head of the state audit agency (BPKP), had a meeting with President Soeharto to explain the results of a recent audit of Pertamina. In the meeting Pak Gandhi brought up some findings which showed that Pertamina was losing millions of dollars per month by employing two companies to act as agents for the import and export of crude oil. Pak Gandhi later related that in response, President Soeharto told him to forget about it, that it was 'his responsibility'.[23] The companies were owned by two of Soeharto's children.

Even though it could be argued that it is in the interests of such employees to relate stories illustrating Soeharto's ultimate responsibility for decisions on contracts, there are too many similar reports to ignore such a perspective. It is generally acknowledged that neither Pertamina officials, ministers, DPR members or extra-state constituents had the authority to get involved in many aspects of decision-making at Pertamina, from the most general strategy to detailed negotiations of contracts.[24] Regulations concerning accountability for decision-making at Pertamina certainly did exist but were regularly flouted. Some recent corruption investigations have illustrated this point as the previous Minister of Mines and Energy, Pertamina's director and the Co-ordinating Minister for the Economy fight

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[23] *Kompas*, 5.6.98.
[24] See, for example, *Tempo*, 8.10.01.

in court over who can be held responsible for the authorisation of some of Pertamina's past projects.[25]

But today, the situation is very different, reflecting mostly an increased power of the DPR. Time and time again Pertamina directors as well as the Minister of Mines and Energy have been called to the DPR to speak in front of the Commission responsible for oil and gas affairs, often about very detailed aspects of individual contracts, which then get reported on extensively in the press.[26] Where in the past many of these kinds of decisions were made behind closed doors amongst the most powerful bureaucrats and Ministers, now some of this information is more widely available to sections of society beyond the elite.

One of the most contentious debates to take place in the legislature over Pertamina has involved a new law covering deregulation in the entire oil and gas sector. This law's history is a reflection of the controversial nature of its contents. It was first presented to the then President Soeharto in 1995 but was shelved until the Habibie government took it to the legislature in 1999. After seven months of debate in a legislature that was appointed in Soeharto's time, it was finally rejected. After the general election of 1999 it was again tabled for debate where its progress was repeatedly hampered by allegations of Pertamina officials buying legislators' compliance and encouraging them to stall the final vote.[27] Despite last minute protests from some of the legislators, however, the law was finally passed in October 2001.

This law has two main purposes. The first is to eliminate Pertamina's monopoly on the downstream sector which basically means that foreign companies are now able to have more control over their investments in refineries and can also sell the resulting fuel themselves instead of having to go through Pertamina. The second

[25] *Tempo*, 27.11.00.
[26] For example, see *Merdeka*, 2.7.98; *Suara Karya*, 27.5.98; *Kompas*, 23.9.98; *Warta Ekonomi*, 5.10.98; *Warta Ekonomi*, 15.2.99.
[27] *Warta Ekonomi*, 27.9.99.

purpose of the bill is to strip Pertamina of the right to award contracts and regulate and manage oil and gas contractors which is now in the hands of two newly created regulating agencies under the auspices of the government. Thus, Pertamina's previous control over the production and distribution of oil has been handed in part to foreign companies and in part to new agencies under the Ministry of Mines and Energy.

Another change to decision-making procedures at Pertamina will be instituted through this law in a clause bringing Pertamina's status into line with other SOEs in Indonesia. The previous law, which had regulated Pertamina since 1971, gave Pertamina a special status of something between a government body and a company, blurring the lines of accountability and enabling Soeharto's interventions. Now, Pertamina is set to become a limited liability company which will bring it under the control of the Department of SOEs. This in turn means that the selection of the directorate of Pertamina should become more regularised, following the same rules as other SOEs where a general meeting of shareholders, amongst other things, may determine who is appointed.[28]

Thus, there have been many ostensible reforms surrounding Pertamina's operations that are designed to regularise contact between business and the state. An effort to clean out past corruption has taken place, information on contracts is more widely available and control over decision-making is shared between the legislature, the Ministry of Mines and Energy, the Ministry of SOEs, Pertamina and the President. For some types of decisions, control has left the state completely and is now in the hands of mostly foreign private firms. But does this mean that corruption has been 'institutionalised out'?

In answer to this question, it seems that the reforms themselves do not always mean as much as they profess to. For example, the heads of the new regulating agencies are picked by the President and can be removed by the President under a set of

[28] *The Jakarta Post*, 1.9.01.

rather loose criteria. Moreover, the appointment of the head of Pertamina may fall more clearly under the power of the same regulations for all SOEs, but in practice these regulations mean little as the heads of all the most strategic SOEs (known as 'wet seats') are always the result of political horse-trading in the legislature. Meanwhile the legislature may have a role in making information more accessible, but some parliamentarians have also been reported to be involved in brokering deals between big business and Pertamina.[29]

Thus, it seems that changes in the institutional landscape such as a newly powerful legislature, the installation of new oversight bodies and adjustments of Pertamina's position within the state system of accountability have not been wholly successful at eliminating corruption. Rather, the first indications are that such changes have led to a spreading of corruption to various different elements of the state. Meanwhile, on the business side of the equation the involvement of Soeharto-related companies in Pertamina's operations has declined effectively in favour of international business, who now have greater freedom from the intervention of the state as a result of the new oil and gas law.

Such freedom from state control may indeed see a decline in the involvement of domestic companies appointed by political power-holders to skim off profits from Pertamina and direct them towards individual state personnel. However, at the same time such legislation intensifies the same fears of foreign control of domestic resources which have been apparent from the very birth of Indonesia as a nation and in some cases the retention of Soeharto companies at Pertamina has been publicly defended by Pertamina officials as preferable to foreign control.[30]

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[29] For example, see *Prospektif,* 27.3.00.
[30] *Bisnis Indonesia,* 3.7.98.

2.3 The Electricity Sector: The Case of the Independent Power Producers

In 1994 President Clinton visited Jakarta for an APEC conference. Whilst attending the conference, he signed several deals to finance a new programme being developed by the Indonesian government to supply electricity throughout Indonesia. Whereas in the past funding for the development of the electricity sector was provided by the Indonesian government, this radical new programme handed over the finance, construction and operating responsibilities to the private sector for the first time.

Clinton gave his backing to finance one particularly big electricity project called Paiton I through the U.S. government's Export-Import Bank and a sister U.S. agency, the Overseas Private Investment Corp. The Indonesian company appointed to the project without tender was PT Batu Hitam Perkasa which received 15 percent of the project without itself making any investments. This company is owned by Hashim Djojohadikusumo, businessman, ex-minister of Mines and Energy and the brother of one of the Soeharto children's husbands. The foreign partner in this project was Mission Energy, a huge private U.S. company with close connections to the Clinton inner circle.[31]

Some analysts interpret this deal in the light of a separate scandal surrounding the illegal contribution of funds from a prominent Indonesian conglomerate to the Clinton campaign in 1992.[32] With such a precedent already set of the Clinton campaign receiving illegal payments from Indonesian conglomerates,[33] insinuations

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[31] Clinton's Secretary of State who accompanied him to the 1994 APEC Conference, Warren Christopher, later went on to become one of the board members of Mission Energy (*Wall Street Journal*, 11.2.04, *Wall Street Journal* 23.12.99). It has also been alleged that Mission Energy is a regular contributor to the Clinton campaign fund (see Charles Smith's extensive research on this topic at http://www.softwar.net/paiton). However, see also footnote 67 in regard to the truth of this claim.

[32] Mochtar Riady of the Lippo conglomerate was convicted of making illegal donations to the 1992 Clinton campaign in 2001 and ordered to pay a fine of US$ 8.6 million (*Wall Street Journal*, 1.12.01). Lippo was also involved in the financing of Paiton.

[33] There have also been investigations into the Indonesian Artha Graha Group, which is alleged to have paid illegal donations to Clinton's 1997 Presidential campaign (Aditjondro, G., http://www.unhas.ac.id/~rhiza/gja1.html).

regarding the propriety of the negotiations between the Clinton administration, private Indonesian and U.S. interests and the Indonesian government over Paiton I have become more significant. However, in the absence of incontrovertible proof, how far this represents the direct involvement of the Clinton administration in corruption over Paiton I must be left up to individual interpretation. In any case, it is publicly documented that one of the original financiers for Paiton, the Asian Development Bank (ADB), pulled out when they discovered that relatives of Soeharto were involved. But this apparently did not concern the U.S. Commerce Department who pressed ahead to find a new consortium of banks to replace the ADB.

In the wake of the economic crisis, the Paiton project turned out to be a disaster for Indonesia's electricity sector. The state-owned electricity company, PLN, was required under the Paiton contract to pay an extremely high price for the electricity produced by the private companies.[34] There is also evidence of a vast mark-up of an estimated US$ 600 million to US$ 1 billion[35] in Paiton's construction costs and a clause stipulating that PLN had to pay Paiton for electricity which they did not even use.

The Paiton story goes some way towards illustrating the nature of business/state relations in the electricity sector, highlighting especially the role played by some foreign interests in patterns of Indonesian corruption. For, all of the 27 private power projects in the Indonesian electricity sector grossly favoured the private consortia over PLN, leaving PLN with an astonishing debt of over US$ 7 billion and not even capable of undertaking standard maintenance work, let alone making new investments.[36] The next section will now examine more closely the nature of business/state interaction in this sector.

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[34] After the economic crisis, with the drastic devaluation of the rupiah, the sale price of electricity produced by the private projects reached three times the price of electricity produced by PLN themselves (*Indonesian Commercial Newsletter*, 19.12.00).
[35] *Tempo*, 18.9.00.
[36] *Indonesian Buisness*, Feb 2001.

2.3.1 The Structure of Contracts at PLN

After a series of Presidential Decrees opened up the electricity sector for private involvement in the early 1990s, more than 50 domestic and foreign companies sought a government license to build power stations, but only 27 were granted. According to the head of PLN at the time, these licenses were all handed out without tender to companies close to political power-holders under pressure from Soeharto.[37] This resulted in a very strong bargaining position for the private consortia, which in turn led to very favourable terms of contract.
Despite a clause in a 1985 law which stated that electricity had to be bought from private projects in rupiah,[38] the contracts later negotiated fixed prices in U.S. dollars. The contracts also included clauses obliging PLN to buy around 85 percent of the capacity of the power stations whether or not it was actually needed. With the onset of the economic crisis and the subsequent devaluation of the rupiah, these two clauses meant that PLN was under obligation to buy a guaranteed amount of electricity at a very high cost. This is a highly irregular situation in business where the norm is that either a product has guaranteed sales at low cost or uncertain sales at high cost, but not guaranteed sales at a high cost.

The economic crisis also meant that projections for demand in electricity made in the 1990s became redundant as the economy slowed down, businesses went bankrupt and people tightened their belts.[39] Thus, this decrease in demand coupled with PLN's obligation to buy and the increased costs of buying resulted in a ridiculous situation where PLN was buying expensive electricity which was not needed. Indeed at one point PLN even had to close down production in its own power stations just to accommodate private sector electricity when the reality was that the electricity produced by PLN's own plants was substantially cheaper.[40]

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[37] *Warta Ekonomi,* 13.11.00.
[38] Law No. 15/1985.
[39] The projections for electricity demand made in the 1990s were for an annual 12-15 percent rise. The actual demand for the first three years after the economic crisis only reached 3-5 percent (*Warta Ekonomi,* 13.11.00).
[40] *Tempo,* 18.9.00.

Such a situation belies the argument that allowing a greater involvement of foreign companies in government procurement automatically results in a more efficient use of resources. Such a position is usually stated in comparison to the inefficiencies produced by particular domestic companies as a result of government favouritism. In the electricity sector however, around 20 of the 27 power projects were majority owned by established international power companies (see Appendix Four), yet the structure of the contracts caused substantial losses to the Indonesian state.

Andrew Rosser questions the motivations of international capital and its institutional allies who present economic liberalisation as a universal rational good, preferring instead to view international capital as just another segment of society seeking economic policies to benefit themselves (Rosser 2002). The argument in this section takes such a viewpoint one step further by highlighting the indicators which can be used to put international business on a par with domestic vested interests in terms of corruption. The case of the independent power projects shows that international business interests can be as prepared as their domestic counterparts to milk Indonesian state-owned enterprises through manifestly inequitable contracts. Where domestic businesses bribe Indonesian officials directly for beneficial contracts, international business can ensure beneficial outcomes from the pressure exerted on the Indonesian state through their own heads of state. This point will become clearer as the section proceeds.

The financial backers for the power projects were all international credit export agencies such as OPIC, USEXIM, JBIC, EID/MITI, ERG and HERMES and international institutions such as the Asian Development Bank and the World Bank.[41] The loans generally consisted of what is known as 'two step offshore loans' which means that the money was first lent to the Indonesian government who then lent it on to PLN.

[41] These credit export agencies are domiciled respectively in the U.S., the U.S., Japan, Japan, Switzerland and Germany. A more detailed definition of credit export agencies is found in the glossary, but suffice it to say here that they are heavily criticised as a major source of unethical international business investment.

Such a system of finance meant that there were plenty of opportunities for state officials to each take a share of the massive loans. According to a PLN source to the Indonesian NGO, Indonesian Corruption Watch, corruption at PLN included not only PLN management but also a number of outside institutions, such as Bappenas, BKPM, the Department of Mining and Energy, the Department of Finance and the Coordinating Ministry for the Economy (ICW 2000b).

But it was particularly the Department of Mining and Energy that was alleged to be the centre of decision-making about PLN, serving as a conduit for Soeharto's control. However, there was also at times a good degree of independence from Soeharto within the department, especially under the tenure of Ginanjar Kartasasmita who was Minister of Mines and Energy from 1988 to 1993 (see Box Three). At that time, the department reportedly became like a mini-fiefdom where a core of bureaucrats serving Ginanjar became known as 'Ginanjar's Boys', to whose interests the PLN Heads of Project had to defer (ICW 2001). In support of this view, it is instructive to note that it was Ginanjar rather than the head of PLN who officially detailed the final purchasing agreements for the private electricity projects (ICW 2000a).

2.3.2 Post-Soeharto Reforms

Since the onset of the economic crisis, there have been no less than four Presidential Decrees regarding the private power projects and whether they should be cancelled or continued. First, when the crisis initially hit, they were all cancelled with the support of the IMF who advised a programme of fiscal austerity and a cutting back on mega-projects. Then there was a re-evaluation and it looked like at least some were to be continued. But as the crisis showed no signs of abating in 1998, all the projects were cancelled again before a final Presidential Decree in 2002 gave the go-ahead once more.[42]

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[42] *Indonesian Business*, May 2002.

But for a few of the foreign investors, the frustrations and costs of being involved in the Indonesian economy under such circumstances proved too much and they decided to pursue compensation for breach of contract through the international courts. One of the contract clauses had stipulated that in the case of any disputes, resolution would be sought through the Switzerland-based International Arbitration Court. In 1999, this court found in favour of two private consortia involved in three of the 27 projects and ordered the Indonesian government to pay compensation for breach of contract (see Appendix Four for the consortiums involved). The court decided on US$ 261 million compensation to be paid for PLTP Karaha and US$ 572 million for PLTP Dieng and PLTA Patuha.

In the case of the Dieng and Patuha projects, PLN was in no position financially to cover the US$ 572 million compensation which meant that the private investors could legitimately claim US$ 260 million from their insurance company, OPIC. However OPIC, an insurance company owned by the U.S. government, then demanded that PLN cover this US$ 260 million payment. OPIC's demands were particularly vociferous as they were keen to set a precedent in terms of PLN's liability because they had insured other private investors in the Indonesian electricity sector to the tune of US$ 1 billion, or 5 percent of its total global exposure.[43]

Despite the facts that a Presidential Decree from 1992 had already stated that the Indonesian government would under no circumstances guarantee the investments in the projects,[44] and that the Indonesian government was not a legal party to any of the contracts made, it nevertheless came under immense pressure to honour this payment on behalf of PLN. At one point the American Trade Secretary wrote to the Indonesian government threatening to seize government assets abroad if OPIC was not paid (ICW 2000c). PLN's debt to OPIC is now being dealt with through the *Paris Club*, a government to government negotiating forum on debt. Essentially

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[43] Charles Smith, Corruption, Collusion and Nepotism, http://www.worldnetdaily.com
[44] *Keppres 37/92.*

then, the Indonesian government has ultimately become responsible for PLN's debt to OPIC.

Meanwhile, without the direct involvement of the U.S. government which OPIC was afforded, the Karaha court case has become more protracted. The company Karaha Bodas Co. has sought rulings in Singapore, New York, Hong Kong, Canada, Houston, Texas and Delaware[45] in a bid to seize Pertamina's overseas assets. Since the Karaha Project was a geothermally fuelled electricity plant it is the responsibility of Pertamina, not PLN.

Interestingly, Karaha Bodas have not had as much success in holding the Indonesian government responsible for the compensation due to it according to the International Arbitration ruling. A New York court ordered that the company had no right to seize a U.S.-based bank account belonging to Pertamina after Pertamina argued that the bank account contained proceeds from the sale of liquid natural gas which thus belonged to the Indonesian government.[46] Whereas in the OPIC case no distinction was made between the Indonesian government and PLN, in the Karaha case this distinction was upheld.

Throughout these court proceedings Pertamina has continually asked the IMF to testify to the reasons behind the suspension of the project in order to convince the judges that the contract was breached as a result of 'force majeure'.[47] Indeed, it was reported that in 1997 when PLN officials wanted to persuade the Indonesian government to suspend the electricity projects, they first lobbied the World Bank and the IMF for the support they needed, eventually resulting in the first Presidential Decree to suspend all projects (Data Consult 2000; ICW 2000d). However, the IMF

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[45] *Jakarta Post*, 24.7.02; *Jakarta Post*, 6.6.02.
[46] *Indonesian Business*, May 2002.
[47] The concept of 'Force Majeure' can be used to legally justify breach of contract and includes within it a sense that the parties had no other choice than to breach a contract in the face of extraordinary circumstances.

has so far refused to become involved in the Karaha case, stating simply that the suspension was the Indonesian government's responsibility.[48]

But, generally, it is neither in the government's nor the private consortia's interests to pursue changes in these contracts through the courts. Such a course of action does not reflect well for Indonesia's investor relations but leads instead to an acrimonious and often protracted struggle with no clear winners and mounting legal costs. Another reason for avoiding the legal route is that questions of corruption in the projects in the form of mark-ups could arise since if corruption can be proven then the contracts would not be legally binding. But this would cause embarrassment not only for the private consortia but also for the Indonesian government, since many of the bureaucrats and politicians who drew up these contracts are still in service.

In terms of the Indonesian legal process, a team consisting of the Indonesian police, the Attorney General's Office, PLN and Pertamina staff did at one point embark upon an investigation into the Karaha project. This was because the US$ 100 million which Karaha Bodas claimed to have invested in the project was considered to be around three times higher than it should have been.[49] However, this investigation came to nothing and was probably only ever meant as a bargaining tool for the Indonesian government to threaten Karaha Bodas.

One mark-up case which did make it to the Indonesian courts, however, was over Paiton I, the project with which this section began. After months of failed renegotiations over the Paiton I contract, the director of PLN, Adhi Satrya, filed a lawsuit against the Paiton I consortium for alleged mark-up of the project construction which had subsequently contributed to the extremely high price for the sale of the electricity produced. However, the Wahid government demanded that this lawsuit be withdrawn and Mr. Satrya subsequently resigned in protest.

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[48] *Jakarta Post*, 6.6.02.
[49] *Jakarta Post*, 14.5.02.

Although, at the time, the government promised a full investigation of the allegations, which had first appeared in two separate audits,[50] this again came to nothing. Another lawsuit was attempted in 2001 against Paiton I by PLN's labour union charging that the contract had violated the constitution[51] and the 1985 law which stated that the price of electricity should be in rupiah. One year later, the Court ruled that the labour union was not authorised to bring such an action.[52]

The refusal of Wahid to allow the Paiton I project to be settled in court again indicates the pressure his administration must have been under from the international interests which stood to lose most if corruption could be proven. It is also interesting to note that whilst political influence on the legal system is still very much a reality in keeping some corruption trials from ever making the courts, in this case the Wahid government pressurised the person making the lawsuit, the head of PLN, to withdraw it. This could indicate that Wahid was not sufficiently confident that he could influence the trial once the lawsuit had entered the legal process which is in stark contrast to the Soeharto period where the courts generally followed the President's will, cementing political and economic power. This point will be elaborated in Chapter Five in relation to the role of law in debt negotiations, but at this stage it will suffice to highlight a theoretical distinction between political influence in the law courts and the influence of monetary bribes.

All the remaining 24 power projects were resettled through closed-door negotiations between the government and the private consortia. All 24 have reduced their selling price to PLN substantially to move more in line with international comparisons of similar projects (see Appendix Four). However, not all of the details of these new contracts have been released to the public and it is understood that as well as the cost of the sale of the electricity to PLN, there are also enormous debts which PLN is obliged to settle with the project developers. For example, under the new contract

[50] The two audits were carried out by the state audit agency, *Badan Pengawasan Keuangan dan Pembangunan* (BPKP) and the international audit firm SNC-Lavalin.
[51] Article 33 of the Indonesian Constitution states that all production which affects the basic needs of ordinary people is prohibited from control by private individuals.

in the case of Paiton I, the cost of electricity has fallen from an average of 6.4c per kWh to 4.9c per kWh. But added to this is a sum of US$ 4 million per month which PLN have to pay the Paiton consortium for 30 years, and the clause which binds PLN to buying 85 percent of Paiton I's capacity still applies. Thus, the apparent price reductions shown in Appendix Four may not actually reflect the real price paid by PLN.[53]

There have been six projects cancelled out of the original 27 and three are still in dispute. The deals which were renegotiated with all the 18 remaining power projects must be at least satisfactory for the private consortia because many have opted for a longer contract than was originally agreed to in the 1990s and some are building new power projects.[54] The massive investments already made need to be recouped and the legal route has its costs. From the Indonesian government's perspective, the demand for electricity has apparently rebounded to pre-crisis levels and given the parlous state of PLN and the country's finances in general, the only other option to private investments in the electricity sector seems to be blackouts.

Again, throughout these closed door negotiations the U.S. government has used its position in the *Paris Club* to pressurise the Indonesian government into leaving U.S. projects alone.[55] A letter from the financial backers of the projects was also written to the Indonesian government in 1999 demanding that the government take responsibility for the negotiations between PLN and the private consortia and to put a stop to any legal actions that PLN might be planning.[56] The importance of the issue can be seen by the seniority of the members of the Indonesian government's

[52] *Jakarta Post,* 19.4.02.
[53] ICW 2000b; *Jakarta Post,* 24.7.02; *Asia Times,* 20.9.02.
[54] For example, Energy Sulawesi will be extending its capacity in Sengkang (*Indonesian Business,* February 2001). Paiton I's contract is now running for an extra 10 years and Paiton Energy were exploring the options for an extension of capacity at Paiton I as of the beginning of 2002 (*Jakarta Post,* 4.1.02).
[55] *Tempo,* 18.9.00.
[56] The signatories of the letter are OPIC, USEXIM, JBIC, EID/MITI, ERG & HERMES (ICW 2000d).

negotiating team which was set up by Presidential Decree and meets with the major financial backers of the projects every three months.[57]

Indonesia's economy is, of course, a capitalist economy which has provided very many benefits over the past 50 years for its people. Similarly, international capital is today vitally important for all capitalist economies and as such has a relatively strong bargaining position anywhere in the world. However, the tendency of overseas governments to use government to government debt negotiations in order to protect the interests of their own private domestic firms must surely be considered an abuse of position. For is this not anathema to the mantra so often heard from international institutions that private businesses obtaining government contracts should do so purely on the basis of ability rather than relationships with political power holders? International hypocrisy is also evident when it is understood that foreign consortia and credit agencies have avoided the very business risks that those same credit agencies continually pressure the Indonesian government and business sector into accepting. The contracts originally signed in the early 1990s have meant that PLN has had to bear *all* the costs from risks of dollar fluctuations, *force majeure*, the 'take or pay' clause and over optimistic forecasts for electricity demand.

The international institutions working in Indonesia have also been vocal on the contract renegotiations, with the ADB tying its loans to the conclusion of contract negotiations as well as the ratification of a new power law (Law on Electricity, No.20/2002). This new law, like the oil and gas law, gives an even greater role to private investors and its deliberations have also been extremely contentious, taking one and a half years to pass through parliament.[58]

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[57] The members of the government's negotiating team are: The Coordinating Minister of the Economy, The Minister of SOEs, The Minister of Finance, the Minister of Mining and Energy and the Foreign Minister.

[58] For example, one of the contentions about this new law is that the profitable side of electricity production in the densely populated areas of Java and Bali will be handed over to the private sector

One of the central institutional changes under this new law is the transfer of the rights to sell electricity to the public from PLN to private sales agents. A special body, the Power Market Supervisory Agency (PMSA), was due to be set in September 2003 to determine the price of electricity to the consumer before full free-market competition is phased in Province by Province after 5 years. This body will also be responsible for allocating sales licences to the new sales agents (ADB 2002b). Local governments also now have the right to issue licenses to private companies to both set up power plants and sell power directly to the public in their respective jurisdictions.[59]

Thus, the appointment of sales agents to take over from PLN will now be carried out by the PMSA and local governments, opening up new opportunities for corruption. The potential for local governments to be involved in corruption is great, as can be seen from the analysis of local government involvement in the forestry sector which is explored in Section 2.4. In the case of the PMSA, its members will be appointed by the President with prior approval from the DPR. Although it is too early to make any judgements about the functioning of the PMSA, handing out a limited amount of licenses to private businesses participating in a lucrative economic sector such as electricity inevitably creates incentives for corruption.

Moving onto a consideration of domestic vested interests, compared to Pertamina, little has been heard from or even about the Indonesian business partners of the overseas consortia throughout the contract renegotiations. However, this does not mean that they have not participated in negotiations, both through legitimate channels and more suspect ones. For example, another chairman of PLN, Djiteng Marsudi, was reportedly pressured through the Minister of SOEs by both senior ministers and Soeharto cronies when he became vocal about the need to revise existing contracts.[60]

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whilst PLN remains responsible for the poorer and less profitable more sparsely populated outlying islands. Such 'cherry-picking' is a feature of privatisation programmes the world over.

[59] *Jakarta Post*, 13.9.02; *Jakarta Post*, 5.9.02; *Asia Times*, 20.9.02.

[60] *Prospek*, 13.7.98.

In contrast to Pertamina, the issue of removing Soeharto family and crony elements from PLN has been relatively muted. This could be because of differences in the structure of contracts between the two SOEs. A quick appraisal of Appendix Three shows that most of the Soeharto contracts at Pertamina were for intermediary roles such as the sale, purchase and transportation of gas, oil or premix, whereas in PLN, domestic companies tend to have a relatively small share in each project. Or perhaps many of the Pertamina contracts were more easily broken because they were for projects which had not yet started or where the Soeharto-linked companies could not afford future investment anyway, whereas in PLN most of the power projects have already been completed. In at least one case, a project has been bought out completely from the local partners.[61] It is likely that a few others have already, or will in the future, follow this pattern as the domestic partners search for valuable dollars to hold up other sections of their business empires. One of the Soeharto children received a buy-out offer from her international partners in 1998, but she refused.[62] In general, though, unless there is a new push by either the Indonesian government or the international partners to pressurise the Soeharto-linked companies into giving up their share of the contracts, it is likely that they will continue in these profitable ventures.

There have, however, been some controversies surrounding *new* contracts at PLN. The most publicised case involved a company called Bukaka which is owned by Jusuf Kalla, the previous Minister of Trade and Industry. This company won a project to build a transmission network to distribute the electricity produced by Paiton I when Habibie was President in 1998/99. But the contract was not finalised and the PLN chairman was ordered not to sign the contract in 1999 by the newly elected President Wahid and Bukaka effectively lost the contract. Since then there have been many allegations surrounding the re-tendering of this project which indicate that the office of President is still very much involved in appointing the winners of contracts at PLN. One allegation came to light at a closed hearing with

[61] The Japanese giant Sumitomo Corporation has taken over the Tanjung Jati B power plant (*Indonesian Business*, December 2000).
[62] Charles Smith, Corruption, Collusion and Nepotism, http://www.worldnetdaily.com

the DPR when the Chairman of PLN admitted that he had been approached by Wahid's personal masseur in connection with a Chinese consortium taking part in the tender.[63] Another story has it that Wahid withdrew the Bukaka contract in a deal made with a Japanese firm in recognition of a debt-rescheduling scheme which the firm had agreed upon for an unconnected bankrupt petrochemical project (Data Consult 2000).

The subject of the amount of local content used in the electricity projects has at times been raised but generally seems to have been somewhat over-shadowed by price negotiations. It is also the case that many of the projects have already been built and are operating, so that local content is no longer such a big issue. Nevertheless, as already mentioned, the details of the new contract terms have not been systematically released into the public domain, although it is likely that the degree of local content used formed part of the negotiations. In at least one project, a foreign firm has demanded that the requirement to use local content be eliminated as one of the conditions for lowering its prices to PLN.[64]

The growing power of the DPR has also had an impact at PLN. In a similar way to Pertamina, there have been numerous meetings between the Minister for Mines and Energy, the director of PLN, the governmental negotiating team and Commission VIII at the DPR about the re-negotiation of the 27 projects' contracts.[65] Throughout these meetings, the Commission VIII members have generally been vocal in favour of a more punitive approach towards the private project developers and have criticised the Indonesian government for what they see as something of a sell-out to foreign interests. However, the depth and detail of the information exchanged by the government on PLN has been modest compared to the meetings on Pertamina. For example, the Minister of Mines and Energy has often refused to give any details

[63] *Indonesian Business*, June 2000
[64] French company Alsthom at the Kediri power transmission project (*Indonesian Business*, 29.11.00).
[65] For example, see *Suara Pembaruan*, 11.7.00 and *Indonesian Business* January 2002.

on the re-negotiations, stating simply that the information is confidential.[66] This is quite extraordinary in view of the fact that it is the same minister who has been forthcoming with information on Pertamina, who refuses to elaborate on PLN's contracts. It seems that the political exigencies which made it possible for the DPR to criticise the Soeharto contracts at Pertamina do not extend to a critical approach to the international contracts at PLN.

The main lesson from this consideration of the business/state relationship in the electricity sector is that international business can be just as appropriately described as a vested interest, intimately involved in corruption, as can Indonesian business. Although there is no evidence to suggest that international businesses have made personal payments to either their own politicians or Indonesian ones to win contracts, the possibility that official campaign contributions serve the same purpose cannot be ignored.[67] Whether or not such cases are widespread enough to provide a legitimate generalisation, it is nevertheless the case that the U.S. government has at least abused its position as a major Indonesian creditor to protect private business interests at the expense of a crucial public utility. Furthermore, the popular perception that foreign interests have gained the most from privatisation in the electricity sector can only add to the nationalist argument that domestic capital accumulation has been disregarded.

The major source of institutional change in the electricity sector has been the new power bill, ratified by the DPR at the end of 2002. Because the bill will not take effect until 2007 at the earliest, there is as yet no information on the functioning of the PMSA, which was due to be set up in September 2003. However, the transfer

[66] *Tempo*, 18.9.00

[67] Although Charles Smith, a U.S. journalist who has done extensive research on corruption at Paiton I, alleges that Edison Mission was a 'major contributor' to the Clinton campaign, this was not confirmed by Federal Electoral Commission (FEC) documents on political contributions from 1993-1996 which were recently obtained for this thesis. Smith alleges in particular that the CEO of Mission Energy, John Bryson, made contributions to the Clinton campaign but the FEC documents record only one such donation of US$ 1000. Margaret Thatcher also tied the appointment of a British construction firm, Foster-Wheeler, to the financing of an extremely corrupt oil refinery project, Balongan, in 1985 (*The Jakarta Post*, 23.11.01). The U.K. has only just begun to release

of the authority to appoint sales agents to the PMSA and local governments should be treated with caution. Again, it seems that state participants in corruption within this sector are likely to proliferate, whilst the original vested interests of the Soeharto era, international business with their domestic partners, have become more deeply entrenched.

2.4 Timber: A Unique Resource

An analysis of business/state relations in the forestry sector must take into account the unique nature of this resource. For, unlike oil and gas or electricity, the forestry sector engenders a certain emotional subtext. In addition to the usual economic value of a natural resource, Indonesia's forests also contain a certain intrinsic value derived from their fundamental connection to life on our planet. As one report states,

> Indonesia's forests are considered to be among the most diverse and biologically rich in the world. Although the country comprises only 1.3 percent of the earth's land surface, it holds a disproportionately high share of its bio-diversity, including 11 percent of the world's plant species, 10 percent of its mammal species, and 16 percent of its bird species... Forest cover in Indonesia fell from 162 million hectares in 1950 to only 98 million hectares in 2000. The country's richest forests, the lowland forests, are almost entirely gone in the island of Sulawesi and will disappear in 2005 from Sumatra and in 2010 in Kalimantan (Barber et al 2002).

From an international perspective, the emotional appeal of the exploitation of a fast diminishing environment which supports such an extraordinary ecosystem far outweighs that of ordinary Indonesians subsidising corruption in the electricity and oil sectors through sharp rises in petrol or electricity rates.

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details of corporate contributions to political parties with no information available for the period

This point affects business/state relations in the forestry sector by effectively increasing the international pressure on the Indonesian government to regularise its dealings with private domestic timber firms. This pressure is exercised through such mechanisms as the Consultative Group on Indonesia (CGI), an institution which co-ordinates Indonesia's major aid donors. It is also notable that foreign NGOs and research institutes are extremely vocal in this sector. This is in contrast to the situation in the oil and gas and electricity sectors where international pressure through foreign institutions and governments is fed largely by international business interests. Such international interests are generally absent from the Indonesian forestry sector except, perhaps, in terms of the international market's access to unprocessed as opposed to processed timber through trade.

Within Indonesia, business/state relations in the forestry sector are shaped not only by the above concerns with the diminishment of an intrinsically valuable resource but more importantly by a discourse on land ownership which has remained unresolved since independence in 1945. Conflict over land is common place in Indonesia. This is partly because of unfulfilled promises from the Indonesian government immediately after independence over the distribution of land which had previously belonged to vast Dutch-owned plantations and partly because of an extremely uncertain legal regime of land ownership rights. It is a truism that land is the fundamental basis of wealth in any economy, but this is especially the case in Indonesia where the majority of people derive their living directly from the land, and where it is practically impossible to obtain even small amounts of credit from banks without a plot of land as collateral. Added to this is the special meaning which many traditional communities accord to the land which has often provided the means of existence for generations of families. The close proximity of such communities to forest land compared to the distance from which many large timber companies operate further adds to local resentments.

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before 2000.

Timber is also an important resource in terms of the Indonesian economy in general, with the export value of forestry products standing at 16 percent of the value of non-oil and gas exports in 1999. It is also estimated that the forestry sector provides direct employment for 2.5 million workers and indirect employment for a further 1.5 million (Resosudarmo, 2003).

All of these points taken together mean that land, especially productive land such as forests, is a principal focus of the redistributional debates which have regained in prominence since the fall of Soeharto. The struggle for control over oil and electricity can also be interpreted primarily as a redistributional issue, but one located at the national level between foreign and Indonesian companies. It is, of course, also possible to conceive of struggles over oil and electricity as a domestic issue, but this requires a further level of abstraction that is often absent from debates. In contrast, redistributional debates in the forestry sector are firmly placed within Indonesia's borders at the sub-national level, emphasising *pribumi* as opposed to Chinese-Indonesian control which is reflected in the co-operative/ conglomerate opposition.

2.4.1 The Distribution of Forestry Exploitation Licenses

Hak Pengusahaan Hutan (HPH) (Forest Cultivation Rights) are licenses distributed by the Indonesian government to both private and state-owned timber companies. These licenses, which usually last for around 20 or 30 years, permit the companies to clear most of the forest on the allotted land and sell the resulting timber to be processed. Central to the HPH concept is the idea that forest lands be maintained in permanent production which means that a HPH holder is under an obligation to cut only large trees and replant blocks of forest at the same time as clearing other blocks. Each HPH holder must also pay a sum of money to a central fund called the *Dana Reboisasi* (DR) (Reforestation Fund) which is controlled by the Department of Forestry for each cubic meter of wood harvested. These funds should then be reallocated to timber companies in order to facilitate replanting.

When corruption occurs in the forestry sector it generally occurs in four main areas. Firstly, the granting of HPH is based on personal connections. Secondly, the obligations of HPH holders to maintain their concessions in a reasonable condition is not enforced. Thirdly, manipulation of data about the amount of timber harvested occurs in order to obtain illegitimately high levels of funds from the DR. Fourthly, contracts from the Forestry Department for other services are given without tender to well-connected companies.

In terms of the distribution of HPH, the respective shares controlled by the state and private companies will first be considered. According to ITFMP,[68] the total area controlled by the four largest state-owned timber companies is just over 4 million ha. The total amount of HPH coverage in operation for the whole of Indonesia in 1997/1998 was estimated to be 51.5 million ha (Brown 1999). This means that according to ITFMP, the state sector accounts for around 8 percent of total HPH ownership. But it should also be noted that the total amount of HPH in operation is in fact different from the total amount of HPH in existence. As a percentage of HPH in existence, a different source has estimated that in mid-1998, the state sector accounted for 20 percent, the private sector 56 percent, state/private partnerships 12 percent and the remaining 12 percent had been slated for conversion to non-forestry uses (Fox 2000). Whatever the exact figure, there is a general consensus that the private sector controls the majority of HPH.

Within the private sector, data on the exact distribution of HPH vary widely depending on the source. Table 2.3 below shows a comparison of four different data sources.

[68] ITFMP is the Indonesia-UK Tropical Forestry Management Project, a project funded by the Department for International Development, U.K. ITFMP's information is based on a database designed by a member of staff, Dr. Adrian Whiteman, which itself draws from various Indonesian government and business information sources.

Table 2.3	Comparison of Rankings of Top Fifteen Private Timber Concession Holders 1997/1998					
ITFMP ranking	**Concession holder (Group)**	**Owner***	**ITFMP estimate (ha)**	**PPHH** estimate (ha)**	**APHI*** estimate (ha)**	**Warta Ekonomi estimate (ha)**
1	Barito Pacific	Prajogo Pangestu	5,043,067	1,819,100	3,356,800	2,724,100
2	Djajanti	Burhan Uray	3,365,357	3,632,235	3,996,200	2,953,900
3	Kayu Lapis Indo.	Hunawan Widjajanto	2,806,600	3,358,700	3,142,800	3,496,000
4	Alas Kusuma	P.O Suwandi	2,661,376	2,778,500	2,189,000	1,198,726
5	Bob Hasan	Bob Hasan	2,131,360	1,472,800	1,352,000	1,627,800
6	Armed Forces	Armed Forces	1,819,600			
7	Korindo	Kim Hoon	1,589,228	764,000	1,493,500	1,281,000
8	Kodeco		1,081,700	1,126,700		
9	Sumalindo	Adi Resanata/ Winarto Utomo	997,800	852,300	796,300	850,000
10	Salim	Anthony Salim	979,027		969,500	
11	Daya Sakti	Widya Rachman	919,925	671,625	672,000	567,000
12	Surya Dumai	Martias	852,827	832,773	1,080,000	
13	Hanurata	Yayasan Harapan Kita and Trikora	796,754	487,893		
14	Bumi Raya Utama	Pintarso/Adiya nto	745,900	1,264,500	1,036,455	
15	Uni Seraya		708,140	959,050	885,000	

Sources: Brown, David (1999) *Addicted to Rent: Corporate and Spatial Distribution of Forest Resources in Indonesia; Implications for Forest Sustainability and Government Policy,* DFID/ITFMP, *http://www.geocities.com/davidbrown_id/Atr_main.html*; *Warta Ekonomi,* 10.8.98.
Notes: * *Prospektif,* 26.2.99; ** PPHH stands for *Direktorat Pemanfaatan dan Peredaran Hasil* (Directorate for the Utilization and Distribution of Forest Products), a section located within the Department of Forestry; *** APHI stands for *Asosiasi Pengusaha Hutan Indonesia* (Indonesia Association of Forest Concessionaires), a forestry business association.

In the shifting world of Indonesian business ownership, it is always very difficult to identify group ownership of companies as well as decide what defines group ownership, which may account for some of the differences shown in this table.

However, these discrepancies between data sources are not inconsequential; in some cases they differ by millions of hectares which is itself illustrative of the dire lack of dependable official data in the forestry sector as a whole. Nevertheless, roughly the same groups appear in all of the rankings and thus this information still serves to illustrate the concentration of ownership of HPH amongst a handful of conglomerates. According to the ITFMP estimates above, the 15 largest groups together account for over 50 percent of total HPH ownership in operation.

Practically all of the largest timber companies above have the involvement of the Soeharto family to a greater or lesser extent through directorships and shareholdings. The Bob Hasan Group and the Barito Pacific Group (see Box Three) are the most widely acknowledged partners of various Soeharto children's businesses and *yayasans* (foundations), but their reach extends into all corners of the forestry sector along with many other well-known political figures.[69] Walhi, an Indonesian environmental watchdog, estimates that around 80 percent of HPH were obtained through corruption.[70]

The process through which this concentration of control over the forestry sector came about serves well as an illustration of the changing nature of business/state relations over the 32 years of Soeharto rule. The distribution of HPH started soon after Soeharto came to power in 1967 with the promulgation of the 1967 Forestry Act. Initially it was the military and senior bureaucrats who received the most HPH as payment for loyalty to the new regime. However, it soon became apparent to this newly created class of land owners that time, skills and capital were needed to reap the maximum profit from their concessions and many sold stakes in their HPH to private domestic and foreign (mostly Malaysian) firms who were prepared to provide such inputs.[71] This trend continued until 1985 when, ostensibly in a bid to raise the amount of value added to forestry exports, a new government regulation obliged all HPH holders to own sawmills. This was part of a wider package of

69 For a more detailed list of Soeharto family holdings in the forestry sector, see Brown 1999.
70 *Tempo*, 5.3.01.
71 *Kompas*, 30.8.99 and *Warta Ekonomi*, 10.8.98.

government regulations which also outlawed the export of unprepared logs and, in 1992, imposed a 100 percent tariff on the export of rough sawn timber which in practice meant that the only export option for timber was in the form of plywood. However, because the cost of building a plywood mill at the time was around Rp12 billion (US$1,200,000),[72] there was a rush by many of the original HPH owners to sell to companies who could afford such a large outlay. Companies, that is, who had special access to state credit.

Thus, the initial transference of stakes in HPH from military and bureaucratic elite to private business was compounded by government regulations. Once private business obtained a strong foothold in the sector, trends of concentration of ownership intensified as the Soeharto children came of age and began their involvement in the Indonesian economy. Indeed, it has long been recognised that the first step to become a major conglomerate in Indonesia is an involvement in the forestry sector where the enormous profits can be used for subsequent expansion into other sectors of the economy.

The whole forestry sector was effectively 'wrapped up' by well-connected conglomerates when Bob Hasan (see Box Three), perhaps the most notorious Soeharto 'crony', was put in charge of several forestry business associations. The best known, and most widely written about, is called Apkindo, the Indonesian Plywood Association. This association was given a monopoly to export plywood, charged all producers an exorbitant fee for each cubic meter of plywood exported and obliged the producers to use a Hasan-owned shipping company and insurance company for all transactions. It has been estimated that Apkindo made Bob Hasan around US$2 – 3 billion during his 12 year tenure as chairman.[73]

[72] *Infobisnis*, January 1999.
[73] *Tempo*, 3.4.00.

2.4.2 Post-Soeharto Reforms

Out of the three sectors reviewed in this chapter, the most prolific post-Soeharto institutional reforms have been in the forestry sector. Authority over the allocation of HPH has shifted dramatically within the state from central to regional government and two new regulations have been introduced to limit the amount of HPH ownership for individual timber companies and allocate a percentage of newly granted and newly extended HPH to local co-operatives. Tariffs on the export of rough sawn timber have also been slashed and the requirement of HPH holders to build plywood mills has been rescinded. Each of these changes will be further explored before considering their effects on the distribution of HPH.

Changes in the control over the distribution of HPH have taken place within the context of a decentralisation programme underpinned by two 1999 regional autonomy laws.[74] Weakened by his longstanding proximity to President Soeharto, these laws were introduced by President Habibie in a bid to legitimise his transitional administration and gain popular support for re-election. Immediately after Soeharto's resignation, many believed that his protracted suppression of separatist movements in the outer regions would leave a legacy of the fragmentation of the Indonesian unitary state. These two laws constituted Habibie's attempt to forestall such a threat.

One of the key motivations of regional opposition to central government was the revenue-sharing regime of wealth derived from natural resources located in the regions, which was heavily skewed in favour of the central government. Up until 1999, the share of forestry resources received by regional governments had been in the form of a land tax, 15 percent of one type of reforestation fund and 35 percent of another type.[75] In contrast, the new regional autonomy laws specified that 80 percent of all state income from forestry and 40 percent of all reforestation funds

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[74] The Basic Law on Regional Government (No. 22/1999) and The Basic Law on Financial Balance Between Central and Regional Government (No. 25/1999).
[75] The land tax is known as Pajak Bumi dan Bangunan (PBB), 15 percent was received from Iuaran Hasil Hutan (IHH) and 35 percent from Dana Reboisasi (DR) (*Kompas*, 27.7.00).

would now go to the regions.[76] Within these new regional allocations, the district as opposed to the provincial level benefits the most (see Appendix Five).[77] In addition, a new revised forestry law was also introduced in 1999 which supported the key regional autonomy laws by granting provincial and district heads with the right to award certain types of HPH.[78]

However, the ideals represented in these laws have proven difficult to implement in view of the extremely complex implementing regulations attached to them. They are also weakened by a raft of other contradictory laws governing the same issues. Indeed, there can even be seemingly irreconcilable contradictions within the same law. For example, article 7 of law 22/99 gives the legal basis for transfer of authority to regions for everything except foreign affairs, religion, and other matters, one of which is utilisation of natural resources. Yet in the same law, article 10 states that regions have the authority to manage all natural resources within their jurisdictions (Resosudarmo 2003).

This chaotic situation is in part a reflection of the ongoing discourse in Indonesia over the appropriate level of regional autonomy, where the features which make the forestry sector an ideal focus of redistribution have also ensured that it is caught in the crossfire of such debates. The Habibie, Wahid and Megawati administrations have each brought with them different conceptions of the ideal level of regional autonomy. Moreover, within and between these administrations, both the Ministry of Forestry as well as the actual Minister have been in a high state of flux, with each change of Minister heralding a new set of policies.[79]

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[76] The Basic Law on Financial Balance Between Central and Regional Government (No. 25/1999), Section 3, articles 6 and 8.

[77] Indonesia is divided into 27 provinces (*propinsi*) and 246 districts or regencies (*kabupaten*). The highest office at provincial level is the Governor (Gubernor) who is elected by the Regional Assembly level I (DPRD I). The highest office at district level is the Bupati who is selected by the Provincial Governor from a list of candidates given by Regional Assembly level II (DPRD II).

[78] Law No.41/1999.

[79] Until 1998, the Ministry was called the Ministry of Forestry. From 1998 to 2000, it was known as the Ministry of Forestry and Estate Crops (MOFEC). In August 2000, a new Cabinet was formed and MOFEC was merged with the Ministry of Agriculture and renamed the Ministry of Agriculture and Forestry. This lasted just 3 months, when the name reverted once more to the Ministry of Forestry

This has led to a situation where central, provincial and district levels of government all now have the right to issue HPH along with a certain degree of control through forestry SOEs and a new institution, known as *Badan Pengelola Kehutanan* (BPK) (Forestry Management Body). Theoretically, forestry is ultimately under the control of central government through the forestry SOEs and it is central government who has the right to define the status of land and plan its use through 1992 Spatial Planning Law. However, at the same time the new forestry bill specifies that 'attention be paid' to local land use plans (Barber 2002). The Minister of Forestry has also been active in granting new HPH, even though this goes against the spirit of the regional autonomy laws and often results in allegations of corruption.[80] Provincial Governors also have rights to grant HPH up to 10,000 ha to co-operatives and local SMEs as part of the central government's policy of redistribution of forest lands.

Meanwhile, at District level many *Bupatis* have been taking full advantage of their rights through a 1999 forestry regulation[81] to grant small plots of HPH of up to 100 ha to local co-operatives and SMEs. Thousands of such licenses have already been issued,[82] in some cases generating revenues of over US$ 5 million for a single district within an eighteen month period (Resosudarmo 2003). Despite subsequent orders from the Ministry of Forestry rescinding these rights, some *Bupatis* have refused to stop the practice.[83] Under a different Minister of Forestry another regulation was then introduced in 2000 authorising *Bupatis* to grant large scale HPH of up to 50,000 ha, but when this regulation was revoked in 2002 *Bupatis* again ignored the instructions, questioning whether Ministerial Decrees have more authority than regional regulations (Resosudarmo 2003).

(Barber 2002). From 1998 until August 2001 there were no less than four different Ministers of Forestry.

[80] For example, see *Kompas*, 11.12.00; *Warta Ekonomi*, 2.9.00; *Kompas*, 4.3.00.

[81] PP6/1999.

[82] Certification In Indonesia: A Briefing, Down to Earth, June 2001 http://dte.gn.apc.org/Ccert.htm

[83] *Tempo*, 24.7.01.

In response, the Ministry of Forestry has made several additional attempts to regain a centralised control of HPH allocation. At one point the Ministry issued an implementing regulation for one of the regional autonomy laws stating that all forest land without a concession-holder was to be transferred to state companies. This plan faltered and was abandoned after protests from the Districts and existing HPH holders (Resosudarmo 2003). Most recently another implementing regulation was issued reserving the rights to grant large-scale HPH for the Ministry, but whether this one can have any effect where the others have failed remains to be seen. From 2001, a new institution called the BPK is also set to be involved in forest management on a national scale by issuing licenses for harvesting and becoming involved in planning.[84] But, as yet, little is known about whether this new body will be empowered or treated simply as another appendage to all the other activities.

This extraordinary proliferation of new constituents in the control of the distribution of HPH has led to conflicts between different levels of government as they each jostle for a bigger cut of forestry revenues. Two examples from Kalimantan serve to illustrate this point. The first represents a conflict between the Provincial Governor and the Central Government, where the Governor of South Kalimantan attempted to grant a concession to a well-known timber conglomerate for a plot of land which was not classified as potential HPH status. He became vocal in the press about the central government reneging on its promises of greater control over regional resources when the Minister of Forestry turned down his request to change the status of the land.[85] The second represents conflict between the Provincial Governor and the District *Bupati* as a result of the regulation which specifies that a Governor can only grant HPH on receipt of a recommendation from the *Bupati*. In this case, after protests from several NGOs, the *Bupati* decided not to give a recommendation for the granting of a HPH. However the Governor then invoked a Ministerial decree which stated that if the HPH area covered several district areas

[84] *Kompas*, 11.12.00.
[85] *Kompas*, 25.7.01.

then the Governor did not need the recommendation of a *Bupati* and in the end the HPH was granted anyway.[86]

Throughout these protracted struggles the one remaining constant has been accusations of corruption in the granting of HPH. The Ministry of Forestry, regional assemblies, *Bupatis* and Governors have all been accused of allocating HPH according to personal payments from timber companies where co-operatives are merely 'front organisations' for well-known conglomerates.[87] Thus, the myriad institutional changes which have occurred in the forestry sector have enabled a much broader distribution of opportunities to participate in corrupt exchange. This section will now turn to a consideration of the effects of reform on the business side of the corruption equation.

In an attempt by the Indonesian government to answer its critics on the issue of the concentration of HPH in the hands of a favoured few conglomerates, two new reforms were instituted in 1999. The first concerns the mandatory granting of up to 20 percent of new or newly extended HPH to local co-operatives and small and medium enterprises (SMEs). The second limits the area of HPH which one company is allowed to control to 400,000 ha throughout the whole of Indonesia and 100,000 ha in each Province.

The new regulation on co-operatives will be dealt with first. This regulation states that at least 10 percent and at most 20 percent, of the shares in new and newly extended HPH should be given to co-operatives and SMEs which are local to the HPH area.[88] This may seem like a laudable idea, but there are in fact many flaws to this plan.

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[86] *Kompas*, 29.6.01.
[87] *Kompas*, 26.2.01; *Kompas*, 23.5.01; *Kompas*, 11.12.00; *Warta Ekonomi*, 2.9.00; *Kompas*, 4.3.00.
[88] Based on Permen Negara Agraria/Kepala Badan Pertanahan Nasional (BPN) No.2/1999 10.2.99 and SK No.732/Kpts-II/1998 (*Infobisnis*, January 1999).

Such a plan has been around in Indonesia for many years, except that co-operatives were previously entitled to only 5 percent of the shares of HPH.[89] There are no current figures for the amount of co-operatives which have benefited from this regulation since the resignation of Soeharto, but Adi Sasono (see Box Three), the self-styled 'people's economy' spokesperson, testified at a hearing with the DPR that 89 HPH holders had already distributed shares to 415 co-operatives by the end of 1998.[90]

Critics of this approach to re-distribution point to the experience of the 1960s when the original bureaucratic and military recipients of HPH sold their rights to private businesses rather than become full participants themselves because of a lack of capital and skills. The new reforms have resulted in a repeat of such patterns, with co-operatives in practice almost always entering some kind of arrangement with a capital provider such as a foreign investor, well-connected entrepreneur or one of the timber companies that dominated in the Soeharto era. McCarthy (2001) estimates that the total cost of obtaining a HPH and logging 100ha of forest is at least Rp100 million (US$ 10,000), which militates against small community involvement and in favour of local elites with strong political or financial connections (Alqadrie et al 2002; Barr et al 2001 in Resosudarmo 2003).

Other weaknesses include the manipulation of co-operatives for the benefit of conglomerates and the non-transparent manner in which the allocations are given where the details of co-operatives receiving shares cannot be found in the public domain. This inevitably leaves the way open for the continuation of practices of patronage. There has been the occasional report in the press of co-operatives gaining shares of HPH through this programme which may have benefited a few genuine local co-operatives or small businesses,[91] but these seem to be the exception rather than the rule.

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[89] *Prospektif*, 20.1.99.
[90] *Prospektif*, 26.2.99.
[91] For example, see *Kompas*, 26.4.99.

The second major forestry reform of placing limits on the maximum amount of HPH which can be controlled by one company had more potential for changes in the concentration of ownership of HPH.[92] Similar to the co-operatives programme, it appeared in 1999 to much fanfare when the then Minister of Forestry claimed that they were 'no longer scared' of conglomerates since the resignation of Soeharto.[93] The idea was to phase in these limits by initially applying the regulation to only new or newly extended HPH. Such a policy again had its critics, with some maintaining that limits could be easily circumvented by the creation of dummy companies,[94] and others noting that a similar regulation issued during the tenure of Hasjrul Harahap as Minister of Forestry (1988-93) had had no effect on conglomerate concentration.[95]

In any case, in an extraordinarily under-reported move, it was decided in late 1999 that the new regulation be withdrawn, most likely under pressure from the timber companies.[96] The Minister of Forestry still claimed that he did not agree with the concentration of HPH ownership and as a substitute offered 'investigations' and the use of a progressive tax where those in control of 100,000 ha of forest would pay double to those in control of 50,000 ha.

Thus, it seems that both of the new efforts to decrease the concentration of HPH in the forestry sector have been less than successful. In order to further investigate this, some figures detailing the amount of HPH in operation are presented in Table 2.4 below.

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[92] This regulation is PP No.6/1999.
[93] *Infobisnis*, January 1999
[94] See for example, Brown 1999; Barber 2002; *Prospektif*, 26.2.99.
[95] *Prospektif*, 26.2.99.
[96] See *Warta Ekonomi*, 4.10.99. When this regulation first came out it was reported for days in all of the major media. But when it was withdrawn it only appeared for one day in this edition of *Warta Ekonomi*. This story is confirmed by Keputusan Menteri Kehutanan dan Perkebunan, Nomor : 084/Kpts-II/2000 (a Minister of Forestry Decree).

Table 2.4: HPH in Operation 1989 – 2001		
Year	**Number of HPH**	**Area of HPH (Millions ha)**
1989/1990	557	58,88
1991/1992	567	60,48
1992/1993	580	61,38
1993/1994	575	61,70
1994/1995	540	61,03
1995/1996	487	56,17
1996/1997	447	54,09
1997/1998	427	52.28
1998/1999	420	51.58
1999/2000	387	41,84
2000	362	39,16
2001	351	36,42

Source: Direktorat Jenderal Bina Produksi Kehutanan (Directorate General of Forest Production Development), Department of Forestry, Http://www.dephut.go.id/statistik

The above figures show that the number and coverage of HPH in operation has fallen by around a third since 1989. The reasons which the Department of Forestry have given for the withdrawal of HPH range from non-payment by the companies of DR to harvesting timber beyond the contractual limits of their HPH. Walhi, an Indonesian environmental watchdog, estimate that around 15 percent of the 25 biggest timber groups' holdings have been affected by withdrawals because of such violations,[97] whilst it was reported in July 1999 that violation-related withdrawals amounted to 1.36 million hectares (Robison 2004, p.202).

However, other figures show one of the most significant reasons for withdrawal could be that many of the concessions have already been exploited to such a degree that they are no longer productive and so represent little loss to the companies concerned. A report by the Ministry of Forestry in July 2000 indicated that about 30 percent of active and expired HPH were degraded, reduced to scrub, or converted to

[97] *InfoBisnis,* August 1999.

agriculture.[98] Nevertheless, the withdrawal of HPH on the basis of violations does represent something of an achievement given the involvement of well-connected conglomerates and the 'backing' that many still have from minor stakeholders such as high up bureaucrats or military personnel.[99]

HPH concessions whose term of contract has ended and has not been extended are shared between the forestry SOEs, co-operatives and small businesses. However, until the middle of 2001, out of the 15 million ha of HPH which were not extended, over 11 million ha were so degraded as to be basically unproductive and the responsibility to rehabilitate the land falls to the new owners with possible help from the DR funds.[100] There are no definitive figures for the relative amounts that co-operatives and SOEs have received of these ex-HPH concessions, but it seems that the majority goes to SOEs with the co-operatives gaining perhaps 2 million ha.[101]

Due to the high state of flux within the forestry sector at the moment, there are no data detailing the post-Soeharto distribution of HPH amongst specific conglomerate groups. However, since the fall in the overall amount of HPH has not been targeted at particular conglomerates, it seems likely that the same levels of relative concentration amongst the biggest timber conglomerates remains. This can also be inferred from the data presented in David Brown's report which compared the results of a similar shake-up of HPH ownership in 1994/95 with the situation in 1997/98. Here it was found that, despite an overall reduction in HPH across the forestry sector, the same levels of concentration were sustained (Brown 1999).[102]

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[98] Barber et al 2002. For other estimates of HPH degradation see *Warta Ekonomi*, 4.9.00; *Kompas*, 3.2.01.
[99] *Warta Ekonomi*, 10.8.98.
[100] *Kompas*, 26.6.01.
[101] There are conflicting figures about the amounts of HPH whose term of contract has ended and will not be extended. See *Prospektif*, 20.1.99; *Kompas*, 26.6.01; *Kompas*, 3.2.01; *Indonesian Commericial Newsletter*, 8.8.00; *The Jakarta Post*, 19.4.99.
[102] This was confirmed by an interview with David Brown (8.4.02).

Another difficulty in obtaining accurate data is derived from the involvement of IBRA, the state agency assigned to collect repayments from the private sector after the government bailed out the banking sector at the height of the economic crisis. Part of the debt of some debtor companies has been repaid to the government with company assets and it is the task of IBRA to restructure and sell these assets. However, IBRA has encountered many problems when trying to sell the assets, some of which come from the forestry sector, which means that in the intervening period before a sale can be made, IBRA is now the single most important holder or potential holder of forest and estate crop assets in Indonesia.[103]

This consideration of the forestry sector shows very clearly the effect of institutional change on patterns of corruption. The decentralisation programme along with numerous Ministerial Regulations from a Ministry in an extreme state of flux have opened up many more corruption opportunities for a much broader range of the state elite. But where forestry policy reform in the 1980s ensured a transfer of HPH from military and bureaucrats to private conglomerates, the post-Soeharto reforms have so far had little impact on the distribution of HPH nation wide. Without the provision of capital and training support, those co-operatives which actually receive re-distributed HPH will very likely turn over most of the value to conglomerate control.

The distribution debate in the forestry sector may at first seem very different from Pertamina or PLN, given the absence of a foreign dimension.[104] However, implicit in the distinction between co-operatives and conglomerates in Indonesia is an ethnic dimension where co-operatives are synonymous with *pribumi* and conglomerates with Chinese-Indonesians. Indeed, there is a common perception in Indonesia that

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[103] *Jakarta Post*, 27.1.00.

[104] Many sources mention the involvement of Malaysian firms in the Indonesian forestry sector, but in the absence of Malaysian firms from the top 15 holders of HPH, it must be assumed that their involvement is minimal.

a small group of Chinese-Indonesian business people looted the forestry sector in order to build their business empires.[105]

When used in relation to the forestry sector, the term *'pribumi'* also takes on a more local regional character rather than simply a catch-all term for Indonesians who cannot be described as Chinese-Indonesian. The post-Soeharto rise of the *'putra daerah'*,[106] regional elites whose identity is tied to local ethnic groups, has already been described by Minako Sakai (2003) in relation to power struggles over the giant cement factory in Sumatra. Because land use is such a locally sensitive issue, analyses of the forestry sector would also benefit from such a further distinction within the term *'pribumi'* between those elites based locally and in Jakarta. In any case, corruption in the forestry sector is still entangled in issues of both capital accumulation and ethnicity.

2.5 Conclusion

In terms of the major themes of this thesis, the three sectors reviewed in this chapter present some quite dramatic post-Soeharto changes to patterns of corruption in the allocation of government contracts. Most notably, the breakdown of the centralised political control exercised by Soeharto has resulted in the rapid proliferation of new state constituents in corruption. The national parliament, regional assemblies, *Bupatis*, Governors and new government agencies have now joined ministries and the President as the state beneficiaries of corrupt exchange. As institutional change and policy reform have proceeded apace and political power has become more widely dispersed, there has been no sense of the introduction of a system of checks and balances, but rather a spreading of corruption. In other words, the participants may have changed, but the way that business and the state 'do business' has remained the same.

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105 For example, see *Propektif,* 26.2.99, Suparlan (2002), Robison (1996), Barber (2000).
106 Literally 'sons of the regions'.

In contrast, movement on the business side of corruption has been much slower. In the oil and gas sector there has been a fairly successful freezing out of the most easily identifiable Soeharto-related companies with foreign interests taking up the slack. In the electricity sector some foreign governments have gone to extraordinary lengths to protect their national private business interests and as a result the structure of the Soeharto-era contracts have changed little. The business interests of the forestry sector have changed the least since the Soeharto period, although some redistribution to co-operatives seems to be occurring at the fringes.

By distinguishing the actors in corruption in this way, categorising according to business or the state and then further disaggregating within these categories, it becomes possible to flesh out the bare bones of the literature which deals with the effects of democratisation on corruption. Corruption has indeed initially spread in democratising Indonesia, but if the evolution of corruption in terms of who gets what at which sites is also focused on then the analysis has more significance. Such a significance is derived from the idea that corruption can never be destroyed but rather it is controlled through alterations of its character (Werner 1983, p.638 in Moran 1999, p.583). Thus, efforts to control corruption should be fed by analyses which highlight its particular forms.

Definitions of the Indonesian state must also be reconsidered in the light of the data presented in this chapter. Where various sections of the state were integrated through Soeharto before 1998 in one overarching patrimonial structure, the sub-patrimonial relationships which were its constituent parts now have more individual importance, especially where they are removed geographically from the centre of power in Jakarta. In other words, the centralised state of the Soeharto regime can now be described as multi-polar.

However, just as it is somewhat inadequate to simply describe corruption as spreading in response to democratisation, so a more detailed analysis of the effects of decentralisation on corruption is called for. In this regard Bardhan and

Mookherjee (2002) have forged new ground with their study of the determinants of the relative capture of local and state governments. Here, the authors posit that the degree of income inequality, the cohesiveness of interest groups and the level of loyalty to political parties within a region all affect the degree of government capture by vested interests. Their theoretical model carries with it some questionable assumptions, focusing exclusively on political party finance rather than personal enrichment, but they have nevertheless opened the way for a more sophisticated analysis of the effect of decentralisation on corruption. Whilst the data presented in this chapter does not consider Bardhan and Mookherjee's determinants of state capture, given that both *Bupatis* and Governors are chosen by the regional assemblies, there is much scope for further research on the effects that local political configurations have on patterns of corruption in the regions. From the standpoint of this chapter it may seem as though corruption automatically becomes endemic wherever new opportunities arise through institutional change, but a closer examination of the type forwarded by Bardhan and Mookherjee would likely turn up many other determinants of corruption besides the simple availability of opportunities.

In terms of the deeper *structural* determinants of corruption, this chapter has also shown that perceptions regarding the economic weakness of one ethnic group relative to another closely accompany corruption in all three sectors. In the oil and gas sector, the competition for contracts between domestic and foreign business interests is intense, and whilst it is recognised that foreign investment is needed, at the same time foreign control is feared. At least part of the motivation for government favouritism can be attributed to such a situation. The section on PLN highlights the strength of international capital, which is derived not only from superior access to capital and skills, but also from their own government's global political power. The way that economically weak groups define themselves in relational terms was demonstrated by the final review of the forestry sector. Where foreign control is less of an issue, the distributional focus returns exclusively to domestic constituents.

Whether the comparisons are between Indonesian and foreign, *pribumi* and Chinese-Indonesian, or even different *putra daerah*, ethnicity is a more prevalent unit of analysis than class in the domestic discourse on wealth distribution. Thus, if corruption is viewed as a system of wealth distribution, any attempts to eradicate it must also address this issue. For, whilst most anti-corruption programmes have already recognised that two of the functions that corruption fulfils, enhancing civil servant pay and providing political funding, have to be replaced, there is less appetite to address the issue of domestic capital accumulation in the same way.

The theoretical relevance of such a position is the support it gives to the idea that corrupt opportunities are not always allocated according to the market logic of who can pay the most, thus undermining one of the major tenets of the rent-seeking approach. That is not to say that the market mechanism of allocation is absent altogether; indeed it will be shown in Chapter Four that potentially lucrative positions within the business association community are now more likely to be allocated on these market terms than according to political influence as in the Soeharto era. Nevertheless, the point that ethnicity is under some circumstances one of the bases of corrupt allocation remains a valid one.

Chapter Three

INDONESIAN BUSINESS ASSOCIATIONS AND THEIR ROLE IN GOVERNMENT PROCUREMENT

3.1 Introduction

The government contracts reviewed in the last chapter were mostly for big, fairly spectacular projects negotiated by a select number of Chinese-Indonesian or Soeharto-family conglomerates with senior bureaucrats or Soeharto himself. But for a larger number of smaller *pribumi* companies and conglomerates in Indonesia, government favouritism is administered through business associations (BAs). Instead of direct contact with Soeharto or his aides, the rank and file of *pribumi* business people have their own contacts in the bureaucracy at a lower level for which BAs can be a useful vehicle.[1] The peak BA in Indonesia, Kadin (Indonesian Chamber of Commerce), is especially renowned as an organisation which groups relatively large *pribumi* business interests and has been regarded for many years as largely compliant towards the state. Sectoral BAs, some of which have been found to be more effective as representative policy advocacy vehicles, are generally considered to be more inclusive but still with a *pribumi* bias in membership (MacIntyre 1991).[2]

Analyses of BAs in the academic literature tend to reflect broader ideological divisions in attitudes towards private business in general. On the one hand there are those who see business as representing a legitimate section of civil society, acting to balance the power of the state. When dealing with the state, representative BAs are its proper expression (Bernstein et al 1998; Lucas 1997). On the other hand, there are those who regard business as occupying an especially powerful position in constellations of political power due to its control of resources. Here BAs are much more likely to be considered rent-seeking vehicles, formed in order to seek material rewards from the state for their small and exclusive membership (Moore 1993).

[1] *Kontan*, 13.12.99.
[2] In this thesis, the term 'BAs' is inclusive of both Kadin and Sectoral BAs. Where it is important to distinguish between the two 'Kadin' and 'sectoral BAs' will be used.

Each of the above views is more or less relevant depending on different country settings. The nature of the state, its historical evolution and resultant methods of maintaining power affect the role of BAs just as much as the structure of the economy and the character of the business community in general. However, it is also true that within a single country setting, BAs can be simultaneously conceived of as both rent-seeking vehicles and representative advocacy institutions. Thus it is also important to examine the more particular domestic circumstances under which each type of BA proliferates.

This chapter will explore the several different functions that Indonesian BAs serve. It will begin with a detailed examination of sectoral BAs in a bid to discover who they represent and for what purposes. The second half of the chapter will focus further down onto one specific function of BAs, their role as intermediary in the allocation of government contracts. Special reference will then be made to recent reforms in the government procurement process and the effects that these have had on the distribution of power in the BA community in general and on their role in contract allocation in particular. This section of the chapter will also offer insights into the idea that institutions can only be analysed as reflections of coalitions of interests, something which is denied by the nature of institutionalist analysis.

3.2 The Nature of Indonesian Business Associations

This section will provide some insights into the questions of who Indonesian BAs represent and for what purposes with the use of data collected from a questionnaire distributed for this thesis.[3] The results obtained from this questionnaire point to a clear division of Indonesian BAs into two distinct categories based on differences in their activities, attitudes, functions and membership structure. Firstly, there are BAs whose membership numbers are extremely small (on average fifteen members) and are solely constituted from large enterprises. Secondly, there are BAs whose membership numbers are much larger (from several hundred to several thousand)

and anchored in small and medium enterprises (SMEs).[4] The first type of BA will herein after be referred to as 'large enterprise associations', the second type as 'SME associations'.

In terms of the type of businesses comprising BA membership, the data showed that almost a third (31 percent) of the BAs polled had a membership 100 percent constituted from large enterprises. An additional third (31 percent) had a membership profile of 75 percent or more of SMEs. Thus, one third of BAs polled had an extreme concentration of large enterprises as its members, one third had a mixture of large and SME members and one third had a very high concentration of SME membership.

Significant statistical correlations were found between the number of members and the type of membership.[5] In other words, the more members a BA has, the more likely that their membership is made up of SMEs. Similarly, the fewer members a BA has, the more likely they are to be from large enterprises. Thus, it was shown that the third of associations who have membership made up of 75 percent or more SMEs also have large numbers of members, whilst the associations whose membership is 100 percent large enterprises also have small numbers of members.

This initial and rather crude measure to distinguish between two types of BA was bolstered by later findings of differences in a wide variety of questions relating to contact and attitudes towards the government and Kadin, as well as the internal

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[3] Analysis is based on 46 returned questionnaires. For further details of this questionnaire, see Introduction: Methods and Sources Used in this Thesis and Appendix Two.

[4] The definition of SMEs used in the questionnaire was a company who has less than 100 employees. This definition was chosen because it is the one used by the *Badan Pusat Statistik* (BPS) (Indonesian Central Bureau of Statistics) and so lends continuity to other BPS statistics on SMEs used elsewhere in this thesis. It should be noted that other Indonesian government agencies such as the Ministry of Trade and Industry, the Ministry of Finance, Bank Indonesia and the Ministry of Co-operatives and Development of Small Entrepreneurs use monetary definitions for SMEs such as assets or turnover (LP3ES et al 1998a).

[5] Using the Pearson correlation technique, a –0.47 score was found to be significant at the 0.01 level for the two variables of the number of members and the percentage of members from big enterprises. A Pearson correlation of 0.37 was found to be significant at the 0.05 level for the two variables of the number of members and the percentage of members from SMEs.

nature of the BAs themselves. In order to further explore this distinction, the next section will begin with differences in the internal characteristics and capabilities of these two types of BA.

3.2.1 Internal Business Association Characteristics

Table 3.1 below shows some differences between SME associations and large enterprise associations in terms of some of their internal characteristics.

Table 3.1 Some Internal Business Association Characteristics

Characteristic	**All Respondent Associations (mean)**	**SME Associations (mean)**	**Large Enterprise Associations (mean)**
Length of service of chairman	4.72 years	3.85 years	7.62 years
Number of full-time employees	6.12 employees	8.25 employees	4.55 employees
Association has branches in the regions	60.9 %	92.3 %	15.4 %

SME associations are likely to have more staff than large enterprise associations, which could mean that they take on more activities. There is also a stark difference between the likelihood of the two categories of BA having a branch in the regions. If a BA has branches in the regions then it is more likely to represent a large cross-section of their economic sector, rather than just a few companies.

The length of time the chairperson of an association has held that position is interesting because it shows some indication of the degree to which democratic practices are adhered to within the structure of a BA. This is especially relevant given the perception that many BAs function solely for the interests of the board and particularly the chairperson of the board. However, if the frequencies rather than the averages for the length of the chair's service are taken, a picture emerges where nearly 60 percent of the chairpersons of all respondent BAs have only held their position since 1998 or later. Given the absence of comparative data for the period before 1998 it is difficult to draw any firm conclusions about the meaning of this figure, but it is possible that a new generation of chairpersons are starting to come through since the fall of Soeharto.

Indications of the degree to which a BA is the 'property' of the board is also implied through a consideration of Charts 3.1 and 3.2 below.

Chart 3.1 Ownership of Office Premises

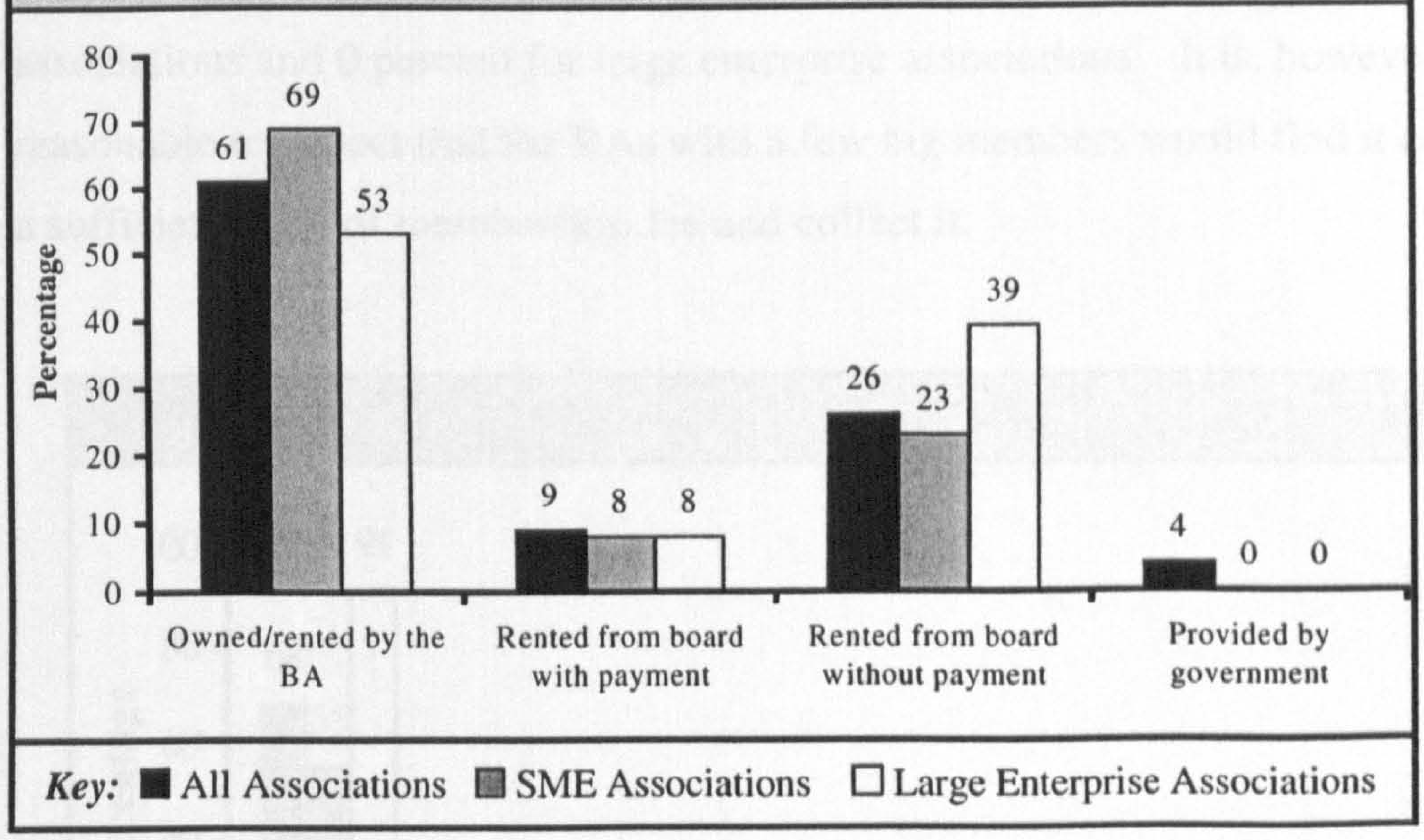
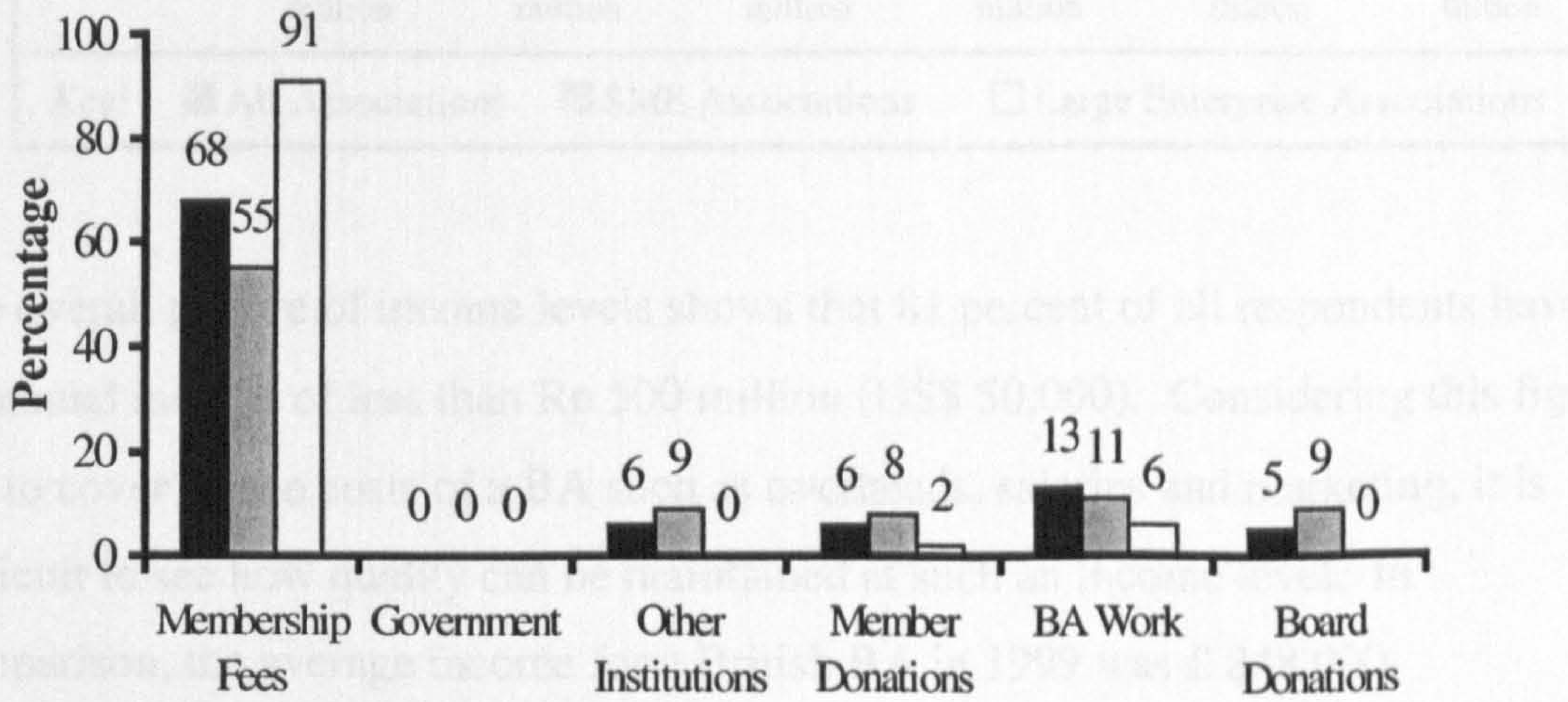


Chart 3.1 indicates this point literally with a consideration of who owns the office premises of BAs. It can be seen that large enterprise associations are more likely to be located on premises which are provided free of charge from a board member. This is relevant in view of the idea that the more board members contribute facilities and finance to the running of a BA, the more likely they are to expect a return on their investment in terms of how the BA can be used for the benefit of their own businesses. However, it should also be noted that the majority of BAs of all types pay for their premises out of the BAs' own funding which is contrary to other anecdotal evidence.[6]

[6] See for example, LP3ES et al 2000.

Another surprising result concerns the source of income for the two different types of BA. Chart 3.2 below shows that for all respondents, 68 percent of their income is derived from membership fees, whilst for SME associations that figure falls to 55 percent and for large enterprise associations, their income is 91 percent derived from membership fees. The received wisdom on Indonesian BAs is that many depend on donations from the board to survive which compromises the BA's activities in favour of the board's own businesses.[7] This is not borne out in the results of the questionnaire where respondents claimed that board members' donations on average made up a shortfall of only 5 percent of total income for all associations and 0 percent for large enterprise associations. It is, however, reasonable to expect that the BAs with a few big members would find it easier to set a sufficient level of membership fee and collect it.

Chart 3.2 Sources of BA Income



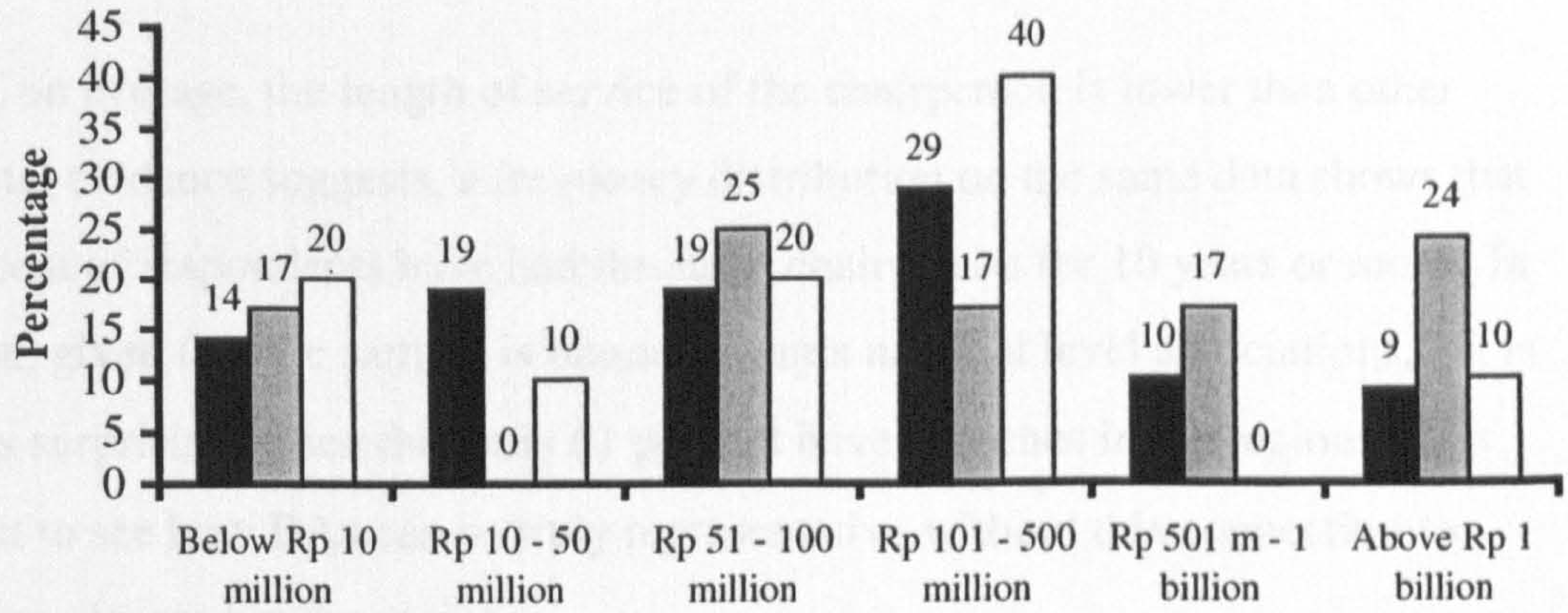
Key: ■ All Associations ■ SME Associations □ Large Enterprise Associations

Chart 3.3 below turns to actual levels of income. It can be seen that 50 percent of large enterprise associations have an income over Rp100 million (US$ 10,000), which is lower than the 58 percent of SME associations. SME associations are also more numerous in the Rp1 billion (US$ 100,000) or over category than the large enterprise associations. It was also found that there was no statistical evidence of

[7] LP3ES et al 1998a, p.47; MacIntyre 1991, p.52.

any relationship between the level of income of BAs and the percentage of members from big enterprises.[8] This indicates a trend whereby big businesses may keep a BA running for certain tasks, but do not rely on them for all of their representation needs. If the BAs were indeed central to the activities of large enterprises, then it should follow that they would be generously funded.

Chart 3.3 **Levels of BA Income**



Key: ■ All Associations ■ SME Associations □ Large Enterprise Associations

The overall picture of income levels shows that 81 percent of all respondents have an annual income of less than Rp 500 million (US$ 50,000). Considering this figure has to cover all the costs of a BA such as overheads, salaries and marketing, it is difficult to see how quality can be maintained at such an income level. In comparison, the average income for a British BA in 1999 was £848,000 (Fairclough 1999). When a purchase power parity calculation is applied to equalize the cost of living in the UK and Indonesia, the average income of an Indonesian BA is approximately one fifth of the income that a British BA receives in real terms.[9]

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[8] Using a Pearson correlation technique, the score of –0.24 was found to have no significance.
[9] Purchase power parity conversion factor of 0.2 was obtained from the World Bank website. This is the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as a U.S. dollar would buy in the United States.

Thus, some indicators of the internal characteristics of Indonesian BAs are that income is generally low. The majority of income is derived from membership fees, with the shortfall being made up from member and board donations, other institutions and association work. However, income-generating work is still relatively underdeveloped.[10] The absence of direct government funding may have positive implications for the independence of BAs, although as we will see in the next section, BAs are still dependent on informal sources of government funding derived from the process of government contract allocation.

Whilst, on average, the length of service of the chairperson is lower than other anecdotal evidence suggests, a frequency distribution on the same data shows that 15 percent of respondents have had the same chairperson for 10 years or more. In addition, given that the sample is biased towards national level associations,[11] it is perhaps surprising to see that only 61 percent have branches in the regions. It is difficult to see how BAs can be truly representative without this connection to businesses located in the regions.

In terms of a comparison between the subsets of large enterprise and SME associations, the data shows that large enterprise associations are likely to have less income and fewer employees than SME associations and rely more on membership fees. The chairperson of large enterprise associations is also likely to hold the position for longer and to provide the association office premises free of charge. The likelihood of BAs having a branch in the regions is drastically reduced if its membership is made up of large enterprises. Essentially then, large enterprise associations have less internal capacity, are more reliant on their board or chairperson and have fewer connections to the regions than SME associations.

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[10] In comparison, U.K. business associations obtained on average 33 percent of their income from commercial services (Fairclough 1999).

[11] The sample is most likely biased towards national level associations as a reflection of the original sources of lists of business associations (see Introduction: Methods and Sources Used in this Thesis).

Section 3.2.2 Business Association Activity

Table 3.2 below gives some indications of which categories of activity a BA undertakes. It can be seen that a high percentage of respondents give information to members, socialize with members and lobby the government and other institutions. This is in comparison to the lower figures for providing managerial support and other services. Although the exact nature of the government lobbying can not be deduced from the table below, it is nevertheless interesting to note that such a high percentage of respondents are engaged with the government. A further breakdown of BAs interaction with government will be provided in Section 3.2.4.

Table 3.2	**Percentage of BAs Which Engage in Given Activities**		
Activity	**All Associations**	**SME Associations**	**Large Enterprise Associations**
Giving information to members	94%	92%	100%
Lobbying the government to influence government policies	83%	69%	100%
Lobbying other institutions (media, BAs, international) for members' interests	76%	77%	85%
Providing technical or managerial support for members	56%	77%	46%
Providing other services to members such as issuing certificates	57%	85%	31%
Meeting and socialising members	91%	100%	100%

The figures from Table 3.2 also indicate some interesting differences between the activities of large enterprise and SME associations. The most marked divergence between these two types of BA are in the provision of technical/managerial support, other member services and lobbying the government. SME associations are less likely to engage in lobbying the government and more likely to provide technical/managerial support and other services than large enterprise associations.

Whilst it may be intuitive to presume that large enterprises are in less need of managerial/technical support than SMEs, it is surprising that nearly a third of SME associations claimed not to engage at all on lobbying the government. This is in line with the LP3ES study which found a mismatch between the needs of SMEs and the services provided by BAs. Basically, BAs target their SME programmes to the provision of managerial help whilst SMEs themselves would rather BAs provide them with help in activities such as contacting the government (LP3ES 1998a, p.38).

Table 3.3 below shows a remarkable divergence in the percentage of respondents who have ever sanctioned a member. This question was included in the questionnaire because of its potential to indicate the level of professionalism that a BA demands from a business in order to become a member. If a BA has never sanctioned a member, then the likelihood is that there are no checks on the quality of service that a business provides to the public. This is in contrast to the perception of the role of BAs in the West, where membership of a business association often denotes a degree of professionalism.

Table 3.3	**Percentage of BAs Who Have Ever Sanctioned a Member**	
All Associations	**SME Associations**	**Large Enterprise Associations**
47%	69%	25%

Since more than half of all respondents have never sanctioned a member, if, for example, a foreign business was searching for Indonesian partner companies, then BA membership would provide no assurance of quality. The fact that 75 percent of large enterprise associations have never sanctioned a member shows that their ability to 'police' the behaviour of their members in such a way is seriously compromised. Indeed, it seems that it is only the Indonesian government who rates

BA membership as important since it has been both a formal and informal prerequisite for a business to bid for government contracts.[12] This again points to the idea that the organisational principle of BAs is geared towards obtaining government contracts for their members.

Thus, in terms of activities, most BAs spend time giving information to members, socialising members, lobbying the government and other institutions and less time providing managerial support and other services. Comparing large enterprise and SME associations shows that the former are more likely to engage in lobbying activities with the government and less likely to sanction members or provide technical/managerial support or other services.

Section 3.2.3 Business Association Relationship with Kadin

The distribution of power in the BA community is generally conceived of as being shared between sectoral BAs on the one hand and Kadin, the Indonesian Chamber of Commerce on the other. At the end of the 1980s, MacIntyre (1991) found that, in contrast to the state-sponsored and largely compliant Kadin, some sectoral BAs fulfilled pluralist aspirations by acting as representative organisations in the policy process. Over the years, there have been indications of conflict between these two BA constituencies in their struggle to attain close contact with the government which will be explored in more detail in Section 3.4. This section will first provide some initial data about the BA/Kadin relationship.

Firstly, in terms of membership, Table 3.4 below shows that 78 percent of all respondents claimed to be members of Kadin. However, it should be remembered that this figure is not likely to faithfully reflect the overall situation in Indonesia.

[12] The importance of BA membership for businesses taking part in government procurement was also touched on in interviews with Anthony Sunarjo (13.12.01), Faisal Basri (14.11.01) and Ibu Tuti (5.12.01).

Rather, it is probable that there are hundreds of BAs that are not members of Kadin, but are extremely difficult to locate.[13]

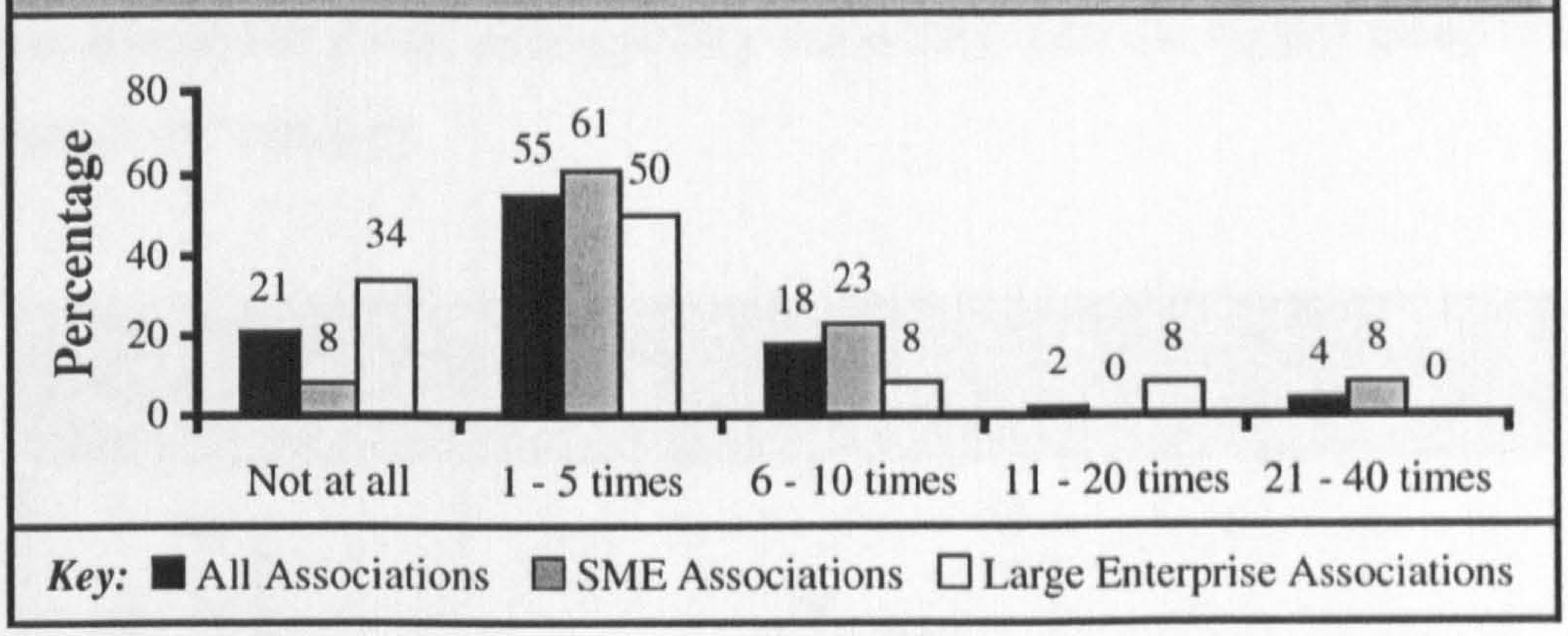
Table 3.4	BA Membership of Kadin		
	All Associations	SME Associations	Large Enterprise Associations
Membership of Kadin	78%	92%	61%

In comparative terms, there is some divergence between the inclination of SME associations and large enterprise associations to become members of Kadin, with SME associations more likely to do so. Since large enterprise associations engage more in lobbying the government than do SME associations, membership of Kadin could be considered by the former to be somewhat redundant. It seems that SME associations value Kadin membership more than large enterprise associations.

Chart 3.4 gives an idea of the number of times that a BA has contact with Kadin in a six month period. The figures for those who have no contact at all tally roughly with the figures for non-membership of Kadin, except for a few large enterprise associations who have contact with Kadin even though they are not Kadin members. It is difficult to read much meaning into the chart below, except to give a rough picture of BAs contacting Kadin around once a month. What does this say about the relationship between Kadin and its BA members? Perhaps only that it does not seem particularly vigorous.

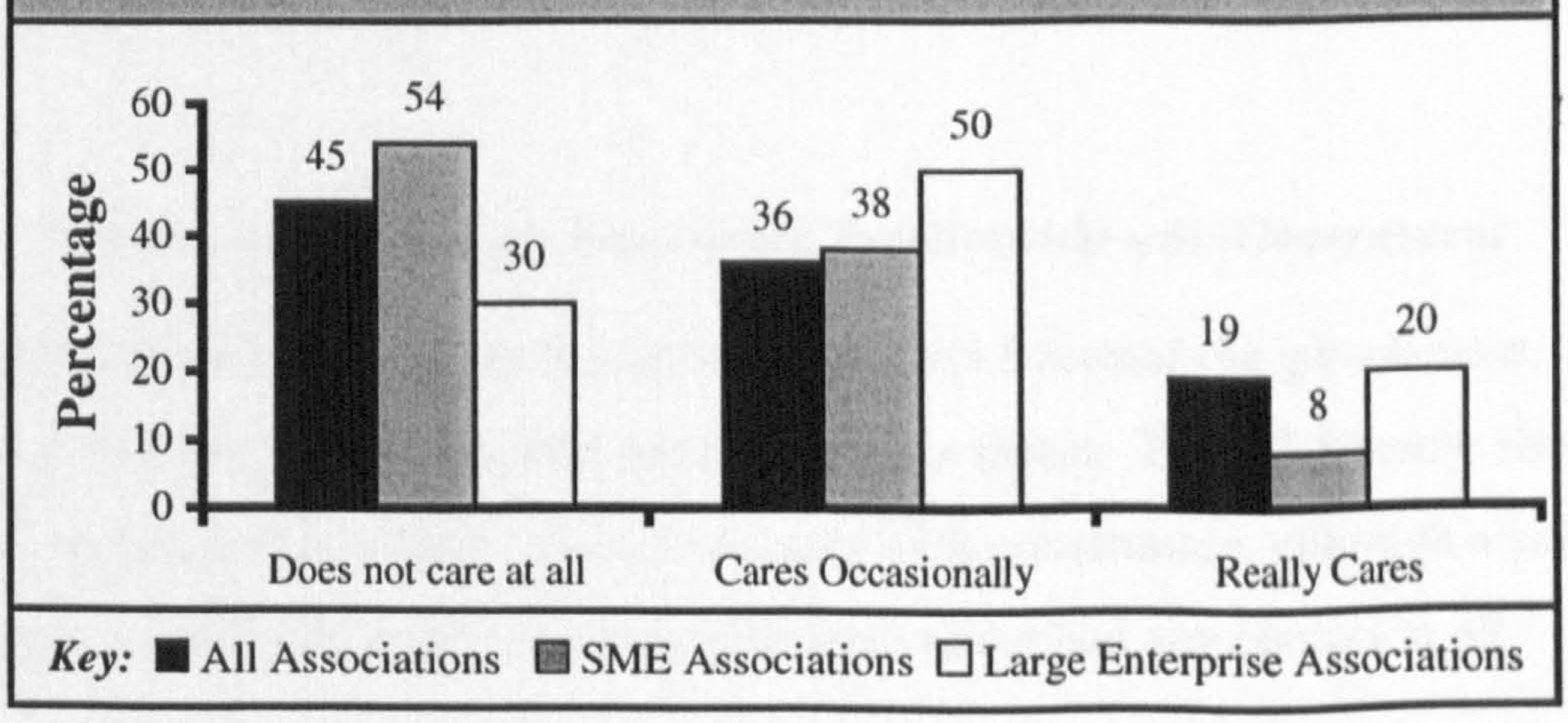
[13] This point was also made in interviews with Tulus Tambunan (1.11.01), M. Husain (27.11.01) and Arfan Sofyan (2.11.01).

Chart 3.4 Frequency of BA Contact with Kadin in Last 6 Months



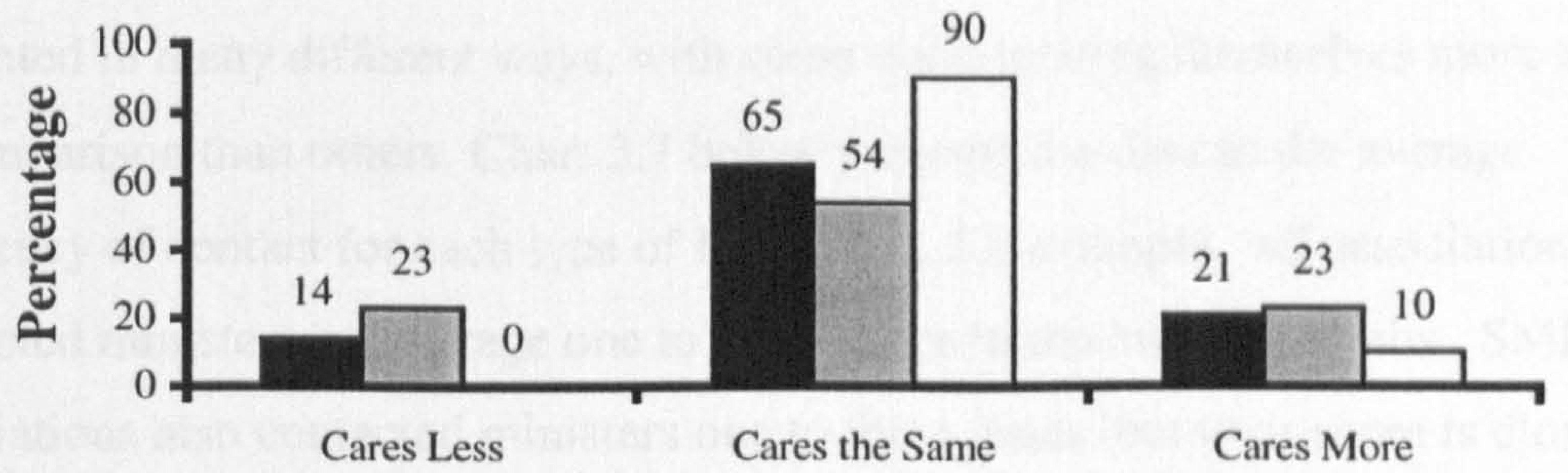
When asked about their own opinion of their relationship with Kadin, Chart 3.5 shows that a slim majority of BAs felt that Kadin did not care at all about their members' interests. This was followed by fairly large numbers of BAs who gave a noncommittal 'cares occasionally' answer. The low numbers of respondents who felt actively positive about the quality of contact they have with Kadin attest to the strains which will be explored in Section 3.4 below. Even though SME associations are more likely to have Kadin membership, it can be seen that they are also the most dissatisfied with their relationship with Kadin.

Chart 3.5 Level of Kadin Responsiveness to BAs



In order to ascertain whether, in the opinion of BAs, there had been any changes to Kadin after the fall of Soeharto, respondents were asked to compare its level of care with five years ago.[14] As can be seen in Chart 3.6, the majority of all types of BA felt that there had been no changes. Again, it is the SME associations who are the most dissatisfied group, although they marginally form the biggest group in the 'cares more' category.

Chart 3.6 Level of Kadin Responsiveness to BAs Compared to 5 Years Ago



Key: ■ All Associations ■ SME Associations □ Large Enterprise Associations

Generally then, the overall levels of satisfaction with Kadin are low. In the questionnaire, respondents were given the opportunity to add their own comments and it is instructive to note that most of the respondents who used this facility did so in order to berate Kadin. SME associations were seen to be more likely to hold membership of Kadin, but less likely to be satisfied with Kadin's service than large enterprise associations.

Section 3.2.4 Business Association Relationship with Government

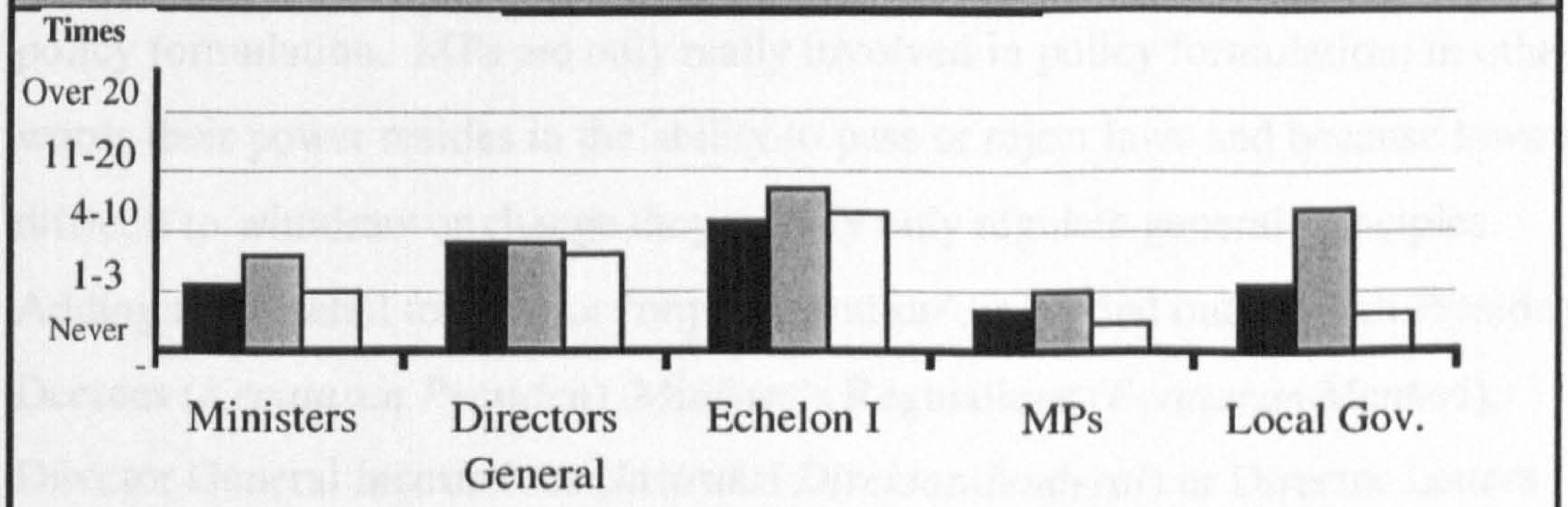
This section now moves to the relationship between BAs and the government, which is, after all, one of the main concerns of this thesis. Table 3.5 below shows that the vast majority of BAs have had contact with government, although a small proportion of SME associations claimed to have never had any contact at all.

[14] The survey was carried out in 2001, so that five years ago means 1996.

Table 3.5	Has this BA ever had Contact with any Level of Government?		
	All Associations	**SME Associations**	**Large Enterprise Associations**
Answered 'Yes' to Contact with Government	96%	85%	100%

The respondents were then asked to fill in a grid which offered different levels of state and categories of frequency of contact. Data structured in this way can be presented in many different ways, with some ways lending themselves more easily to comparison than others. Chart 3.7 below presents the data as the average frequency of contact for each type of BA. Thus, for example, 'all associations' contacted ministers on average one to three times in the last six months. SME associations also contacted ministers one to three times, but their score is closer to the next category than 'all associations', so that they can be said to have been in contact with ministers more frequently.

Chart 3.7 Frequency of BA Contact with Various State Levels in the Last 6 Months



Key: ■ All Associations ■ SME Associations □ Large Enterprise Associations

Chart 3.7 shows that for all associations, the level of state which is contacted most frequently is Echelon I bureaucrats,[15] followed by Director General, ministers, then local government. Members of parliament receive the least amount of contact from BAs. Since it is the Echelon I and Director General levels which create policy at the

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[15] This is the highest grade in the Indonesian bureaucracy. The grades run from Echelon V to Echelon I.

implementing stage rather than the law making stage, this data substantiates the oft-mentioned proclivity of businesses to try to influence the government at the level of policy implementation rather than policy formulation (Gray 1991, p.774).

It can also be seen that, out of all the levels of the state, members of parliament are the least contacted by all types of association. Since the demise of Soeharto's rule, the previously submissive parliament has been growing as an additional locus of power. Coalitions of political parties have formed and dissipated over many different issues and even played the central role in forcing out President Wahid in 2001, something which would have been inconceivable under Soeharto. Members of parliament have also been frequently implicated in corruption, being paid off to support one motion or reject another.

Such anecdotal evidence seems to suggest that there is the potential of a conflation of interests between the business community and MPs, so why is this not expressed through BAs? It could be that the type of issues that form the main focus of BA representation are targeted at the level of policy implementation rather than the policy formulation. MPs are only really involved in policy formulation; in other words their power resides in the ability to pass or reject laws and because laws are difficult to withdraw or change they usually only regulate general principles. Adding more detail to laws, or 'implementation', is carried out through Presidential Decrees (*Keputusan Presiden*), Minister's Regulations (*Peraturan Menteri*), Director General Instructions (*Instruksi Direktor-Jenderal*) or Director Letters (*Surat Direktor*).[16]

However, there is also a tendency for regulations to be made from the bottom of the system upwards, with lobbying from public servants to raise the status of a regulation to the next level in the hierarchy. Sectoral decisions, made by senior public servants in different Ministries, may thus eventually join with other decisions to form a government regulation authorised by the President after ratification by the

[16] The higher the issuing official, the more powerful the regulation or decision (see Appendix Six).

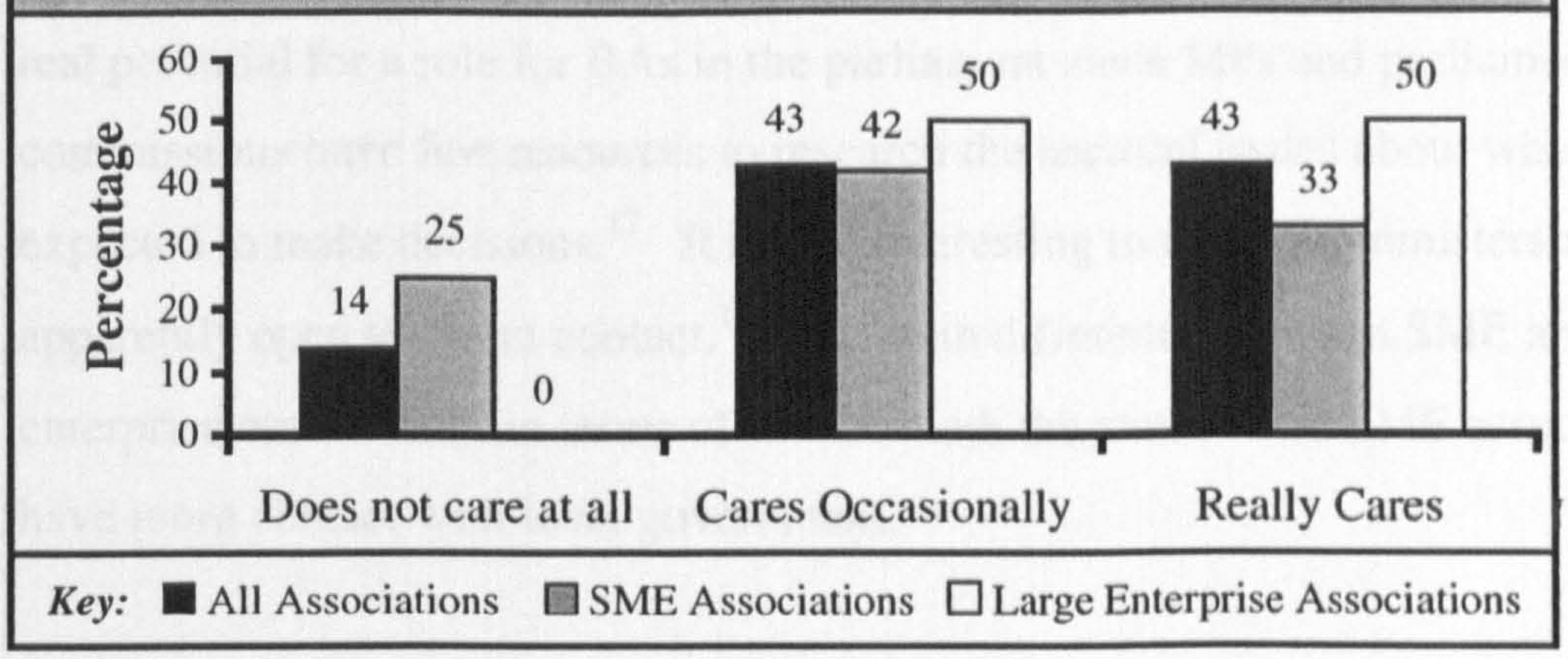
Parliament (Freeman 1993, p.45). There is, therefore, also some scope for a coalescence of interests between MPs and BAs. Perhaps the reason why there is not much contact between BAs and MPs is simply that there has not been enough time for connections to develop. It would be interesting to see if contact has become more frequent in ten years' time.

One of the most surprising aspects of Chart 3.7 is that, marginally, SME associations have more frequent contact with all levels of the state. The greatest difference between SME associations and large enterprise associations is the frequency of contact with local government. There are two levels of regional assembly in Indonesia which have the power to issue regulations along with the Governor and other local officials. Again, the reasons why SME associations have more contact with local government may be around the requirements that SMEs face if they wish to enter bids for government contracts. In any case, it seems that with greater numbers of members, more regional branches and a closer connection to local government, SME associations are representing their members much more substantially throughout the whole of Indonesia.

When asked about the reasons for contacting government, both types of association claimed that influencing laws was their main reason. However, because there was no distinction made between the stages of the laws, that is formulation or implementation, this question provides little additional insight. The other categories offered were goods inspection, transport and electricity tariffs, trade tariffs and employment law. These other categories gained low scores, except for large enterprise associations who differed substantially from the other types of associations in rating trade tariffs as a major reason for government contact.

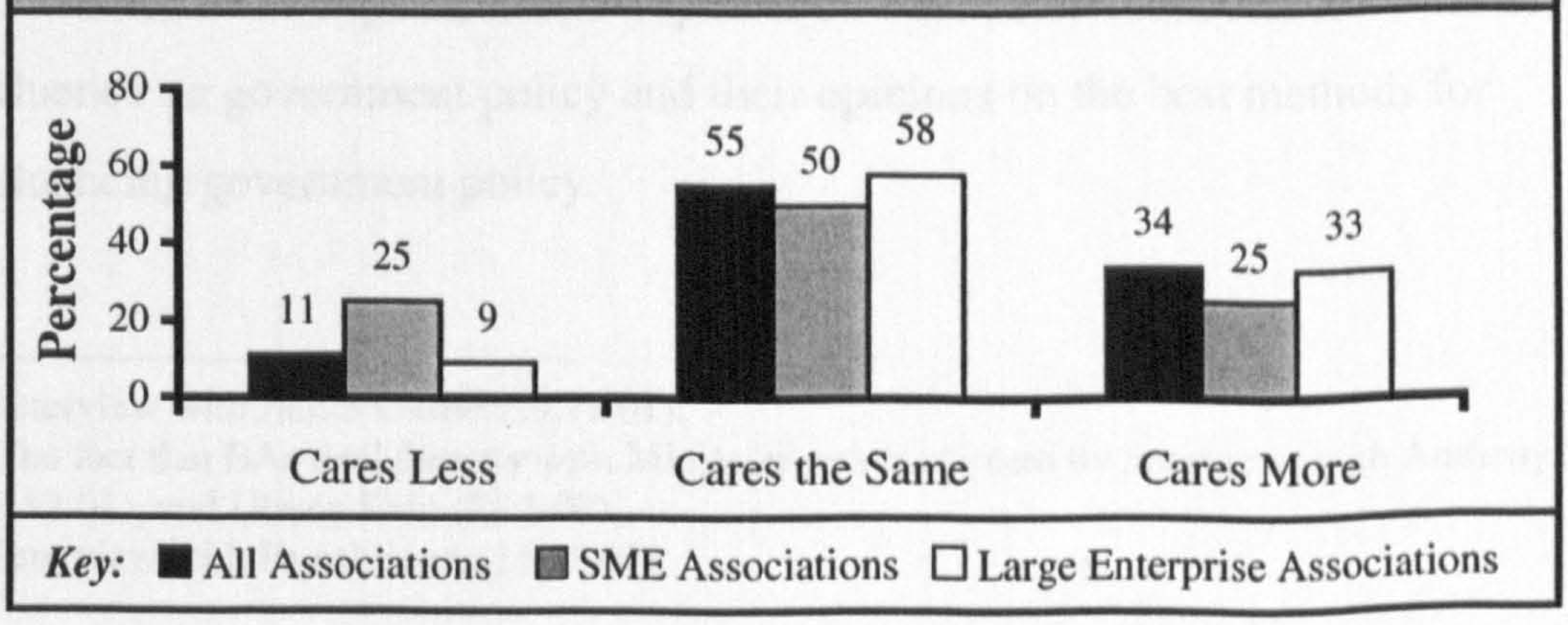
In terms of how satisfied BAs are with the level of care they receive from the government, it can be seen from Chart 3.8 that the government fares better than did Kadin in Chart 3.5. A substantial number of respondents from both types of BA are actively positive about the responsiveness of government. However, it can also be seen that SME associations are less satisfied with their relations with government by the numbers in the 'does not care at all' category, a sharp disparity when compared with large enterprise associations.

Chart 3.8 Level of Government Responsiveness to BAs



Similarly, Chart 3.9 shows that respondents reacted more positively to a five-year comparison of government behaviour than they did to the same comparison for Kadin, with a third of all associations feeling that the government had improved in responsiveness to their needs. This is most likely connected to the decline of state corporatist control over BAs since the Soeharto period which will be further explored in Chapter Four. Here, once again, SME associations prove to be less satisfied, perhaps highlighting the higher levels of need of these associations and/or the neglect of both Kadin and the government of substantial help to the SME constituency.

Chart 3.9 Level of Government Responsiveness to BAs Compared with 5 Years Ago



In summary, the vast majority of BAs have had contact with the government, although not particularly frequently. Only the Echelon I officials have more frequent contact than 1-3 times in a six month period. Predictably, it is at the two senior bureaucratic levels that there is the highest level of communication. The data also indicates that links have yet to be forged between BAs and MPs. Yet there is real potential for a role for BAs in the parliament since MPs and parliament commissions have few resources to research the sectoral issues about which they are expected to make decisions.[17] It is also interesting to note that ministers are apparently open to direct contact.[18] The main difference between SME and large enterprise associations in terms of contact with the state is that SME associations have more contact with local government.

The levels of satisfaction with the quality of BA contact with the government is surprisingly high, especially when compared with how they feel about the quality of their relations with Kadin. In other words, from the perspective of BAs, the relationship between them and the state is more robust than with their own peak organisation Kadin. However, SME associations are consistently less satisfied than large enterprise associations with their relationship with government which correlates with findings that SME associations are less likely to have influence on government policies because they are less likely than large enterprises to have contacts within the government.[19]

Section 3.2.5 Business Association Attitudes towards Influencing Government Policy

This section will explore BA perceptions of which constituencies have the most influence on government policy and their opinions on the best methods for influencing government policy.

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[17] Interview with James Castle (29.11.01).
[18] The fact that BAs deal directly with Ministers was confirmed by interviews with Anthony Sunarjo (13.12.01), and Utama Kajo (28.1.02).
[19] Interview with Faisal Basri (14.11.01).

The first question asked which constituencies respondents considered to be the most influential at national policy level. This question was included in order to ascertain BAs' opinion on their relative power in the policy process compared to other constituencies. Respondents were asked to write a number next to each constituency where one = has very weak influence, two = has a little influence, three = has quite a strong influence, four = has a strong influence and five = has a very strong influence. Essentially, the higher the score, the more influential each constituency is considered. Table 3.6 below shows the average score that both types of BA gave to each constituency.

Table 3.6 Relative Influence of Various Constituencies on National Policy

Constituency	All Associations	SME Associations	Large Enterprise Associations
President and Cabinet	4.31	4.1	4.45
IMF	3.65	3.9	3.6
DPR	3.15	3.3	3.4
Mass Media	3.11	3.70	2.7
Local Government	2.63	2.3	2.9
Domestic Conglomerates	2.54	3.27	2.4
Trade Unions	2.51	2.8	2.8
Foreign Conglomerates	2.47	3.2	2.4
BAs	2.32	2.09	2.45
The Military	2.32	2.6	2.7
NGOs	2.24	2.4	2.3
Kadin	2.14	2.2	2
Universities and Research Institutes	1.97	2.2	1.7

The general consensus from all associations was that the President and the cabinet had the most influence on government policies, followed by the IMF, the DPR and the mass media. Although there is nothing particularly surprising about this result, it nevertheless attests to the emergence of a major new player in the policy struggle, the IMF. It is also interesting to note the relatively high scores which the DPR obtained despite the fact that, in Chart 3.7, MPs were the least frequently contacted by BAs. This could lead to the conclusion that it is MPs who are not very receptive to contact from BAs rather than BAs who consider them superfluous to their needs.

Respondents considered themselves to have a relatively low level of influence, outranking only NGOs, Kadin and Universities. Again, this points to the low regard in which BAs hold Kadin. Time and time again it seems that Kadin is considered somewhat redundant to the needs of the business community.

The most marked divergence between SME associations and large enterprise associations was that the former considered foreign conglomerates, domestic conglomerates and the mass media to be more influential than did the latter. Yet, even in view of these higher scores which SME associations attributed to conglomerates, they are still relatively lower than one might have expected. The image of Indonesia, especially abroad, is of a country in the hands of a small circle of elite businessmen and their state patrons, but this view does not seem to have quite so much currency from these respondent BAs.

Curiously, SME associations, which were shown in Chart 3.7 to have the most frequent contact with local government, also consider them to be less influential than did the other two types of association. This could indicate that SME associations contact local government for reasons other than influencing policy.

Moving on to BAs' opinions of the best ways to influence government policy at national level, respondents were asked to give a score for each method of influence, where one = not at all effective, two = not effective, three = quite effective, four = effective and five = very effective.

Table 3.7	Most Effective Methods of Influencing Policy		
Method of Influence	**All Associations**	**SME Associations**	**Large Enterprise Associations**
Direct contact with Ministers	3.56	3.82	3.56
Direct contact with government officials	3.35	3.36	3.8
Forming coalitions with other organisations	3.34	2.30	2.44
Testifying before a DPR commission	3.34	2.6	2.11
Holding a press conference	3	3.20	3.44
Direct contact with MPs	2.83	3.20	2.67
Asking members to contact government departments	1.97	1.8	1.89
Direct contact with Kadin	1.89	1.91	1.89
Asking members to contact MPs	1.74	1.8	1.44
Holding a demonstration	1.51	1.90	1.22

Table 3.7 shows most associations consider that contacting ministers, government officials, forming coalitions with other organisations and testifying before DPR commissions are the best ways to influence government policy. This last method, testifying before DPR commissions, adds an extra dimension to a consideration of the relationship between BAs and parliament. BAs asking their members to contact the government directly is considered by the respondents to be ineffectual and obtains the lowest scores along with working through Kadin and holding demonstrations.

One of the biggest differences between SME associations and large enterprise associations is that the former rate contacting MPs more highly than the later. This corresponds with the findings in Table 3.6 and again highlights the potential of greater connections between BAs and the parliament. It also indicates that the views expressed by respondents in this question may not be based on actual experience but rather preconceived attitudes since actual contact with MPs is so low (see Chart 3.7). The other biggest difference between the two types of BA is that SME associations regard holding a demonstration to be more effective than do large enterprise associations.

Sections 3.2.1 to 3.2.5 have provided some clues to the nature of Indonesian BAs in general. Their internal capacities are weak and their income is limited. Satisfaction levels with Kadin are low and contact infrequent. Communication with the state is concentrated around the bureaucracy, but also includes substantial contact with ministers who are considered to be the best route for policy influence. Even though MPs are also considered influential, their relationship with BAs is relatively undeveloped.

In a bid to discover whether Indonesian BAs can be considered rent-seeking vehicles or legitimate representatives of a section of civil society, it was found that there are two distinct types of BAs. The first represent mostly SMEs with a relatively more inclusive membership both sectorally and geographically. This type of BA focuses more on providing managerial and technical support to their members than on lobbying the government, but where government contact does occur it tends to be at a local level with bureaucratic heads. The second type of BA has a small membership of large companies and is more orientated towards lobbying the government, especially on national level issues such as trade tariffs.

Thus, the two functions so far found in Indonesian BAs are firstly, to assist SMEs with managerial capabilities and government regulations mostly at the local level. The second function a BA may serve is to provide the public face of lobbying for large enterprises on issues such a trade tariffs. Instructive as the results of the questionnaire proved to be, they nevertheless capture only a limited picture of all the functions which BAs serve. In order to gain a fuller understanding of Indonesian BAs, it is now necessary to bring in some more qualitative evidence of the type which is impossible to uncover in a self-completion questionnaire. The next two sections will therefore examine the cartel function of some BAs and their role in government procurement.

Section 3.3 Business Associations' Cartel Function

The definition of a cartel is an association of producers who agree to fix common prices and/or output in a particular sector of the economy. It can also involve bid-rigging, allocation of customers and allocation of sales by product or territory.

Essentially, a cartel can only work with a small group of businessmen who each control large portions of a whole sector which is why BAs with a small membership of large sector-specific enterprises are particularly disposed to such practices. Enforcement is crucial for the successful operation of cartels since if one major player in a sector does not co-operate then the cartel disintegrates. Also, as the numbers in a cartel grow, the gain from violating it generally increases faster than the loss from a punishment when detected (Eatwell et al 1987, p.373). Thus, in the context of this chapter, only large enterprise associations with small numbers of members have the opportunity to act as cartels, so that this forms another major difference between SME associations and large enterprise associations.

Although cartels only really began to arise at the end of the nineteenth century with the appearance of large private firms, the history of BAs across the world from medieval times onwards shows that cartels and BAs were often synonymous. However, led by the U.S. in the 1930s, the practice began to be outlawed after World War II in most industrial non-communist countries, although they do still exist (Eatwell et al 1987, p.373).

Today, BA functions are expected to be concentrated around representation of sectoral interests at all levels of the legislature, the supply of information to members, the promotion of standards and market opportunities (DTI 1996). The vast majority of the literature on BAs in developing countries focuses on these functions and rates BAs in terms of how far they measure up to these ideals. Consequently the cartel functions of BAs are either ignored or simply dismissed as perversions which should be prohibited.

Indonesia has a long history of cartels. Table 3.8 below gives some examples of the types of cartel practices and BA involvement in recent years.

Table 3.8	**Some BA Cartel Practices**
Business Association	**Details**
APKI *(Asosiasi Pulp dan Kertas Indonesia)* (Association of Indonesian Pulp and Paper)	APKI has been accused of fixing prices for print paper. One company controls 72% of production capacity of print paper and effectively has the power to decide on the price of print paper, especially if imported print paper is more expensive than the local variety. The Secretary General of APKI has gone on record as admitting to price fixing before 1997.
ASI *(Asosiasi Semen Indonesia)* (Association of Indonesian Cement)	ASI has been operating a price fixing cartel since the mid-1970s. There is a high concentration of companies in the cement sector, with one company controlling 28% of the cement market and around 5 other major players. With the approval and involvement of the government, cement suppliers fixed prices and shared the market between them. The market was shared on a geographical basis by the companies and the amount each could sell in each region was decided between the government and ASI.
ASMINDO *(Asosiasi Industri Permebelan dan Kerajinan)* (Association of Furniture and Handicraft)	The Sulawesi branch of ASMINDO arranged limits on the trade of *rattan* (bamboo cane) between Indonesian Provinces with support from a local Governor's decree. No *rattan* carrying boats were allowed out of Sulawesi unless the *rattan* was of a type that was too big for local use. For this type of *rattan*, export to other Provinces was allowed only by obtaining licenses from ASMINDO. To obtain a license it was obligatory to be a member of ASMINDO.
ORGANDA *(Organisasi Angkutan Darat)* (Organisation of Land Transport)	ORGANDA has been involved in setting taxi tariffs.

Table 3.8	Some BA Cartel Practices
INACA (Indonesian National Air Carriers' Association)	INACA was permitted by the Ministry of Transport to collectively set price benchmarks from which airfares in Indonesia may be calculated.
APKINDO *(Asosiasi Panel Kayu Indonesia)* (Association of Indonesian Plywood Producers)	Only companies who were listed as registered exporters with APKINDO were allowed to export. The export of plywood was controlled by APKINDO through a market zoning and quota system and prices were also fixed. The Department of Trade legitimised all of these policies. There were also overseas markets whose exports were not subject to quotas but export had to be through an APKINDO marketing board.
APRINDO *(Asosiasi Pengusaha Retail Indonesia)* (Association of Indonesian Retail Businesses)	There was an unwritten contract between the distributors of milk and retail businesses through APRINDO for a minimum sale price of milk. This was based on the government's decision of the price of milk.
IPIES *(Ikatan Pengusaha Industri Es)* (Federation of Ice Producers)	The price of ice supplied to businesses, restaurants and for export was fixed by IPIES in conjunction with the government.
AEKI *(Asosiasi Eksportir Kopi Indonesia)* (Association of Indonesian Coffee Exporters)	In order to export coffee, companies had to be registered with the Department of Trade and Industry on the recommendation of AEKI.
GAKESLAB *(Gabungan Perusahaan Alat-alat Kesehatan dan Laboratorium)* (Federation of Medical Instruments and Laboratories)	In order to import or trade in medicines, companies had to get a license from the Department of Health on a recommendation from GAKESLAB.
ASBI *(Asosiasi Sarang Burung Walet Indonesia)* (Association of Swallow Nests)	The export of bird's nests for Chinese cuisine has a lucrative multi million dollar market. ASBI was run by Soeharto's grandson, Ari Sigit, and had monopoly rights on the export of the nests. A fee was also charged to exporters for every kilogram exported.
INKOPTI *(Induk Koperasi Produsen Tempe Tahu Indonesia)* (Tempe and Tofu Producers' Cooperative)	INKOPTI was involved in fixing the price for soybeans, the staple ingredient of the very popular *tempe* and *tofu*.

Sources: The Center for Indonesian Policy and Law Studies, Georgetown University & Partnership for Business Competition (2001), Position Paper: Pengantar Menuju Pelaksanaan Persaingan Usaha; *Republika*, 11.5.01; Loughlin, C., Marks, S., Shauki, A., Sirait, N., (1999) Laporan Kebijakan Persaingan Indonesia, USAID; *Business News*, 25.6.01; Meier, Markus, The Republic of Indonesia's Antitrust Law and Its Commission for Business Competition, CSIS, USAID & PEG, Seminar on Indonesian Economic Institution Building in a Global Economy, Borobudur Hotel, Jakarta, 13.8.01; *Jakarta Post*, 30.6.01; *Indonesian Commercial Newsletter*, No.238, 27.2.98; *Info Bisnis*, April 1998; LP3ES (1998) (Institute for Social and Economic Research, Education and Information), CIPE (Center for International Private Enterprise; an affiliate of the US Chamber of Commerce), LP3E-Kadin (Institute for Economic Studies, Research and Development – Kadin), *Studi dan Dialog Kebijaksanaan Peningkatan Daya Saing Usaha Kecil dan Menengah (UKM), Prosiding Dialog Ketiga, Peranan Asosiasi Usaha Dalam Peningkatan Daya Saing UKM*, Hotel Aryaduta, Jakarta, 31st March 1998; Backman, M. (1999) *Asian Eclipse: Exposing the Dark Side of Business in Asia* Singapore, John Wiley & Sons.

Undoubtedly Table 3.8 only scratches the surface of BA involvement in cartels as there are likely to be many more undocumented cases.[20] Like so many other aspects of the Indonesian economy, by fixing prices, restricting access of new entrants and bid-rigging, cartels ensure a high concentration of economic resources in the hands of the few. However, there are crucial differences between the degrees and motivations of the above examples. Whilst there are some cartels such as APKINDO and ASBI which were clearly exploitative and earned their well-connected directors vast amounts of private funds at the expense of other producers and consumers, most of the other cartels in Table 3.8 also served alternative purposes.

There is a clear distinction in economic theory between public and private cartels. In the former the government theoretically makes and enforces the rules but typically under strong influence from the affected industry. In the latter, cartels involve private agreements with no government involvement (Eatwell 1987, p.372). Many of the cartels detailed above were not only organised with the acquiescence of the government but in fact implemented government policies.

For example, the justification for the cement cartel run through ASI was to keep the price of cement lower in the regions. Development in its crudest form is based on construction and without affordable materials in the regions, construction and thus development suffers. The government's policy was to encourage the sale of cement at a level higher than market prices in the more developed regions of Indonesia so that the price of cement in the regions could be subsidised. Similarly, restrictions on trade in *rattan* from the island of Sulawesi to Java were supported by the local government in order to protect the cottage industries on Sulawesi which used *rattan* as a principal material. The higher prices which *rattan* can fetch on Java would otherwise have directed it away from Sulawesi and many local industries would

[20] The vice head of the KPPU has also implicated *Gabungan Agen Tunggal dan Asembler Kendaraan Bermotor Indonesia* (GAIKINDO) and *Gabungan Pengusaha Elektronik Indonesia* (GPEI) (*Bisnis Indonesia*, 28.9.00; *Kontan*, 18.9.00). Beer and soft drinks sectors have also been suspected of cartel practices (Interviews with Thomas Darmawan, 16.11.01 and with M. Husain, 27.11.01).

undoubtedly have suffered. These cartels were thus operated in order to correct market imperfections arising from the extreme geographic spread of the Indonesian state.

The stabilisation of prices is also a major motive for cartels and APKINDO, APRINDO and INKOPTI all achieved this goal for plywood, milk and soybeans respectively. However, by manipulating the market in such a way, producers or consumers at other points in the production chain inevitably suffer. It also provides opportunities for the exploitation of such regulations and the handful of well-connected individuals who ran these cartels were able to amass vast pools of wealth.

In 1997 the IMF made it one of the preconditions for obtaining emergency funds that Indonesian cartels be abolished, arguing that other methods of, for example, subsidising development in the regions be used instead of the operation of cartels. The new 1999 anti-monopoly law has also had an effect on cartelisation with the anti-monopoly body, the *Komisi Pengawas Persaingan Usaha* (KPPU), ruling on ORGANDA and INACA and investigating INKOPTI and APKI. The Indonesian government has also unilaterally withdrawn their support for many of the cartels listed above, but in oligopolistic markets it can be very difficult to ensure that some form of cartel does not still exist. Indeed, the vice head of the KPPU has admitted the difficulties they face in dealing with BAs since the jurisdiction of the anti-monopoly law covers individuals rather than organisations.[21]

Thus, whilst the cartel function of BAs has been affected quite substantially in the post-Soeharto period, there is still likely to be a degree of cartelisation in the Indonesian economy.

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[21] *Bisnis Indonesia,* 28.9.00; *Kontan,* 18.9.00.

Section 3.4 The Role of Business Associations in Government Procurement

As we will soon discover in the next chapter, the fall of Soeharto has led to the dissolution of formal corporatist methods of state control over the BA community. The sectoral BAs which MacIntyre (1991) identified in the late 1980s as prime examples of a new trend in collective action can only benefit from this new environment. Especially where there are clear issues around which BAs can organise,[22] there are undoubtedly some BAs that fulfil the pluralist aspirations of becoming extra-bureaucratic groups, shaping sectoral policies and securing autonomy from the state.[23]

Changes in the BA sector have also been elicited by the economic crisis and resultant political instability. For, as Haggard and Kaufman (1995) suggest, "the implicit or explicit bargains between political leaders and key support groups...break down under conditions of economic crisis, thereby creating incentives for the private sector to defect from the bargain and begin political protest 'from below'" (p.55).

With this decline in corporatist control and the breaking apart of previous coalitions, there are indeed signs that the BA sector in Indonesia has entered into a stage of renewed invigoration since 1998. Firstly, although exact figures are difficult to come by due to the informal nature of many BAs, there is no doubt that there has been a proliferation of new BAs in recent years.[24] Secondly, the state-sponsored Indonesian Chamber of Commerce (Kadin), which has always faced challenges from other BAs and federations of BAs keen to establish their relative legitimacy as

[22] For example, ASIRI *(Asosiasi Industri Rekaman Indonesia)* (Association of the Indonesian Recording Industry) have been active on the issue of copyright and IKAPI *(Ikatan Penerbit Indonesia)* (Indonesian Publishers' Association) on tax exemption for books and copyright (Interview with M. Husain, 27.11.01).

[23] These three features were identified in Thai BAs by Anek Laothamatas in 1992 and in Indonesian BAs by MacIntyre (1991).

[24] For example, it has been estimated that 95 new business associations have been formed from 1998 - 2001 in the food and beverage sector alone (interview with Thomas Darmawan, 16.11.01). Meanwhile, the chairman of the BA section in Kadin estimates there have been 45 new BAs formed from 1998 - 2001 across all sectors (interview with Arfan Sofyan, 2.11.01).

representatives of the business world, has recently been confronted by an extraordinary level of bitter criticism from many sectoral BAs. The regional branches of Kadin, known as Kadindas, who were up until 1998 considered weak and compliant entities, have also recently been challenging Kadin's authority.

However, these new developments are far from fulfilling the pluralist aspirations of effective and representative non-state actors in the policy process. Rather, they represent a dispute between sectoral BAs, Kadin and Kadindas over access to a share of the value of government contracts allocated to private business.

This section will use a case study approach to explore BAs' role in the process of government procurement and the effects that recent institutional change has had on this role. It will also detail the effects that these reforms have had on the structure of power *within* the BA community. It will do this by exploring the process through which various sections of the BA community have appropriated access to the system of government procurement at the expense of others.

3.4.1 Funding: A Long Term Problem for Business Associations

Funding has always been an issue for all three sections of the business association community in Indonesia, that is, Kadin, Kadindas and sectoral BAs. The 1987 law which gave Kadin a legal basis, also rather grandly proclaimed that all businesses (including SOEs) and BAs in Indonesia were Kadin and Kadinda members.[25] The law did not, however, follow this principle through to its logical conclusion by making provisions to impose penalties on businesses or BAs who have not become fully paid up members of Kadin. Thus, in practice, there is no obligation for businesses or BAs to become members of Kadin.

In addition, a general dissatisfaction with the service provided by Kadin and Kadindas has meant that Kadin and Kadindas rely on donations from board members and a handful of conglomerates for operational costs. In practice, it is the Chairman of Kadin who guarantees Kadin's funding which means that the job of Chairman is effectively restricted to those from a conglomerate background, which itself has obvious implications for Kadin's representativeness.

These funding problems have been recognised and debated by Kadin itself. The 1999 *Munas*[26] formed a committee to deal with this issue which resulted in a recommendation that Kadin's funds should come from a percentage of the export/import earnings of Indonesian business. Such a scheme would have to be guaranteed in some form by the government and is highly unlikely to occur. Kadin officials have also been very vocal about their share of the delegation of income-generating services for the private business sector. Services such as the issuance of certificates of origin, recommendations for the provision of business licenses and the registration of companies have long been a source of contention between Kadin and the government since these functions are administered from government departments rather than Kadin.[27]

Sectoral BAs also generally have difficulties sustaining themselves financially as can be seen from Chart 3.3 above. It should also be noted that the survey respondents who produced this data were all fairly well-established national level BAs,[28] which means that even these findings likely correspond to the most prosperous segment of Indonesian BAs. Other research on Indonesian BAs has also confirmed the insufficiency of BA funding (LP3ES 2000).

Apart from this obligation to supplement the organisational income of BAs, it is also widely recognised that the board members of many BAs often use their position for

[25] Individual businesses can only become members of Kadin through the regional Kadindas. Only those sectoral BAs which are national (are active in at least 5 provinces) can become members of Kadin.
[26] *Munas* (*Musyarawah Nasional*) is the highest decision-making body within Kadin. It is a meeting held every 5 years to vote in a new Kadin Chairman, decide on Kadin policies and appraise the work of the previous 5 years.
[27] Interview with Utama Kajo (28.1.02). See also *Merdeka*, 23.1.99 and *Bisnis Indonesia*, 15.1.99.
[28] 90 percent of the respondent BAs were formed before 1990.

the exclusive benefit of their own businesses.[29] In view of this, any access to more opportunities for personal self-enrichment will obviously be met with a high degree of enthusiasm.

3.4.2 The Role of Business Associations in Government Procurement under Keppres 16/1994.

This section will provide a context within which to situate the effects of a new government procurement regulation on the BA community. It will briefly present the role of Kadin and BAs in the government procurement process prior to the new procurement regulation.

Before the new procurement regulation was introduced in 2000, the government procurement process was regulated by *Keppres* 16/1994 and associated ministerial and other implementing regulations. In order to compete for government tenders, businesses were required to be registered with the local government by providing such information as the name, address, sector of business, experience and levels of capital.[30]

The formal role of sectoral BAs and Kadin in the tender process was as a site of advertisement for the tenders, in addition to the national media. However, in Indonesia, it is often difficult to distinguish between formal regulations and informal practices and in reality businesses had to be a member of Kadin and one of three BAs before they were considered by the heads of government projects for a contract.[31] The three BAs in question are called INKINDO (the Indonesian Association of Consultants), GAPENSI (Indonesian Contractors Association) and

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[29] For example, LP3ES 1998b, p.10. In an interview with a long-term head of a BA conducted for this thesis, it was estimated that at least 50 percent of all BAs operated exclusively for the benefit of the board members' companies.

[30] *Keppres* 16/1994, Lampiran 1, Nomor 3.

[31] The authority to decide on who are the winners of government contracts varies depending on the value of the contract. Government projects are divided amongst departments, where, for example, a project to make school books will be under the Department of Education. Each department appoints a project manager (*Pimpro*) who is authorised to decide on the winners of a tender. As the value of

ARDIN (Association of Indonesian Suppliers). These three cover large swathes of the economy and have a substantial membership base.[32]

BAs in Indonesia are often criticised for covering multiple sectors of the economy rather than specific sectors. One of the reasons why BAs have formed in this way may be because of their role in the government procurement process. If BAs were formed to become policy advocacy vehicles then they would be much more likely to organise around specific industries with specific problems. But it is clear that the successful BAs are those who cover multiple sectors in order to have a high degree of involvement in as much government procurement as possible. If this point is taken into consideration then the trend in recent years of BAs splitting into several smaller ones covering more specific sectors,[33] may have wider implications for the future of interaction between BAs and the government.

Over the years, ARDIN, INKINDO, GAPENSI and Kadin all became clubs where the board members, in partnership with government officials, extract a share of the value of a government contract as payment for their recommendation to win a tender.[34] Motivation for getting onto the board of these BAs was in consequence particularly high and bitter personal conflicts often resulted. Since it was particularly important to be involved in ARDIN for success in government procurement,[35] there have been many bitter struggles for the lucrative position of Chairman of this association. All over the country there are different versions of ARDIN who all claim legitimacy as the real ARDIN, causing much confusion amongst business people and observers alike.[36]

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the project rises then extra authorisation is needed from the department's Director General, the Minister and the Economics Minister.

[32] *Inkindo* has membership of 3,450 and *Gapensi* has 43,000 members (World Bank 2001). *Ardin* has 8,000 members in Jakarta alone (*Kompas*, 6.9.02).

[33] This trend was recognised in LP3ES 2000.

[34] The amount skimmed from government projects by these BAs was usually from 2-5 percent of the total value (*Kontan*, 21.2.00; *Bisnis Indonesia*, 27.1.00).

[35] *Bisnis Indonesia*, 27.1.00

[36] See, for example, *Suara Karya*, 3.4.00; *Media Indonesia*, 30.6.00; *Suara Pembaruan*, 25.8.00; *Business News*, 28.8.00; *Bisnis Indonesia*, 16.3.01.

Thus, although BAs had a rather limited formal role in the government procurement process under *Keppres* 16/1994, their informal role of diverting government contracts towards favoured businesses was monopolised by three BAs and Kadin.

3.4.3 The Role of Business Associations in Government Procurement under Keppres 18/2000

Since the fall of Soeharto, reform in the government procurement regime has become a major issue for donors, the Indonesian government and domestic and international business alike. One aspect of this reform process has been the introduction of a new regulation, *Keppres* 18/2000. This regulation covers topics such as basic principles and ethics of procurement, tasks of project heads, systems of evaluation and qualifications and classes of potential providers.

In substance, the new *Keppres* is not a huge departure from the previous one but there have been some changes. For example, the responsibilities of project managers have been clarified, authority to grant contracts has been adjusted according to the worth of contracts, and qualification prerequisites for becoming a project manager have been introduced (World Bank 2001). No doubt under pressure from international donors, restrictions based on the domicile of bidders have also been removed and the inherent preference which the 1994 regulation espoused for 'economically weak groups' (*'golongan ekonomi lemah'*) has now changed to the slightly more egalitarian 'small and medium firms'. This is more egalitarian because 'economically weak groups' is synonymous with *pribumi* business whereas 'small and medium enterprises' does not carry such a strong notion of ethnicity.

But for the purposes of this chapter, the most interesting reform which *Keppres* 18/2000 instituted was that the certificates previously provided by the *local government* to enable companies to participate in government procurement were from then on to be issued by *BAs*. Subsequent implementing regulations stated that Kadin's new role would be limited to assessing the competence of BAs to give these certificates to companies. If Kadin decided that the BAs were up to the job then they could be accredited by Kadin to certificate companies in their sector who were interested in government contracts.

These directions seem clear enough. The formal and informal benefits of involvement in the government procurement process which the three BAs and Kadin had previously enjoyed were now to be distributed to a wider variety of BAs. In comparison, Kadin's role was to be relatively minor, effectively limited to setting up the system. However, there was a grey area in the implementing regulations that allowed Kadin to hijack the process mainly for the benefit of their regional Kadindas and led to much acrimony from the sectoral BAs.

Just a few weeks before the new *Keppres* was to come into force there was a meeting between the Chairman of Kadin and two senior bureaucrats from *Bappenas* and the Ministry of Finance, which resulted in the issuance of an implementing regulation.[37] This implementing regulation stated that if a BA was not considered by Kadin to have the requisite capabilities to issue certificates to companies in its sector, or if there was no obvious BA which covered a particular sector, then the certificates could be issued temporarily by Kadin. Since it is largely the regional Kadindas that deal with individual companies, the Kadindas set about forming centres where certification could take place.

These centres are called *Panitia Bersama Sertifikasi Propinsi* (PBSP) (Joint Committee for Provincial Certification) and were touted by Kadin as organisations of co-operation between BAs and Kadindas in the awarding of certificates to companies. But it soon became apparent that it was the Kadindas who controlled these new institutions. All certificates had to be signed by only the head of the Kadinda and the head of the PBSP, which meant that certificates could be issued

[37] The meeting occurred on 19th December 2000 between Anshari Ritonga (*Dirjen Anggaran Departemen Keuangan*) and M. Abduh (*Deputi Bidang Pembiayaan Bappenas*). *Keppres* 18/2000 was due to begin on the 1st January 2001. The implementing regulation is called: Surat Keputusan

without the acquiescence or even knowledge of sectoral BAs.[38] Moreover, whilst 10 percent of the profit-share from certification went to Kadin Indonesia, the remaining 90 percent was left to be 'organised' by each Kadinda and PBSP.[39] This degree of latitude in profit-share from certification which the Kadindas have found themselves with has led to variations across the country. In some provinces, the Kadindas seem to have offered enough to some BAs to make it worth their while to participate in the PBSP and a protracted conflict was avoided. In others the battle between BAs and Kadindas over who has the right to provide certification is still continuing.[40]

Another implementing regulation was later released by the Ministry of Finance and *Bappenas* which clarified that it should be BAs and not Kadin who provide certificates to companies.[41] But the Kadindas claimed that they had already invested a great deal in setting up their PBSPs and refused to comply, pressuring Kadin Indonesia to support their position.[42]

And the stakes are indeed high. Estimates vary about the total worth of certification. One source suggested that there were around 50,000 companies that need certification and that Kadin is charging between Rp 250,000 to Rp 4 million (US$ 25 to US$ 400) for each certificate[43] which works out at around US$ 10 million per year.[44] Another estimates that there are 2 million companies who will need certificates at an average cost of Rp 30,000, which translates at around US$ 6

Bersama (SKB) (Letter of Joint Decree) No. S-2262/D:/05/2000, dated 3.5.00 (*Buletin Kadin*, No.31, December 2000; *Satunet Online*, 13.12.00).

[38] *Buletin Kadin*, Nomor 31, December 2000.

[39] *Buletin Kadin*, Nomor 31, December 2000.

[40] For example, the East Java Kadinda and *Ardin* have been working together (*Bisnis Indonesia*, 29.11.00). The West Sumatra Kadinda and most BAs except Ardin agreed to co-operate in that region's PBSP (*Bisnis Indonesia*, 22.12.00). Continuing conflicts over PBSPs have been occuring in North Sumatra (*Kompas*, 19.5.01) Central Java and Nusa Tenggara Barat (*Kompas*, 22.1.02), amongst others.

[41] SKB No.6196/B-08/11/2000, dated 10.11.00.

[42] *Bisnis Indonesia*, 4.12.00; *Rakyat Merdeka*, 24.11.00; *Satunet Online* 13.12.00.

[43] *SatunetOnline*, 13.12.00.

[44] This figure is an approximation. It is calculated by multiplying the amount of companies (50,000) by an average cost (Rp 2,000,000) and dividing by an approximate exchange rate of 10,000.

million.[45] Whatever the real figures, it is clear that *every year* certification is *formally* worth something in the region of a few million US dollars, which is quite substantial in view of the average BA income of US$ 50,000 or under.

In addition to the formal costs of certification to companies, there have also been confirmed reports of informal costs or bribes that companies have to pay to the PBSPs or the BAs in order to get their application processed.[46] Then there are the other rent-extraction opportunities that will inevitably present themselves once a foothold in the bureaucratic chain of decisions on government contracts is established.

The potential gains in both formal and informal funding are not the only issues for BAs. The three big BAs which were previously involved in certification under the last Keppres have the most to lose if they cannot regain control over the certification process. For example, the Jakarta branch of ARDIN has recently complained that its membership in Jakarta has fallen from 8000 to 600 because the PBSPs have taken over certification.[47]

However, it is unlikely that any more than around 20 national level BAs will eventually be accredited by Kadin.[48] Those associations who do receive the accreditation are generally already dominant ones which have the requisite capabilities to provide certification because of their history of links to the Golkar party.[49] There have also been allegations that the Chairman of Kadin has had undue influence over deciding which associations will receive accreditation.[50]

As far as the business world is concerned, *Keppres* 18/2000 has been nothing short of disastrous. There have been thousands of instances where companies have

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[45] Interview with Elias Tobing (14.11.01).
[46] For example, the DPR has received many complaints about the high informal costs of certificates from Kadin. See *Kadinet*, 21.2.01.
[47] *Kompas*, 6.9.02; *Business News*, 28.8.00.
[48] *Suara Karya*, 26.8.00.
[49] *Business News*, 28.8.00.

bought certificates from one source, only to be told from another source that they are invalid.[51] The parallel system of accreditation and certification in the construction sector has led to similar confusion as two separate bodies vie with each other to issue certificates, each claiming that certificates from the other are invalid.[52] Complaints have also been reported from companies wishing to bid for multi-sectoral contracts which detail the costs both in time and money that they must endure to obtain certificates from many different BAs.[53]

From the government's point of view the new *Keppres* has also been far from successful. One of the stated goals of the *Keppres* is to reduce corruption in government procurement by ensuring that companies who win tenders are not fictive fronts for other companies and can manage the contract themselves. But, judging from the speed of issuance of certificates, the checks made on companies are minimal and no different in substance from the certificates that were previously issued by local government.[54] International donors are also sceptical of the system and take the position that only those companies who have been accepted into the last stages of a bid should be evaluated.[55]

Essentially, then, the changes to the certification regime embodied in *Keppres* 18/2000 has enabled a wider range of BAs more opportunities to gain a share of government procurement through corrupt practices. The proliferation of new sectoral BAs since 1998 has been largely in response to these new opportunities as it has been alleged that many have formed simply to get a piece of the certification action.[56]

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[50] Interview with John Palinggi (27.11.01).
[51] *Bisnis Indonesia*, 13.11.00; *Bisnis Indonesia*, 22.11.00; *Bisnis Indonesia*, 6.12.00; *SatunetOnline* 13.12.00; *Bisnis Indonesia*, 14.4.01; *Bisnis Indonesia*, 17.4.01.
[52] *Kompas*, 22.1.02.
[53] *Kompas*, 6.9.02.
[54] For example, in 10 months the South Sulawesi *Ardin* issued 2000 certificates (*Bisnis Indonesia*, 13.12.00). In 11 months, *Gapensi* issued 4000 certificates (*Kompas*, 16.2.01). In 12 months, the Jakarta PBSP issued 4000 certificates (*Suara Karya*, 2.3.01).
[55] Interview Rana Naseer Ahmad (19.10.01).
[56] Interview with Arfan Sofyan (2.11.01). Interview with John Palinggi (27.11.01). See also *Suara Karya*, 7.2.01.

It is also no coincidence that two of the three BAs who previously held a monopoly on involvement in the certification of companies under the 1994 *Keppres* are now beset by newly established rivals. GAPENSI, the construction association, now faces a challenge by a new construction association called GAPEKNAS who are fighting for recognition from Kadin. GAPEKNAS' membership of Kadin is being denied on the grounds that it would mean two associations catering to the same business members which is against Kadin's rules. However, GAPENSI have also hit out at GAPEKNAS by, in some cases, suspending members from their organisation if they are seen to be involved with their new rival.[57]

There is also a new rival association to ARDIN in the provision of government goods and services sector, called ASPANJI. Whilst ASPANJI too has been denied membership by Kadin for the same reason as GAPEKNAS, there have been allegations that in order to reduce the power of the troublesome ARDIN, the Chairman of Kadinda Jakarta has been conspiring with ASPANJI to get it accepted into Kadin whilst at the same time manipulating the election of the board to the local ARDIN.[58]

In addition to these new opportunities for BAs to participate in corruption, *Keppres* 18/2000 has also had a marked effect on the structure of power within the BA community, catalysing long standing resentments between the sectoral BAs and Kadin over Kadin's bias towards *pribumi* conglomerates and the weak position of BAs within Kadin's decision-making structures.

There has been a dramatic rise in the level of criticism aimed at Kadin with individual sectoral BAs, loose coalitions and more formal federations filling Indonesian newspapers with statements of discontent with Kadin and particularly its handling of the certification issue. ASPANJI, ARDIN, HIPLI, ABE, GP.FARMASI and GAKESLAB, INKINDO and GAPENSI all made separate and joint statements

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[57] *Liputan6 Online*, 10.7.01.
[58] *Suara Karya*, 7.2.01; *Bisnis Indonesia*, 11.4.01; *Suara Karya*, 9.4.01.

about their disaffection with Kadin.[59] Federations such as FNKA and Kadin UKM were formed around the issue of certification,[60] whilst others such as Fornas UKM and a proposed federation from PIBI concentrated on other perceived inadequacies of Kadin.[61] Indeed, the exchanges between ARDIN and Kadin became so acrimonious at one point that ARDIN's membership of Kadin was temporarily frozen due to its 'anti-Kadin feelings'.[62]

Criticism of Kadin also came from a more unexpected quarter, the regional Kadindas. In the late 1980s, MacIntyre (1991) described the Kadindas as 'passive and pliant organisations' who could be 'orchestrated without great difficulty' (p.48-50). However, the certification issue galvanised the Kadindas into action since, as already mentioned, it was the Kadindas who were set to benefit most from Kadin taking over the certification.

At the end of 2000 and throughout 2001, Kadin came under enormous pressure from Kadindas to maintain control of certification. Despite circulars that Kadin sent to Kadindas to remind them that they only had authority to certificate companies who did not belong to a BA,[63] the Kadindas maintained their position and even attacked particular Kadin members for conspiring with the government to take away this 'right'.[64] It was also the Kadindas who reportedly pressurised Kadin into suspending ARDIN's membership.[65]

The source of the Kadindas' power to exert this level of pressure on Kadin is derived from their position within Kadin's overall decision-making structures. For

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[59] See for example, *Bisnis Indonesia*, 12.4.01; *Gatra Online*, 21.12.00; *IndonesiaMu Online; Bisnis Indonesia*, 23.10.00; *Bisnis Indonesia*, 13.11.00; *Bisnis Indonesia*, 11.12.00; *Bisnis Indonesia*, 19.2.01; *Bisnis Indonesia*, 21.2.01; *Suara Karya*, 7.4.01; *Bisnis Indonesia*, 17.5.01; *Bisnis Indonesia* 19.5.01; *Suara Pembaruan* 17.5.01.

[60] Interview with Anthony Sunarjo (13.12.01). Interview with Elias Tobing (14.11.01). See also *Liputan6 Online*, 11.4.01; *Suara Karya*, 11.4.01; *Bisnis Indonesia* 11.4.01; *Republika*, 12.4.01; *Suara Pembaruan*, 13.6.01.

[61] For Fornas UKM see: *Bisnis Indonesia*, 6.9.00. For PIBI see: *Bisnis Indonesia*, 20.7.00.

[62] See: *Bisnis Indonesia*, 5.12.00; *Bisnis Indonesia*, 6.12.00; *Suara Karya*, 21.12.00; *Bisnis Indonesia*, 19.3.01; *Republika*, 21.3.01; *Suara Karya*, 21.3.01.

[63] *Bisnis Indonesia*, 16.11.00.

[64] *Bisnis Indonesia*, 4.12.00.

it is the Kadindas, rather than individual companies or sectoral BAs, who can vote for the Chairman of Kadin and who can call special meetings to hold the board of Kadin to account.[66] Thus, coded threats to exercise these rights were made by some Kadindas through the press[67] and no doubt more explicitly to the Kadin board themselves. In the end, the Kadindas received the requisite support from Kadin to continue their certification operations.

However, this show of strength indicates a glimmer of future possibilities for change in the BA sector. Not only have the Kadindas tapped a potentially lucrative and sustained new supply of resources through their role in certification, but they are also likely to be bolstered by the new regional autonomy laws introduced in 1999.[68] Although it seems that the central government has so far been less than forthcoming with the promised decentralisation of government procurement to the regions,[69] the general trend for regional governments to have more control over their procurement budgets can only benefit the Kadindas. Some influential board members of the powerful Kadinda Jakarta[70] have also recently been talking of the need for a change to Kadin's articles of association in the direction of a more federal type of organisation as a response to the perceived centralisation of Kadin as it now stands.[71]

In addition to this criticism from BAs and Kadindas over certification, Kadin has also encountered disapproval from various levels of the government. Aggrieved

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[65] *Bisnis Indonesia,* 16.3.01

[66] According to Kadin's articles of association, Kadindas have the right to call a meeting called a *Munaslab (Musyarawah Nasional Luar Biasa)* (Extraordinary National Conference) to hold the national board accountable if at least half of the Kadindas consider that there has been a violation of the articles of association. Kadindas also have the right to call a *Munassus (Musyarawah Nasional Khusus)* (Special National Conference) if two thirds of them support it. A *Munassus* is called to change Kadin's articles of association or dissolve Kadin. See *Keppres* 61/2000 *'Persetujuan Perubahan Anggaran Dasar dan Anggaran Rumah Tangga Kamar Dagang dan Industri'.*

[67] *Rakyat Merdeka,* 24.11.00.

[68] The Basic Law on Regional Government (No. 22/1999) and The Basic Law on Financial Balance Between Central and Regional Government (No. 25/1999).

[69] Interview with Graham Rettke (12.4.02).

[70] Kadinda Jakarta is the most powerful Kadinda due to its location and the fact that it was the first chamber of commerce to be established in Indonesia.

over the loss of their function to certificate which *Keppres* 18/2000 took away, local governments have reportedly been paying groups of businessmen to demonstrate outside Kadin and call for the return of certification to local governments.[72] The signatories to the implementing regulations which attempted to clarify the roles of Kadin and BAs have also openly criticised Kadin[73] and, in a rare expression of her opinion, President Megawati has even proffered some veiled criticisms on Kadin.[74] A Trade Union leader has also questioned the right of Kadin to take over the certification process.[75]

Although Kadin's formal position as Indonesia's peak BA is not seriously threatened by any of these criticisms, its credibility has inevitably suffered and it risks becoming somewhat obsolete if this trend were to continue. Kadin's legitimacy is actually highly dependent on the 1987 law that legally encoded its organisational existence. Indeed, it is quite extraordinary how often statements made by the Kadin board in response to the above criticisms carry a reference to this 1987 law. At the national level, there is no need for BAs to go through Kadin in order to hold policy dialogues with the government and it is more often the case that the largest BAs do not.[76] Although the Kadindas seem to have manoeuvred themselves into a beneficial position, as we have seen, this does not necessarily mean that Kadin at national level will also benefit. Indeed, it is possible that the Kadindas become more influential *at the expense of* Kadin Indonesia.

This recent wave of attacks on Kadin Indonesia in the wake of *Keppres* 18/2000 has also been fed by a set of existing dissatisfactions. Kadin is widely perceived as nothing more than a club of conglomerate *pribumi* businessmen who, under Soeharto, used their positions to obtain government contracts and vast amounts of cheap state credit. As we will see in the Chapter Five, the post-Soeharto era has led

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[71] Interview with Amaluddin Ganie (12.12.01), Vice Chairman of Kadin Jakarta and one of the original founders of Kadin Indonesia.
[72] *Kontan*, 26.2.01.
[73] *Satunet Online*, 13.12.00.
[74] *Gatra Online*, 11.4.01.
[75] *Suara Karya*, 18.6.01.

to some changes in the substance of favouritism to include not only government contracts and credit but also now special deals on existing debt. This is certainly one of the allegations aimed at the board of Kadin and especially the Chairman, Aburizal Bakrie.

BAs, Kadindas and even other senior members of Kadin's board have all accused Bakrie of using his position in Kadin to concentrate on lobbying the government for dollar debt forgiveness, which largely benefits big crony conglomerates in general and his own companies in particular.[77] Bakrie has also been implicated in high-level corruption scandals[78] and is privately considered by the international business community to be a 'crook'.[79]

There is also a strong belief that Kadin does nothing substantial for SMEs, despite their many statements of various schemes in the press.[80] In general, pronouncements on the issue of SMEs and their perceived neglect by government policy form a major part of political rhetoric from NGOs, the government and all the major political parties, and Kadin is no exception. New programmes are continually initiated by all sections of the political community as a populist response to the concentration of economic resources in the hands of a few conglomerates. However, the substance of the programmes is often very weak and uncoordinated and in reality SMEs more often receive minimal benefit from these efforts (LP3ES 1998a). Nevertheless, as the purported representative of the entire business sector in Indonesia, Kadin has more of an obligation than most to look after the interests of the SME sector which they are clearly not fulfilling.

Another major source of contention between sectoral BAs and Kadin which has fed the current climate of dissatisfaction with Kadin is the issue of sectoral BA

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[76] Interviews with Anthony Sunarjo (13.12.01) and Tulus Tambunan (1.11.01).
[77] *Merdeka*, 22.6.98; *Media Indonesia*, 10.2.00; *Rakyat Merdeka*, 12.2.00; *Merdeka*, 8.12.98; *Suara Pembaruan*, 9.12.98; *Suara Pembaruan*, 4.12.98; *Kompas*, 14.12.99; *Kompas*, 11.12.99.
[78] *Berpolitik Online*, 10.3.00; *Berpolitik Online*, 4.12.00.
[79] Interview with an employee of an international institution, who wished to remain anonymous.

representation within Kadin's decision-making structures. The election of the Chairman of Kadin is held every five years at the Kadin *Munas*, but only the Kadindas have the right to participate in the vote. BA members of Kadin have for many years protested against this system and the issue resurfaced at the last *Munas* held in December 1998.

Over the years there have been incremental changes to give BAs more of a voice within Kadin. In 1983, they were given the right to put forward candidates for the election of Kadin Chairman but were still excluded from the final vote (Kadin 1983). The 1998 *Munas* saw some more changes whereby BAs can now vote for two of the four members of a *formatur*, a group of people who are voted in to help the separately elected Chairman choose the board of Kadin.[81] There have also been some minor changes to give BAs more of a role in Kadin's decision-making through commission meetings *(rapat komisi)* at the *Munas*.[82] However, despite protestations from Kadin that those involved in the elections and decision-making processes often have a sectoral BA background, the struggle to gain more institutional power for BAs in Kadin remains unresolved.

Thus, changes to the certification regime have affected the BA community in three main ways. First, it has ensured a proliferation of opportunities to participate in corruption within the BA community, encouraging the formation of new BAs with an aim to gain a foothold in the 'government contract loop'. Secondly, it has strengthened the resource base of some well-established BAs and especially the regional Kadindas. At present, it has been estimated that only around 6 out of the 27 Kadindas are active.[83] However, if this new source of funds from certification continues and the government's general policy on regional autonomy is fully implemented, then it is possible that the Kadindas could emerge alongside the already established BAs to become influential players in the business representation

[80] *Media Indonesia*, 10.2.00;*Bisnis Indonesia*, 6.9.00; *Bisnis Indonesia*, 20.7.99; *Suara Pembaruan* 4.12.98.
[81] Interview with Anthony Sunarjo (13.12.01).
[82] *Suara Pembaruan* 7.11.98 and Interview with M. Husain (27.11.01).

sector. Thirdly, the new *Keppres* has galvanised criticism of Kadin by sectoral BAs, building on existing conflicts between BAs and Kadin and weakening the position of the latter.

3.5 Conclusion

This chapter has explored some of the functions of BAs in Indonesia in an attempt to better define this constituency from the business side of state/business relations. It has been shown that BAs are not a monolithic category, but rather should be defined based on the many different functions they serve. They can be representatives of the personal businesses of those who run BAs in order to obtain government contracts, or they can profit the heads of BAs from the opportunity to skim off part of the value of government contracts as intermediaries for other businesses. They can act as cartels, fixing prices and maintaining the monopoly position of its members. They can represent SMEs from large swathes of a sector, concentrating on providing managerial and technical support to their members as well as help in fulfilling the obligations of government regulations on SMEs. Or they can represent a small number of large enterprises that are more oriented towards government lobbying on national level issues such as trade tariffs. There are also an increasing number of BAs which are being groomed by Western donors to fulfil the ideal notion of BAs as policy advocacy vehicles for SMEs.[84]

This view is in some ways contrary to parts of the literature on BAs in developing countries. For example, building on the work of Streeck and Schmitter (1985), Doner et al (1998) recommend that the functions of BAs be analytically divided in terms of the logic of membership, influence and implementation. The authors further highlight various organisational features, such as the scope and inclusivity of membership, level of resources and capacity to induce compliance from members,

[83] Interviews with Tulus Tambunan (1.11.01) and Amaluddin Ganie (12.12.01).

[84] For example, Swisscontact and TAF USA have helped to fund forums such as *Fornas/Forda* which groups together SMEs at the local and national level. USAID and the Asia Foundation have also been involved with the development of SME associations, providing support and advice on advocacy skills (Interviews with Roderick Brazier, 26.4.02 and Ibu Tuti, 5.12.01).

before positing that each of these features influences the degree to which a BA fulfills these logics (p.129-131). In this way the authors hope to discover the conditions under which BAs can contribute to development and democracy. In a similar line of argument, Lucas (1997) also explains the capacity of BAs to be representative in terms of organisational factors, such as their level of internal centralisation, the degree of government influence within a BA and a BA's resources (p.75).

In contrast, this chapter has argued that a more profitable analytical distinction of BA functions can be made based on who they represent and for what purposes. Thus, the conditions under which BAs contribute to development and democracy are understood in terms of the motivation of both BAs and their members derived from their historical economic context rather than in terms of a BA's organisational features. This way enables a more realistic analysis of BAs since it establishes their connection to the wider political economy rather than presuming a somewhat neutral context where the only important factors to consider are organisational.

The analyses of BAs by these theorists very often include a sizeable section pointing to the *potential* pluralist tendencies of BAs, and it sometimes seems as though they are dazzled by these possibilities into assuming that BAs are *naturally* vehicles for pluralist contestation. Lucas (1997), for example, claims that 'by representing collectivities, BAs are less susceptible to rent-seeking' (p.74), whilst Bratton (1989) contends that by definition the emergence of associations serves to 'pluralize' the institutional landscape and impose some level of accountability on the state (in Lucas 1997, p.89).

This is quite contrary to the story which has unfolded in this chapter. For, whilst BAs have entered into a new stage of invigoration and their access to resources has increased, where the motivation is to find an institutionalised role in the 'contract loop' this is unlikely to lead to a more representative policy advocacy function. In other words, if the main motivating factor for the work orientation or new formation of BAs is to gain a bigger share in government contracts, then serving their membership (which is often limited in a real sense to the companies of the board members) becomes more a matter of getting involved in patrimonial networks rather than policy advocacy networks for a wider and more inclusive membership.

Chapter Four

CORPORATISM

4.1 Introduction

In addition to corruption as a system of interaction between business and the state, some theorists have identified another system known as 'corporatism'. The theory of corporatism can be used to describe interaction between the state and all types of civil society, not just business. The most widely used definition of corporatism is Schmitter's:

> Corporatism can be defined as a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support (Schmitter 1974, p.13).

The corporatist doctrine behind this system of interest representation is based on the notion that, without the guidance of the state, damaging conflict would ensue between different interests in a society. Accordingly, state-society dialogue will be more efficient and harmonious if groups such as labour, capital, the professions, agriculturalists, students, religious organisations and the military are regulated by the state.

Corporatism is generally defined in terms of degrees depending on the level of control that the state exerts over a system of interest representation. On one end of the scale there is 'societal corporatism' where initiative and power are located in independently organised societal interests which impose their own agendas on the state. This type of corporatism can be seen in several European countries such as UK, France and Germany. At the opposite end of the scale is 'state corporatism' where initiative and power lie with the state. This is the type of corporatism more often found in developing countries (Moore 1993). Most Indonesianists regarded the form of corporatism throughout the Soeharto period to be of the state variety (King 1982, p.111 and MacIntyre 1994b, p.3).

Although corporatism and corruption are most often explored as separate phenomena, there have been some attempts to reconcile the two. For example, in a seminal discussion of the nature of the Indonesian regime, King suggests that corporatism and clientelism are 'highly functional or symbiotically connected' (King 1982, p.115). In support of this position, he quotes Kaufman that

> on the one hand, corporatist arrangements discourage autonomous group competition and perpetuate more particularistic forms of individual problem-solving behaviour. Clientelistic forms of problem-solving behaviour, in turn, vastly increase the flexibility of what would otherwise be quite rigid corporatist legal structures.' (Kaufman 1977, p.113).

Thus, if the corporatist system was found to be in decline, it might be expected that the 'autonomous group competition' which corporatism discouraged will strengthen and eventually impinge on the prevalence of clientelist behaviour.

King further adds that corporatism and clientelism are part of the same 'bureaucratic-authoritarian' system. The difference between the two is that corporatism operates at the macro level of analysis to describe parties, bureaucracies or even entire national political systems, whereas clientelism describes individual orientations or dyadic relationships at the micro level (King 1982, p.113). Whilst this is a useful additional insight, it has little to say about how corporatism and clientelism interact because he does not tackle the issue of the relationship between the macro and micro levels.

However, the possibility has at least been raised that changes in the corporatist system of state control can have an impact on patterns of corruption. This chapter will keep this question in mind whilst focusing on the central concern of whether corporatism can be said to have declined in the post-Soeharto era. In contrast to the proceeding chapter, the attention here will be on national level, 'encompassing' organisations since this level of organisation is both crucial to an understanding of the broader currents of interest representation and is much more likely to be the locus of corporatist practices. In the Indonesian context this translates as a focus on the peak business association, Kadin, with additional references to other national level BAs.

Three indicators of the existence and degree of corporatism will be used to identify post-Soeharto changes. These are: (1) the degree of state control over the internal leadership of Kadin (2) the degree of state control over the content of Kadin's policy advocacy (3) the degree of Kadin's influence on government economic policies.

The next section will begin with a brief description of the system of corporatism under Soeharto.

4.2 Overview of Corporatism under Soeharto

The most systematic analysis of corporatist practices in Indonesia come from King (1977, 1979, 1982), MacIntyre (1989, 1991), Reeve (1985, 1990) and Hadiz (1992). MacIntyre usefully provides an overview of writings on corporatism in Indonesia in a 1994 unpublished paper (MacIntyre 1994b). All of these scholars have detected exclusionary corporatist institutions across the Indonesian political system. Whilst King took a system-wide view, Reeve has concentrated on political parties, Hadiz on labour and MacIntyre on business. Since MacIntyre's work is most relevant to this chapter, a comparison to some of his observations will be made throughout.

Soeharto used corporatist techniques to control the political discourse since his rise to power in the mid 1960s. The parliament, the three state-organised political parties and the whole range of interest groups from peasants to business to Muslims were all state-controlled to some degree.

The parliament is made up of two bodies, the DPR *(Dewan Perwakilan Rakyat)* (People's Representative Council) and the MPR *(Majelis Perwakilan Rakyat)*

(People's Consultative Assembly). The MPR is the highest body in the country with the authority to elect the President, change the constitution and debate the five-year economic plans that Soeharto employed. Under Soeharto, the MPR was constituted from all of the 425 members of the DPR plus 575 government appointees and convened just once every five years. The DPR is the house made up of elected representatives which functions more like a parliament by debating legislation. In Soeharto's time, the 400 elected representatives in the DPR were complemented by 100 government appointees. Dissent was rare and legislation almost exclusively emanated from the President or the executive.

Such compliance was made possible through state control of the political parties. When Soeharto came to power, all political parties were obliged to group together in one of three state-recognised parties. There was one state-sponsored party and two non-state parties.[1] The two non-state parties came under fairly loose state control, but whenever their actions were deemed threatening enough were immediately dealt with. These two parties were government funded. The government party, Golkar, was very well funded and supported by the state to spread to every village and township throughout the whole of Indonesia. Membership of Golkar was essential for all state bureaucrats and Golkar has been used for distributing and receiving all forms and sizes of government patronage. Golkar was routinely elected as the majority party in the DPR due to this extensive network.

In terms of interest groups, a gradual and systematic infiltration of the state occurred over the first twenty years of Soeharto's rule based on corporatist inducements (such as sole representation status) and constraints (such as the threat of marginalisation).[2] Existing organisations were joined by new specially created ones and Kadin became the corporatist face of the business sector.

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[1] The state-sponsored party was GOLKAR *(Golongan Karya)* (Group of Functionaries). The non-state parties were PDI *(Partai Demokrasi Indonesia)* (Indonesian Democratic Party) and PPP *(Partai Persatuan Pembangunan)* (United Development Party). PDI was formed from nationalist and Christian parties, whilst the PPP was formed from Muslim parties.

[2] The very useful notion that corporatism can be analytically divided into constraints and inducements is from Collier and Collier (1979).

It was impossible to become involved in Kadin's leadership without state sanction. In addition, both Kadin and its regional branches, the Kadindas, had strong links to Golkar with all Kadin officials being told that they had to be Golkar members.[3] State involvement in Kadin was also channelled through a young business person's association called HIPMI *(Himpunan Pengusaha Muda Indonesia)* (Indonesian Young Entrepreneur's Organisation) which has strong links with Golkar and is known as a grouping for business people who are related to civil servants.[4] The usual channel to obtain a leadership role in Kadin was to move up through the ranks of HIPMI first.[5]

However, all of these inter-linkages between Kadin and the state did not mean that they were particularly influential. In fact, Kadin served more to *contain* the business sector rather than give them a fast track to policy-making circles within the executive (MacIntyre 1991, p.47), and was regularly described by industry insiders as nothing more than a 'talking shop' and an 'extension of the government's arm'.[6] With low levels of organisational funding, the prioritisation of government loyalty over capability for leadership roles is sure to have had an effect on the quality of Kadin's work. In addition, the most powerful sections of the business community, the big Chinese-Indonesian conglomerates, have traditionally stayed away from Kadin which means that government officials have been less likely to take Kadin seriously as the representative of big business.

Rather, economic policy-making under Soeharto was monopolised by a small hand-picked coterie of economists and politicians. Since Soeharto's general economic outlook was pro-private sector anyway, any influence from the business community was more likely to follow a patron-client pattern on specific issues such as tariffs and monopolies than any general policy advocacy from business groups. These patron-client dependencies coupled with the interlacing of Kadin with the bureaucracy, also meant that Kadin's attitude towards government policies was rarely very critical.

[3] Interview with a senior Kadin official.
[4] *Bisnis Indonesia*, 3.11.99; *Media Indonesia*, 23.7.98.
[5] Interview with Amaluddin Ganie (12.12.01).

In sum, prior to 1998, Kadin's leadership was both state controlled and co-opted by formal and informal links with the bureaucracy. Generally, its policy advocacy was at best tolerated by policy makers and at worst ignored. It was also unlikely that any serious policy conflicts would occur between Kadin and the government. Has this remained the case in the immediate post-Soeharto era? Have there been any incremental or major changes to this story? The next two sections will elaborate on the above corporatist patterns whilst reconsidering the level of state control and co-option of Kadin in the post-Soeharto period, before moving onto the position of Kadin in national economic policy-making.

4.3 State Control of Kadin Leadership

The selection of Kadin's chairman has, from Kadin's very inception, aroused controversy. Where institutional strength is low and systems of allocating tasks and responsibilities are undeveloped, an organisation's leader is absolutely crucial to influencing the way that organisation functions.

The issues involved in the selection of Kadin's leaders have in the past centred around the background of candidates. In the early days of Soeharto's rule, whilst there was still a good deal of instability, military figures were provided by the government to be Kadin's chairman. Subsequently, candidates with a background from the private sector were permitted to stand for leadership but they still had to be palatable to Soeharto (MacIntyre 1991, p.42). Ethnicity was also a major issue since there was scant involvement in Kadin from the Chinese-Indonesian minority who control most of Indonesia's economy. Indeed, because Kadin was formed in response to this Chinese-Indonesian domination of the economy, it would be in a sense antithetical for Kadin's leadership to involve the Chinese-Indonesian conglomerates. It is instructive in this regard to note that the Kadin Chairman from 1994-2004, Aburizal Bakrie, is the son of an original *Benteng* (Fortress) programme beneficiary. To a lesser extent, religion is also a factor in the credentials of potential Chairmen, with Islam the preferred option.

[6] *Bisnis Indonesia*, 8.12.98 and interviews with several respondents.

In post-Soeharto Indonesia, the informal qualifications for a leadership role in Kadin have continued to stipulate a background from a big *pribumi* private sector conglomerate. The first post-Soeharto election of Kadin's leadership took place at the end of 1998, just six months after Soeharto's resignation and still under the authority of President Habibie. At the leadership elections, there appeared to be almost unanimous support for the re-election of the already incumbent chairman, Aburizal Bakrie. Some other names were talked about in the initial stages, all of whom were also *pribumi* conglomerate bosses.[7] However, in the end the regional Kadindas, who have the exclusive voting power in leadership elections, unanimously nominated Aburizal Bakrie and no other candidate completed all of the official procedures for declaring themselves candidates.[8]

Bakrie is a controversial figure and has received a great deal of bad press about his enormous debts and alleged past involvement in corruption[9] and there were also clearly other credible candidates who were able to obtain some levels of initial support.[10] But Bakrie has an anti-establishment aura due to his first election to the Kadin chairmanship in 1994 when it was widely known that Soeharto backed a different candidate.[11] Whilst his election in 1994 was indeed the first time that a government candidate had been defeated, it has since been suggested that each candidate was in fact supported by different ministers so that Bakrie's win simply reflected the power of one minister as opposed to another.[12] Bakrie's substantial support in Golkar and HIPMI also militate against his anti-establishment image. Nevertheless, in the first flush of a post-Soeharto society,

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[7] These were: Siswono Yudohusodo (Bangun Tjipta Group), Iman Taufik (Guna Usaha Group), Pontjo Sutowo (Nugraha Santana Group), Sugeng Sarjadi (Kodel Group) and Jusuf Kalla (Kalla Group) (*Bisnis Indonesia*, 8.12.98).

[8] *Merdeka*, 9.12.98.

[9] *Kompas*, 11.12.99; *Kompas*, 14.12.99; *Berpolitik Online*, 10.3.00; *Berpolitik Online*, 10.3.00; *Merdeka*, 9.12.98.

[10] For example, Kadinda Yogyakarta reportedly supported Siswono Yudohusodo (*Suara Karya*, 9.12.98).

[11] The other candidates for the 1994 Kadin leadership election were Abdurachman Ramly, Bob Hasan and Prosbutedjo. Abdurachman Ramly was reported as Soeharto's preferred leader (Sjahrir 1994). Incidentally, Megawati also benefited from an anti-Soeharto aura after he engineered her ouster from the leadership of PDI in 1994. Like Bakrie, her credentials as a reformist were shaped by this incident rather than anything she particularly said or did. This more recently evident with the rise of Susilo Yudhono as the favourite 2004 Presidential candidate after he was sacked from Megawati's cabinet.

[12] Interview with Amaluddin Ganie (12.12.01).

when political and economic elites everywhere scrambled to distance themselves from the Soeharto name, Bakrie became something of a symbol of a previous act of Kadin defiance and independence and won the leadership role for a consecutive term.[13]

The absence of Chinese-Indonesian involvement in Kadin has also not changed. In the past, Soeharto had preferred to keep the big Chinese-Indonesian conglomerates separate from the *pribumi*-oriented Kadin so that they could be better controlled, but it was never a particularly difficult task to do so. Generally, *pribumi* business and Chinese-Indonesian business seek different kinds of support from the government. The former tend towards seeking favours in government contracts whilst the latter are more likely to seek trade tariff and monopoly concessions.[14] This, coupled with a longstanding distrust between the two communities emanating from colonial days, meant that Soeharto did not have to work too hard to keep the two groups separate.

The Chinese-Indonesian conglomerates formed one group in 1995 called *Jimbaran* but this was subsequently over taken by the already existing *Prasetiya Mulia.* Ostensibly these two groups are not business associations in the sense that is. *Jimbaran* was set up to institute a Soeharto pet project to forge links between conglomerates and SMEs, but was roundly dismissed as an exercise in propaganda when it failed to produce any meaningful results and faded into obscurity. *Prasetiya Mulia* has around 400 active members and is actually a social and educational foundation which runs a successful management school.[15]

The reason why these two groups are conceived of as representing Chinese-Indonesian conglomerates in the same way as Kadin is conceived of as representing *pribumi* conglomerates is simply because of their membership. In other words, it is not the formal function of the organisation that matters but rather who their members are. It is also unclear whether the various members of

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[13] There is also the possibility that Bakrie bought his way into the position. However, numerous Kadin interviewees all talked with pride about the fact that Kadin had elected a candidate in the 1994 elections who was not the chosen Soeharto candidate.
[14] Interview with Roderick Brazier (26.4.02).
[15] *Republika*, 9.1.93.

Jimbaran or *Prasetiya Mulia* regularly met together and used their collective strength to push for particular policies or concessions, but it seems unlikely.[16] The two groups generally act more like collective markers to identify Soeharto-favoured Chinese-Indonesian conglomerates.

Bakrie himself is well aware that the continued absence of Chinese-Indonesian involvement in Kadin is a problem for its image as an organisation encompassing the whole of the Indonesian business world. Around the time of the 1998 Kadin election he claimed that *Prasetiya Mulia* had now joined with Kadin under one roof,[17] but this is untrue in both a formal and informal sense. Neither as an educational foundation, nor as a euphemism for Chinese-Indonesian conglomerates does *Prasetiya Mulia* have any new involvement with Kadin.[18] However, since 1998 there have indeed been new developments which could see the positions of these two business communities coming closer together, which will be returned to in Section 4.4.3.2.

Thus, in recent years the leaders of Kadin which have been palatable to the government have been *pribumi* private sector conglomerate bosses and judging from the 1998 Kadin elections, there have been no real changes in these requisites. The 1998 elections did suggest that a candidate's connection to Soeharto is still an issue, except that now distance is preferable to proximity, at least publicly. Bakrie's background in HIPMI and Golkar also illustrates that connections with these organisations are still central to achieving leadership in Kadin.

In the past, the government would make its preference known for a particular candidate through a mixture of persuasion, money and sometimes simple threat. For sectoral BAs, a blessing was necessary from the minister or Director General of the department in charge of that sector. If a BA elected a leader who did not

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[16] However, because of the dominant control of some sectors by *Prasetiya Mulia's* members, there have been allegations that *Prasteiya Mulia* acts like a cartel. This suspicion intensified in 1993 over some members dealings in the automobile sector (*Republika,* 14.1.93 and 15.1.93).
[17] *Kompas,* 9.12.98; *Media Indonesia,* 10.6.98.
[18] Interviews with Thomas Darmawan (16.11.01), Anthony Sunarjo (13.12.01), Amaluddin Ganie (12.12.01), Soy Pardede (16.11.01), Bernard Drum (31.10.01), John Palinggi (27.11.01) and Arfan Sofyan (2.11.01).

fit the department's criteria, then they would be quietly called into the department and told that they would have to wait for another time before they could take up the chairmanship.[19] For Kadin or Kadinda leadership elections, the government's preference was usually communicated through the local Governor and/or more powerful ministers.[20]

All interviewees were unanimous that this sort of direct interference in leadership elections no longer occurs. Instead, a picture emerged from the interviews where the relative power of political backing from a minister or the President has now been overtaken by the more uncomplicated power of money. As we saw in Chapter Three, many BAs, including Kadin, have problems finding sufficient funds and rely on their leaders for donations. In a way, the amount of money that a candidate is willing to spend bribing their way into office could be a good indicator of how much they have to spend within the organisation once they take up the position of chairman.

Very recently, a new Kadin leader was elected in February 2004 as Bakrie (unsucessfully) joined the race to become Golkar's 2004 presidential candidate. The new leader, Moh. S. Hidayat, was the Golkar treasurer until his election and is a *pribumi* property magnate.[21] Thus, there appears to have been no new political or ideological shifts within Kadin, although it remains to be seen how Mr. Hidayat runs Kadin. It has always been unlikely that Kadin's leader would be a break from the previous norms, despite the fact that the government seems to be no longer concerned with controlling BA leaders to the same degree as in the past. The government's new found detachment from BA leadership elections is more likely to benefit sectoral BAs than Kadin because in the final analysis Kadin was created as an extension of the New Order bureaucracy. It has extensive links and shared ideals with the government bureaucracy and especially Golkar.[22]

[19] The interviewee who related this story wished to remain anonymous. In this particular case, the prospective chairman did not fit the government's criteria because he was Chinese-Indonesian.
[20] *Media Indonesia,* 22.10.98; *Suara Karya,* 10.12.98 and interview with a senior Kadin official.
[21] Laksamananet, 22.2.04.
[22] Interviews with Anthony Sunarjo (13.12.01), Amaluddin Ganie (12.12.01), John Palinggi (27.11.01), M. Husain (27.11.01). See also *Merdeka,* 22.12.98.

Where *Prasetiya Mulia* tended to interact directly with the President, Kadin's connection with the state is mostly through the bureaucracy where decisions on government contracts are taken.[23] It has been estimated that 80 percent of all Kadin and Kadinda boards are members of HIPMI,[24] a Golkar-created organisation, and anything short of a complete overhaul of personnel throughout Kadin and all its Kadindas will not change that fact. Indeed, it is an interesting aside that neither Golkar nor HIPMI have any formal voting rights in Kadin's leadership elections, yet seem to be by far the most influential groups. These kinds of networks of influence show the weakness of depending on institutional fixes. For, if it were perceived to be unhealthy for Kadin to have such wide-ranging connections with the bureaucracy, changes in voting procedures for the Kadin leadership would not necessarily have much impact.

Thus, from the data presented in this section, it seems that methods of corporatist control in the selection of BA leaders are no longer used. Even under Soeharto in 1994, the election of Bakrie showed that the state would accept some flexibility in Kadin's leader, even if certain background parameters were still in place. When the focus is widened to include evidence around state control of leadership in sectoral BAs, there is also an indication that the government is no longer active in dictating who should be leader.

In contrast, the prevalence of bureaucratic connections points to the continued importance of corruption in binding Kadin to the state. This is because one of the founding principles of Kadin, as implemented by Soeharto, was to create a *pribumi* class of businesspeople who could compete with the Chinese-Indonesian conglomerates and the only way to do this was by giving them work from government contracts. If it is accepted that one of Kadin's purposes is to put this principle into practice, then it follows that a shared bureaucratic culture will develop between the state bureaucracy and Kadin. This shared culture is at the same time strengthened by the added glue of involvement in two organisations, HIPMI and Golkar.

[23] *Kontan Online*, 13.12.99.
[24] *Suara Karya*, 10.12.98.

Whilst the economic crisis has meant that many of the big ostentatious government mega-projects have been scaled back or put on hold, the government's procurement budget continues to be worth billions of US dollars each year. There have been no revolutions in the changeover of Kadin personnel since the resignation of Soeharto and whilst some of the very top bureaucratic jobs have become highly politicised and unstable with their dependence on party politics, the bureaucracy is largely the same one which Soeharto left behind. As we saw from the previous two chapters, the government tendering process also remains largely intact and still provides opportunities for discretion in awarding government contracts. Taken together, this all means that Kadin's function of channelling government support (or 'patronage') for well-connected *pribumi* businesses is likely to persist. The continued minimal involvement of Chinese-Indonesian conglomerates in Kadin also indicates that this Kadin function will continue to be a relatively important one.

The early indications are therefore that a decline in corporatist control has not had a substantial impact on the prevalence of corruption. Exclusionary state corporatist structures certainly still exist: for example it is still necessary for Kadin to obtain a Presidential decree whenever it wishes to change anything in its articles of incorporation. However, the practices of state control over leadership seem to be in decline. Meanwhile, in view of the continued connections between Kadin and the bureaucracy over the award of government contracts and the decline of influence based solely on political position, systems of patronage are widening out beyond senior influential figures to become more encompassing.[25]

In order to explore more fully changes in corporatist practices, the next section will focus on Kadin's policy advocacy, situate Kadin within the economic policy-making community and assess the degree of state corporatist control in this area.

[25] Interview with a senior Kadin official.

4.4 Policy-making

No examination of the interaction between the business sector and the state is complete without a consideration of the economic policy making process. According to pluralist democratic ideals, it is preferable that state policy is derived, at least in part, from consultations between various elements of the state and a variety of representative and organised voices from civil society. However, there are of course many reasons why a state leader might want to avoid such a system and use instead the tools of corporatist constraints mixed with patrimonial inducements.

The economic policy making process is especially pertinent to the subject of state/business interaction because it constitutes the subject of the state and the business community's own dialogue about how they should interact, or in other words, what their respective roles should be in the governing of the economy. As Lindblom suggests, 'power in a capitalist economy is shared between business and government...the pertinent question concerns what the appropriate division of responsibilities is, and how the two should interact.' (Lindblom 1977, p.6).

Throughout the New Order regime, economic policy making was widely believed to be exclusively in the grip of President Soeharto and his closest aides. With the exception of negotiations between individual conglomerates and state officials over access to favourable government contracts or trade tariffs, the New Order state was considered to be largely immune from any sort of societal input on broad issues of economic policy. Rather, economic policy was characterised as the result of competition between two distinct groups of Soeharto aides: on the one hand 'technocrats' who favoured economic liberalisation and more adherence to market principles, and on the other hand 'nationalists' who sought a deeper involvement of the government in the economy. Each camp had the ear of President Soeharto who himself vacillated between the two depending on other political or economic conditions.[26] Other potential sources of input into

[26] For two excellent examples of this type of analysis see Hal Hill (1996) and Adam Schwarz (1999).

the policy process from civil society were contained through a mixture of patrimonial practices and corporatist techniques.

This section will focus primarily on the role of Kadin within the economic policy process at a national level, whilst occasionally referring to other national level sectoral BAs. The goal of this section is to assess how far the state corporatist paradigm can still be applied to Indonesia in terms of policy-making and whether any new patterns of control and influence from the state can be discerned. In order to do this, three main questions will be addressed: (1) How far does the state shape BA interests? This question is translated into research as a concern with the content of sectoral BA and Kadin's economic policy advocacy in comparison to the governmental stance on the same issues. (2) How much access does Kadin and sectoral BAs have to government decision-makers? (3) How much *actual* influence do Kadin and sectoral BAs have over the economic policy process?

4.4.1 Policy Advocacy Content

Andrew MacIntyre's 1991 book on the role of Indonesian BAs in policy formulation pointed to some examples where BAs were able to disagree with and transform certain government economic policies. Yet, despite this initial identification of the more independent elements within the BA sector, MacIntyre later wrote that 'the likelihood of the New Order regime permitting sectoral associations to vigorously probe and question established government policy is remote' (MacIntyre 1994b, p.9).

The majority of respondents interviewed for this research all maintained that this was no longer the case and that both Kadin and sectoral BAs were now much more critical of government policy. In order to test this proposition, a brief survey of both internal Kadin policy documents and newspaper stories featuring sectoral BAs was undertaken.

A subject classification of reports on sectoral BAs in Indonesia's major English language newspaper throughout 2000 can be seen in Table 4.1 below. Although

In sum, it may be that there were two motivations for Kadin policy throughout the New Order. On the one hand Kadin tried to ensure a certain image of harmony between itself and the government which corresponded to the 1987 law on Kadin identifying it as the main 'communication and consultation forum between entrepreneurs and the government'.[29] On the other hand, Kadin's second motivation was to advocate to obtain contracts, regulations or policies which would be beneficial to either a particular business, a wider circle of sector- specific large *pribumi* businesses or an even wider circle of simply large *pribumi* businesses. Today, the cultivation of harmony and thus the avoidance of open criticism seems to have subsided leaving the Kadin leadership to concentrate on promoting their own businesses or at most businesses very much like theirs. For example, from the main issues which exercised Kadin throughout 2000, debt relief and entrance to AFTA have a greater relevance to big business than to SMEs. In other words, the decline of corporatist control has not translated into a pluralisation of interests channelled through Kadin to the government.

There are, of course, also times when some of the issues which Kadin takes up with the government are a real priority for most, if not all, of the domestic business community. The rise in electricity tariffs is just one such example. However, the lack of credibility which results from the patrimonial tendencies of some of Kadin's leaders ensures that such times are generally considered more of an aberration than the norm.

Section 4.4.2 Access to the Executive Branch

Although the 1987 law on Kadin legitimised it as the government's official intermediary with the business world, it failed to make provisions for regular meetings or channels through which this principle could be realised.

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contracts" (*Masukan Kadin Indonesia Kepada Fraksi Karya Pembangunan Mengenai RUU Migas*, Jakarta, 29.3.99). See also Aburizal Bakrie's calls to place national assets in *pribumi* hands (*Business News*, 25.8.99).

[29] Opening remarks (d), *Undang-Undang* No.1/1987.

Consequently, over the years a familiar refrain from Kadin officials has been the lack of access and inclusion of Kadin in policy formulation circles.[30]

Nevertheless, the government has provided certain established roles for Kadin as an institution in addition to the otherwise ad hoc contact which fluctuates depending on personal or national circumstances. Some examples of Kadin's institutional roles are seats on government committees which deal with issues such as export promotion, or involvement in economic bodies such as those set up to deal with the economic crisis. A member of Kadin has also had a guaranteed seat in the MPR since 1977 as a representative of the business world,[31] there is usually a Kadin presence at the annual budget speech,[32] and an institutionalised dialogue with economic ministers once a year.[33] During the Soeharto period, there were likely many more official roles of this type for Kadin. However, other than some personal and patrimonial style relationships, channels of communication on substantive policy issues seems to have been problematic.

According to many of the interviewees from both a sectoral BA and Kadin background, there is now generally a new atmosphere of accessibility in government circles.[34] One of the respondents felt that throughout the New Order 'the President and Ministers were like gods' with whom access was difficult and disagreement awkward, but that this was no longer the case.[35]

In terms of a more regularised point of contact for policy input from Kadin, one of the Economic Co-ordinating Ministers who served under the Wahid administration, Rizal Ramli, announced to the press upon taking his position that he would meet once a month with Kadin officials to garner their opinions on

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[30] For statements to this effect, see *Suara Karya*, 11.6.98; *Bisnis Indonesia*, 15.1.99.
[31] *Suara Karya*, 6.12.99.
[32] *Suara Karya*, 11.6.98 and interview with Tulus Tambunan (1.11.01).
[33] MacIntyre 1991, p.45.
[34] Interviews with Amaludin Ganie (12.12.01), Anthony Sunarjo (13.12.01), John Palinggi (27.11.01), Soy Pardede (16.11.01) and Arfan Sofyan (2.11.01).
[35] Interview with BA respondent.

economic policies.[36] However, some Kadin employees later confirmed that these ground to a halt in a matter of weeks.[37]

This lack of a meaningful institutional channel which can bring together top government officials with BAs can be contrasted to the situation in Thailand and Japan. In both these countries, corporatist structures have at least provided BAs opportunities to hold a dialogue with influential government officials (Laothamatas 1992, p.39).

However, one major new source of access to the policy process for both Kadin and sectoral BAs are the public hearings and committee sessions at the newly-invigorated parliament (DPR). The reasons why a policy may be blocked or passed as a result of these sessions is often unclear. Party lines on policies can be contradictory or non-existent and MPs often suddenly change their mind which in turn leads to suspicions of bribes. Nevertheless, these parliamentary sessions have the right to call top officials and ministers before them and, depending on the issue in debate, can also generate considerable attention from the media. Kadin is often called for input into hearings which affect the business world.[38]

In sum, beyond the increased role of the DPR, there appears to have been no new institutional channels which can act as sites of communication between Kadin and/or sectoral BAs and the government on issues of national policy. Yet at the same time, interviewees maintained that access to top state officials and ministers has opened up. The relatively high frequency of contact between BAs and ministers was also confirmed by the questionnaire findings in Section 3.2.4 of the last chapter.

However, although the issue of access to policy-making circles is an important one, it cannot fully demonstrate influence without the added consideration of the

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[36] *Satunet Online*, 9.9.00.
[37] Interviews with Tulus Tambunan (1.11.01) and Utama Kajo (28.1.02).
[38] For example, Kadin has attended many DPR committee meetings (*Rapat Dengar Pendapat Umum*) on the oil and gas bill, electricity bill, manpower bill or on general economic reforms.

competition which sectoral BAs and Kadin face from other sources of policy input. This is the subject to which the next section will now turn.

Section 4.4.3 Influence in Policy-Making

This section will consider the most important influences on economic policy making over the period of the three Presidencies immediately following the resignation of Soeharto in May 1998. These are the transitional Habibie administration (May 1998 – October 1999), the Wahid Presidency (October 1999 – July 2001) and the Megawati Presidency (July 2001 – ongoing). Within each administration the general contours of economic policy will be described followed by an examination of the sources of economic policy. The degree of influence of these sources will also be assessed with particular reference to Kadin.

4.4.3.1 President Bacharuddin Jusuf Habibie (May 1998 – October 1999)

A close aide of President Soeharto for many years, Habibie had long represented the 'nationalists'' fluctuating fortunes within the New Order administration. The nationalist position was presented as a preference for government ownership of the economy and an adherence to the principles of a 'people's economy' (*ekonomi rakyat*) where small and medium size enterprises (SME) were supported by preferential credit and access to government contracts. However, under the auspices of such an ideology, in practice most government effort and resources were channelled towards nurturing an elite group of *pribumi* conglomerate owners who in return were expected to finance the personal and political needs of their political patrons.

Upon taking over the Presidency in May 1998 expectations were therefore high that Habibie would attempt to implement his long held nationalist beliefs. A few months after taking office Habibie obliged by laying the ideological foundations to steer economic policy in this direction through a set of guidelines voted on by the MPR.[39] Rather than setting specific policies, these guidelines delineated economic principles such as declaring SMEs to be the pillars of the economy whilst contrasting them to 'groups whose economic strength was not based on principles of fairness'. In a bid to capitalise on the anti-conglomerate mood of a newly impoverished public, Habibie spoke often of the importance of the 'people's economy' and even declared a national holiday for the 18th of October to be called 'Resurgence of the Small Business Day'.[40] Habibie also installed a long time promoter of the people's economy, Adi Sasono (see Box Three), into the Ministry of Co-operatives and SMEs, giving him the finances to start numerous new credit schemes and local systems of staple food distribution.[41]

Two new institutions were formally created to provide input into economic policy, neatly capturing the dual loyalties of the Habibie regime. One was called *Dewan Pengembangan Ekonomi Rakyat* (DPER) (Council for the Development of the People's Economy) and was set up to develop policies based on the 'people's economy' principle. It was driven by Adi Sasono, headed formally by the President with ministers as members and sympathetic think tanks as advisors.[42] This body created the theory behind the 'people's economy' principle and served up programmes, such as SME credit, for public consumption.[43]

The second group which Habibie used was called the *Dewan Pemantapan Ketahanan Ekonomi dan Keuangan* (DPKEK) (Council for Economic and Monetary Resilience) which was actually a hangover from the last days of Soeharto containing the backbone of the Soeharto establishment: a mixture of technocrats, Golkar executives and conglomerate bosses.[44] Compared to the

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[39] TAP MPR, Nomor VII/MPR/1998, November 1998.
[40] *Warta Ekonomi*, 9.11.98.
[41] For further details of Adi Sasono's policies see *Warta Ekonomi*, 17.8.98; *Warta Ekonomi*, 22.6.98.
[42] The think tanks which were reported to have the ear of President Habibie were CIDES and *Perhimpunan Pekerja Muslim Indonesia* (PPMI) (*Warta Ekonomi*, 9.11.98).
[43] Sasono was granted Rp 20 trillion (US$ 2 billion) for re-lending at an interest rate of 16 percent, a figure which accounted for 10 percent of the state budget (Eklof 2002, p.233).
[44] The President was Chairperson, with Prof Dr Widjojo Nitisastro as Vice Chair. Members included the Minister of Economic Co-ordination Ginandjar Kartasasmita, the Minister of Finance Bambang Subianto, Minister of Trade and Industry Rahardi Ramelan, Minister of State-Owned Enterprises Tanri Abeng, Secretary of State Akbar Tandjung and Foreign Minister Ali

DPER, the DPKEK rather represented the reality of 'people's economy' principles with the technocrats' adherence to mainstream macroeconomic principles, local distribution programmes doubling as Golkar political vehicles into the villages and massive corruption with conglomerates.

However, the most significant new source of economic policy first began to gain prominence in Soeharto's last days and has continued to be extremely influential, the IMF. To some the IMF simply represents the interests of international capital while to others it represents the only realistic chance to control the corrupt polity of Indonesia. In any case, the IMF's potential sanction of delays in loan disbursements if its programmes are not followed was enough to ensure that it was the major source of policy in trade tariffs, subsidies, asset sales and macroeconomic indicators such as interest rates and inflation. In subsequent administrations the DPR formed a major challenge to the IMF's role in policy-making, but under Habibie the general election which brought in new MPs and working practices to the DPR had yet to take place. Relations were sometimes strained between Habibie and the IMF during his tenure, particularly over a banking scandal where money was siphoned out of the government purse to pay for the imminent election campaign of Golkar.[45] However, a senior economist who was soon to become Minister of Finance under Megawati, considers that Habibie was generally supportive of the IMF programme (Boediono 2002). Indeed, over US$ 5 billion in loans was disbursed by the IMF throughout Habibie's tenure (See figure 4.1 and Table 4.2 below).

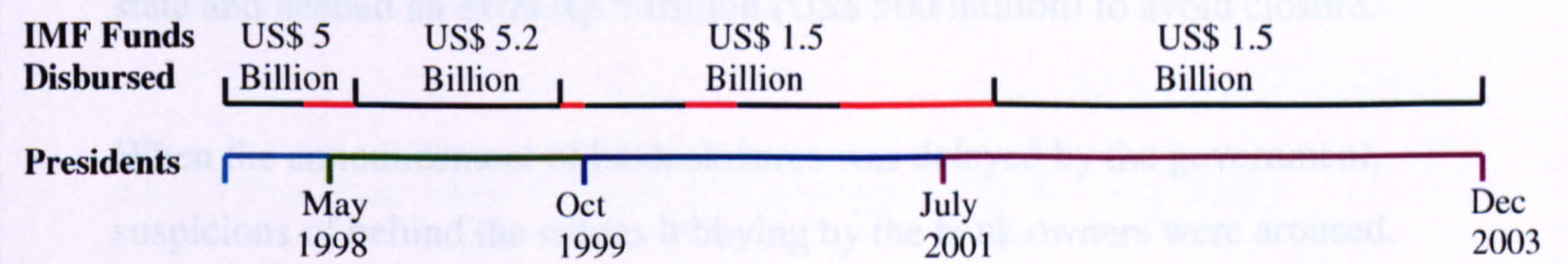
Alatas. Private business was represented by Radius Prawiro, Atmosardjo Subowo and Aburizal Bakrie as Secretary General (*Kompas*, 27.2.99).

[45] This became known as the Bank Bali Scandal.

Table 4.2	Indonesia: Disbursement of IMF Support Funds	
Items	**Period**	**In US$ Equivalent (Million)***
Stand-by arrangement	Nov 97 – July 1998 (March – July 1998 IMF withheld funds).	5,001.7
Extended fund facility	Aug 1998-Aug 1999	5,202.2
New extended fund facility	Sept 1999 – Sept 2001 (August – October 1999, April – June 2000 and January – September 2001 IMF withheld funds).	1,522.9
Remainder of the disbursement	October 2001 – December 2003	3,367.0
Total amount disbursed	November 1997-September 2001	11,726.7
Total IMF commitment		15,093.7

* The amounts were originally in SDRs and are the estimated US$ equivalent
Sources: Feridhanusetyawan (2003), p.238; ICG (2001), p.4.

Chart 4.1 IMF Disbursements and Terms of Presidents



Key: – = Funds withheld; – = Soeharto; – = Habibie; – = Wahid; – = Megawati

Due to the concurrence of 'people's economy'/ *pribumi* ideology between the Habibie administration and Kadin, Kadin was theoretically well placed to influence any policies which could be wrested from the grip of the IMF. However, the Kadin executives were undoubtedly more concerned with the declining fortunes of their own businesses to look very far beyond their own circles for the content of their advocacy. It is also true that most of Habibie's time was taken up by fundamental political reforms such as introducing the far reaching regional autonomy laws, offering a referendum on independence to East Timor and arranging the first free national elections in over four decades.[46]

[46] For more details of political reforms undertaken during Habibie's tenure, see Bourchier (2000).

However, the continuing economic and financial crisis meant that, on the advice of the IMF, economic policy-making in the Habibie era became focused on saving the banking system from collapse. Except for the regional autonomy law, the most important economic decision which Habibie made concerned the arrangement of domestic banks into three categories: those which were past help and should be closed down, those which could be saved with an injection of government capital and those which did not need help.

The then head of Kadin, Aburizal Bakrie, reportedly made his influence felt on the multi-million dollar decisions over which banks were to be closed and which were to be injected with government funds through his membership in the body which made these decisions, the DPKEK. In order to avoid closure by the government, a bank had to have a certain level of money in its coffers compared to the money it had lent out, known as the Capital Adequacy Ratio (CAR). Bakrie's majority-owned bank, *Bank Nusa Nasional* (BNN), was in a perilous state and needed an extra Rp 5 trillion (US$ 500 million) to avoid closure.[47]

When the announcement of bank closures was delayed by the government, suspicions of behind the scenes lobbying by the bank owners were aroused. These suspicions intensified when it was announced that BNN had found the necessary capital to be eligible for the injection of government funds. There were even reports that Bakrie had acquired the extra money through Adi Sasono from the Ministry of Cooperatives and SMEs and from the social safety net programme with the permission of Habibie in return for Bakrie's bank cooperating in a government credit programme and publicly supporting the ekonomi rakyat programme.[48] Subsequent pressure from the IMF ensured that Bakrie's Bank was later dropped from the programme.[49] However, in the end BNN along with six other banks were exempted from liquidation and merged into one new bank which meant that although Bakrie lost control of BNN, the unravelling of its bad loans and the seizure of the Bakrie family's collateral was avoided (Eklof 2002, p.236).

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[47] *Tempo*, 1.3.99.
[48] *Kontan*, 8.3.99.
[49] Interview with international banking consultant who was involved in the banking programme.

In sum, under conditions of extreme instability and flux such as occurred during Habibie's short tenure, it is difficult to draw firm conclusions about the extent of corporatist control over economic policy. One interviewee maintained that Habibie had exercised a degree of control over Kadin during his tenure,[50] but in view of the above account it seems likely that a certain containment was achieved through patrimonial inducements rather than any recourse to corporatist constraints. Although in Soeharto's time the needs of international capital were certainly catered for, throughout Habibie's tenure the reach of the IMF extended far beyond that, dictating such sensitive policies as rises in the price of electricity. Because of the role of the IMF, Habibie's state was no longer as autonomous or 'insulated' in policy-making as Soeharto's had been, yet at the same time the IMF can hardly be described as a voice from Indonesian civil society. Habibie might have maintained that he was addressing the inclusion of civil society through his 'people's economy' programme, but there is no evidence of the inclusion of representative interest groups in policy-making either directly or indirectly through political parties and the DPR.

4.4.3.2 President Abdurrahman Wahid (October 1999 – July 2001)

In contrast to the Habibie regime, Abdurrahman Wahid made some efforts to restructure the government decision-making process. With a non-governmental background as the independent leader of a 30 million-strong Islamic group,[51] the expectation was that he would also accommodate a civil society voice within government. In a limited and rather haphazard way, this expectation was indeed realised.

Like the previous administration, Wahid's government had many pressing non-economic issues to deal with during his tenure such as the major security issues of civilian control of the military, the ongoing bloodshed in the Malukus and the occasional bomb in the capital. But it was also clear that improving the parlous state of the economy was a major priority when within two days of taking office Wahid was already testing the ground for the introduction of a new economic

[50] Interview with John Palinggi (27.11.01).

body.[52] *Dewan Ekonomi Nasional* (DEN) (National Economic Council) was subsequently formed with a formal function of providing advice to the President on macroeconomic issues. Comprising mainly respected technocrats and economic academics,[53] DEN members began work almost immediately and were granted the exclusive right to obtain any information they required from all government departments.[54]

In concert with the formation of DEN, Wahid formed another economic council called the *Dewan Pengembangan Usaha Nasional* (DPUN) (Council of National Business Development). If observers and participants were wary of DEN then they were positively scathing about the DPUN, which was composed mainly of conglomerate business heads.[55] The strongest criticisms of DPUN and to an extent DEN centred around the perceived connections between some members of the councils and the old Soeharto regime. The reputation of the head of the DPUN, Sofyan Wanandi was particularly controversial (see Box Three: Biographies). From the moment it appeared that Wanandi would be involved in the DPUN until the day it was finally dissolved, the newspapers contained a constant stream of criticism of him from many sources and demonstrations were even held against his appointment.[56]

Apart from the politics of the personalities involved in both DEN and DPUN, these bodies caused controversy not particularly because of the economic

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[51] Schwarz, A (1999) p.168. Under Soeharto, Wahid was the only leader of a mass organisation who was not sanctioned by Soeharto.
[52] *Rakyat Merdeka*, 23.10.99; *Republika*, 23.10.99.
[53] Chairman was Emil Salim (long serving respected Soeharto technocrat), Vice Chair Subiakto Tjakrawerdaya (controversial former Soeharto Cooperatives Minister), Secretary General Sri Mulyani Indrawati (UI economist) and members: Boediono (Former head of Bappenas), Bambang Subianto (Former Finance Minister), Kuntoro Mangkusubroto (Former Minister of Mines and Energy), Moh Arsjad Anwar (Economist), H. Hadi Soesastro (Economist), HS Dillon (Agricultural Expert), Anggito Abimanyu (Economist), Gumani Soeworo (Senior Banker), Hasan Zein A Mahmud (Former head of Jakarta Stock Exchange), Theodore Permadi Rachmat (Businessman and former President of PT Astra) (*Republika*, 2.12.99 and *Jakarta Post*, 3.12.99).
[54] *Keppres* Nomor 144, 1999, article 6 (2).
[55] DPUN members: Chairman: Sofyan Wanandi, Vice Chairmen: Arifin Panigoro and Aburizal Bakrie, General Secretary: Yusuf Faisal, Members: Wiwoho Basuki, John A Prasetio, Agus Projosasmito, Sunyoto Tanudjaja, Prjadi Parapto Suhardjo, Oesman Soedargo, Fatchur Rochman, Shanti Poesposoetjipto, Hariadi Sukamdani, Alim Markus, Anton Supit, H. Bachrun Ahmad Baeshowi, Ainun Nain, Tony Agus Ardie (*Keppres* Nomor 165, 1999, Lampiran).
[56] For example see, *Republika*, 9.12.99; *Media Indonesia*, 20.12.99; *Rakyat Merdeka*, 21.12.99; *Rakyat Merdeka*, 12.1.00; *Infobisnis*, Feb 2000; *Detak*, 6.3.00; *Kompas*, 29.5.00; *Suara Pembaruan*, 10.6.00; *Suara Pembaruan*, 16.8.00.

policies they espoused but because of the implications for the distribution of policy-making power. It was the widely accepted view that Wahid had created these bodies because he had no confidence in his own cabinet's capabilities. Because Wahid had only gained the Presidency by forming an alliance with a handful of other parties, the criteria for a position in his 'gado gado'[57] cabinet was more about repaying this support than competence or experience. Long periods of authoritarianism inevitably lead to difficulties of assembling new ruling coalitions as political rivals have usually been actively suppressed for a number of years and so are inexperienced in governance. Therefore for a new regime there remains only the 'Hobsons' choice' of experienced but tainted ex-ministers or new faces who are necessarily inexperienced. In any case, inexperience and diversity within Wahid's cabinet led to extreme instability and a fraught non-cooperative atmosphere. Indeed, the key economic team was replaced three times during Wahid's 20 months in office (see Appendix Seven).

The high profile economic ministers felt especially threatened and annoyed by the DPUN in particular. This was in part due to a clash of personalities,[58] but also an overlap of responsibilities. After leaving their posts, the ex-Economic Coordinating Minister (Kwik Gian Gie) and the ex-Finance Minister (Bambang Sudibyo) both complained publicly about the 'interference' in their jobs from the DPUN.[59] President Wahid had in fact originally planned to abolish the post of Coordinating Economic Minister and although this never actually happened, it nevertheless indicated from the very outset the President's preference for the new economic bodies.[60]

The DPUN had been set up ostensibly to provide advice to the President on microeconomic matters and general issues related to the real sector. When

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[57] Wahid's cabinet was likened to the Indonesian peanut dish 'gado gado' because they both involve lots of distinct, separate components.
[58] Most notably between the first Economics Coordinating Minister, Kwik Gian Gie and head of DPUN, Sofyan Wanandi. Kwik is known for his vehement anti-conglomerate position whilst Sofyan is essentially the conglomerate spokesperson. When Kwik was replaced as Economic Coordinating Minister he stated in the Press that there was a businessman called 'S' who had tried to unseat him. For further details see, *Republika*, 11.4.00; *Rakyat Merdeka*, 27.4.00; *Suara Karya*, 11.5.00.
[59] *Rakyat Merdeka*, 22.8.00 and *Media Indonesia*, 21.8.00.
[60] *Media Indonesia*, 23.10.99.

Wanandi first became head of the DPUN he stated that the body would concentrate on matters of safety, worker unionisation and regional decentralisation.[61] However, a review of newspaper reports from that period suggests that he was more vocal about the work of the Indonesian Bank Restructuring Agency (IBRA), the state agency assigned to collect repayments from the private sector after a government bail out of the banking sector in 1998. Subjects such as who IBRA was selling assets to and the advocacy of debt forgiveness, especially for SME indebted companies, were the most frequently reported and it is likely to have been these issues in particular which caused the friction between the economic cabinet and the DPUN.[62]

If the economic cabinet felt that their rightful role in policy-making was being impinged upon by DEN and especially DPUN, Kadin was positively incensed. Because Kadin, some national sectoral BAs and DPUN all represented the same constituency of large private domestic firms, Kadin and some sectoral BAs complained vociferously about DPUN's proximity to policy-making circles through the close relationship between President Wahid and head of DPUN, Wanandi.[63] This may seem anomalous given that the Kadin chairman, Aburizal Bakrie, was actually vice chairman of DPUN, but it quickly became apparent that Wanandi was the motor behind this organisation.[64]

In contrast to Habibie's tenure, Wahid had no ideological or establishment connections with either the chairman of Kadin or Kadin as an institution. Ideologically, the state economic guidelines which Wahid presided over did draw on the 'people's economy' principle but crucially added that its implementation was to be through the market mechanism and healthy

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[61] *Media Indonesia*, 21.12.99.

[62] For example, see *Bisnis Indonesia*, 20.12.99; *Infobisnis*, February 2000; *Jakarta Post*, 18.2.00; *Media Indonesia*, 23.5.00; *Rakyat Merdeka*, 27.5.00. Kwik Gian Gie was famously reported to have quipped that the DPUN should stand for *Dewan Pengemplangan Utang Nasional* (Council for the Unpayment of National Debt (*Media Indonesia*, 21.1.00).

[63] Interviews with Soy Pardede (16.11.01) and Utama Kajo (28.1.02). See also *Bisnis Indonesia*, 6.12.99; *Bisnis Indonesia*, 11.12.99; *Kontan*, 13.12.99; *Bisnis Indonesia*, 19.12.99; *Kompas*, 10.3.00; *Suara Karya*, 10.6.00; *Suara Pembaruan*, 16.8.00.

[64] From the hundreds of newspaper reports which DPUN generated in its 8 months in existence, Aburizal Bakrie never once represented the organisation.

competition.[65] Personally, Wahid and Bakrie had no history of working together in the same way as Habibie and Bakrie had, and reports and comments by Wahid himself suggested that there existed a personal antipathy between the two men.[66]

After just eight months both DEN and DPUN were finally dissolved, precipitated by calls from the MPR factions and a cabinet reshuffle where potential new economics ministers reportedly refused their new appointments unless the DPUN was first disbanded.[67] DEN, which was a very different body to DPUN due to its academic and technocrat members, was dissolved after Wahid considered it to be too critical of some of his policies.[68]

On the day that the dissolutions of both these bodies were announced, Aburizal Bakrie declared that a new body under the Kadin umbrella would be their replacement.[69] When DPUN had first been created Kadin had formed a body called KPEN (*Komite Pemulihan Ekonomi Nasional*) (National Economic Recovery Committee) which had effectively lain dormant ever since. Upon the dissolution of DPUN, the majority of the old DPUN members simply moved across to KPEN bolstered by some Kadin stalwarts and headed this time by Aburizal Bakrie with Sofyan Wanandi as Vice-Chairman.[70] Despite proclamations that KPEN could now function more independently vis-à-vis the government because it had not been formed by government decree and was not part of the cabinet structure,[71] KPEN has since all but faded into obscurity.[72]

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[65] These guidelines are the GBHN and offer the same level of abstraction as the TAP MPR. For further information on the role of GBHN see MacIntyre (1991), p.29 and *Warta Ekonomi*, 25.10.99.
[66] Interviews with Faisal Basri (14.11.01), James Castle (29.11.01) and a senior Kadin official. See also, *Bisnis Indonesia*, 19.12.99; *Kontan Online*, 13.12.99.
[67] *Rakyat Merdeka*, 22.8.00; *Rakyat Merdeka*, 17.8.00; *Media Indonesia*, 21.8.00; *Rakyat Merdeka*, 23.8.00.
[68] Interview with former DEN member, Faisal Basri (14.11.01). DEN criticisms which were considered particularly sensitive were around debt deals for well connected companies and generally the close relationship which DEN members perceived between Wahid and some conglomerate businessmen (*Bisnis Indonesia*, 23.5.00 and *Kompas*, 23.6.00).
[69] *Suara Karya*, 22.8.00.
[70] Some KPEN members are: Chairman, Aburizal Bakrie, Daily Chair, Sofyan Wanandi. Committee Leaders: Soegeng Sarjadi, Kusomo AM and Anton Supit. Some of the other KPEN members are: Yusuf Faishal, Wiwoho Basuki, John A Prasetio, Sunyoto Tanudjaja, Oesman Soedargo, Fatchur Rochman, Alim Markus, Tony Agus Ardie, James T Riady, Benny Soetrisno, Rachmat Gobel, Steve Sondakh, Ismeth Abdullah, Subronto Laras, Chairul Tanjung (*Business News*, 8.9.00).
[71] *Media Indonesia*, 7.9.00; *Indonesian Observer*, 7.9.00.

Even with the continued involvement of Wahid's ally, Sofyan Wanandi, KPEN had become a Kadin body and so could no longer capture the ear of the President. However, with reference to Section 4.3, the nominal involvement of Wanandi in the KPEN shows a slight movement towards more Chinese-Indonesian involvement in Kadin.

Thus, in terms of the representation of domestic, mostly conglomerate business interests, DPUN had a limited period of influence whilst Kadin never managed to achieve such close contact.[73] DPUN was marginally a more transparent and less blatantly corrupt version of DPKEK for a slightly different clientele of conglomerate businesses, but still showed that influence relied on personal relationships rather than the democratic ideal of institutional relationships.

Does the fact that Kadin did not achieve influence on economic policy-making during Wahid's tenure mean that Wahid's government exercised a state corporatist policy towards business? If Kadin had represented anything other than just its leaders' own interests then its situation on the margins of policy-making could indeed be considered a corporatist strategy. However, because it does in fact appear to be the case that Kadin is still used as a vehicle for a grouping of large *pribumi* conglomerates, the unreceptiveness of Wahid towards Kadin simply means that he favoured rather those conglomerates grouped into DPUN. One of the major motivations for the formation of DPUN had been to attract back to Indonesia the domestic capital which had taken flight overseas during the economic and political crisis surrounding Soeharto's downfall. Because in practice this meant Chinese-Indonesian capital, Wahid knew that Kadin was of no use in this regard. It is still nevertheless disappointing that in his rash of policy body creation,[74] no real efforts were made by the Wahid administration to sponsor the formation of a more inclusive domestic business

[72] Interviews with Soy Pardede (16.11.01), Utama Kajo (28.1.02), Faisal Basri (14.11.01), Tulus Tambunan (1.11.01).
[73] Interviews with Anthony Sunarjo (13.12.01), Soy Pardede (16.11.01), Faisal Basri (14.11.01).
[74] At the same time as creating DPUN and DEN Wahid also created *Tim Asistensi Ekonomi* to negotiate with the IMF, *Tim Penasihat Ekonomi Internasional* (which included ex Singapore Prime Minister, Lee Kuan Yew, international financier, George Soros and American ex-Secretary of State, Henry Kissinger), *Dewan Keamanan Nasional* (DKN) for national security purposes and *Dewan Sosial Nasional* for social development purposes. (*Rakyat Merdeka*, 12.1.00; *Kompas*, 10.3.00).

representation body. On the other hand, DEN did function to include a new voice into policy networks, that of reform-minded academics, which had been absent from both Soeharto's and Habibie's calculations when it came to policy-making. However, the fact that DEN was disbanded as soon as its criticisms began to make Wahid uncomfortable does not reflect well on his tenure.

Another way in which Wahid made attempts to open up government was through his treatment of the State Secretariat (*Sekneg*). From the 1970s to the 1990s, Soeharto had used *Sekneg* as a major supporting institution for his Presidency by expanding its administrative power and later giving it authority over the project to nurture *pribumi* business groups. In his 1995 book, Pangaribuan characterised *Sekneg* as the 'eyes, ears and hands of Soeharto' because *Sekneg* officials examined all plans and recommendations that were offered to the President (p.7). Heavily influenced by the military, it was a bureaucratic stronghold where all political funds were collected, mass organisations monitored, Presidential Decrees drafted and big projects approved.[75] Indeed, it was from here that two leading lights of the Kadin executive, Aburizal Bakrie and Fadel Muhammad, gained access to the government facilities which helped their businesses.[76]

Wahid famously referred to *Sekneg* as 'a state within a state' and attempted to break up the power of this monolithic institution. He ordered that it be audited for the first time ever by the Supreme Audit Agency (BPKP) which subsequently reported 'deviations' amounting to US$ 14.96 billion.[77] Wahid also initially suggested a reduction of *Sekneg* staff from 3,000 to 800 and most importantly replaced many of the strategic positions within *Sekneg* with civilian professionals from his own circles.[78] The control which *Sekneg* exercised over access to the President from the Soeharto era through to Habibie's tenure was effectively discontinued and Wahid became known as a very accessible President for all types of interest groups. However, as we shall see in the next

[75] *Tempo*, 13.8.01.
[76] *Detak*, 4-10 January, 2000.
[77] *Tempo*, 13.8.01.
[78] *Jakarta Post*, 30.8.01.

section, these attempts by Wahid to dilute the power of *Sekneg* have since been reversed by President Megawati.

Similarly, in terms of state input into decision-making, Wahid ignored the long-established 45 member Supreme Advisory Council (*Dewan Pertimbangan Agung*) (DPA) which Soeharto and Habibie had both used during their tenures as a tool to support and legitimise their policies.[79] Scores of institutional roles which Habibie had created for some conglomerate bosses such as economic envoys or advisory posts were also scrapped by Wahid.[80]

As a new domestic source of economic policy, the DPR really began to test its powers during Wahid's tenure. Under Soeharto, the DPR had lacked power not only because its members were either appointed directly by Soeharto or won seats in state-managed elections, but also because the scope of their powers did not extend beyond debating infrequent and rather generalised laws. As Ramlan Surbakti explains, detailed regulations dictating policy implementation and budget allocation came from the executive branch in the form of Government Regulations, Presidential Decrees, Presidential Instructions and Ministerial Decrees (Surbakti 1999).

In contrast, during both the Habibie and Wahid Presidencies, the DPR dramatically increased its activities. For example, in the last five years of the Soeharto regime, the DPR produced 86 laws, whilst under the 17 month tenure of Habibie and the 21 month tenure of Wahid, 75 and 78 laws were produced by the DPR respectively.[81] Moreover, constitutional amendments made in 1999 and 2000 have given members of parliament more powers in initiating legislation (Fealy 2001, p.104).

Under Wahid the newly elected members of the DPR also exercised their power over policy through their rights to scrutinise the government's budget. This right is a crucial one as it gives members of parliament an effective veto over all

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[79] *Jakarta Post*, 17.2.00; *Jakarta Post*, 23.2.00; *Tempo*, 19.3.01.
[80] *Jakarta Post*, 27.2.00; *Indonesian Observer*, 27.2.00.
[81] *Tempo*, 9.7.01.

government expenditures on all government programmes. The DPR's approval is now also required for all foreign loans and grants, privatisations and injections of state capital into private enterprises (MacIntyre 2003a, p.143). Throughout Wahid's tenure, the DPR exercised these new powers by routinely hampering and delaying IMF-inspired policies such as the slashing of fuel subsidies and the sale of IBRA assets abroad.[82]

Despite these setbacks, the IMF continued to maintain a high degree of control over a wide range of economic policies. The Letters of Intent (LOIs), which are regularly negotiated between the government and the IMF, effectively became the government's economic policy.[83] Policies such as cuts in fuel and electricity subsidies were open to some degree of latitude, with bargaining between the IMF and the government over the time scale for implementation of the cuts.

However, there were also issues which were not open to negotiation as evidenced in the damaging suspensions of IMF disbursements throughout Wahid's presidency (see Table 4.2 and Figure 4.1 above).[84] Generally, the relationship between the IMF and the Indonesian government under Wahid's stewardship was unstable and very much dependant on who held the post of Economic Co-ordinating Minister.[85] Indeed it was a measure of the importance of the IMF in economic policy-making that the level of accommodation towards the IMF decided who was installed as the Economic Co-ordinating Minister.

Thus, in some ways the Wahid administration attempted to dilute the influence of the state bureaucratic machine, including Kadin, which had evolved over

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[82] IBRA's sale of Bank BCA and the Salim oil palm plantations are two well-known examples of the policies hampered by the DPR.
[83] For full copies of these LOIs, go to http://www.imf.org./external/country/IDN/index.htm
[84] According to the Head of IMF in Indonesia, the two main issues which caused the IMF to withhold a $400 million disbursement for nine months during Wahid's presidency were (1) a proposed government amendment to the Bank Indonesia law in relation to the government's authority to decide on the Governor of Bank Indonesia, and (2) the IMF's insistence on the government imposing a ceiling for the level of loans which regional administrations are allowed to take on. (*Indonesian Business*, July 2001).
[85] Whilst Kwik Gian Gie was in office relations with the IMF were generally smooth, but after there were complaints by the DPR that he was too accommodating towards the IMF, Rizal Ramli took over the post. Ramli proved outspoken in his criticism of the IMF and relations worsened to such a point that Wahid felt obliged to install an ex-IMF employee as Economic Co-ordinating

many years under Soeharto and had been continued under Habibie. In their place he created some new policy institutions, the most important of which were DEN and DPUN, both representing very different constituencies. However, the creation of these new bodies also irked a new centre of power, the DPR, because they seemed to bypass political party appointees in the cabinet. Indeed, it was the bad relations which existed between the DPR and President Wahid which eventually led to his impeachment and subsequent removal as President. These trends all occurred within the constraints of a tight control over many types of economic policy by the IMF.

4.4.3.3 President Megawati Soekarnoputri (July 2001 – Ongoing)

At the time of fieldwork for this thesis, Indonesia's fifth President, Megawati Soekarnoputri, had been in office only a few months, but with this caveat in mind there are nevertheless some tendencies in economic policy-making which can be identified.

In the last section it was possible to review Wahid's broad ideological standpoint on economic principles through an examination of the GBHN prepared for him by the MPR. Formally, the GBHN is a set of policy guidelines to which the President can be held accountable by the MPR and it was in fact one of the tools which the MPR used to oust Wahid in 2001. However, the GBHN has now become obsolete due to the 2002 constitutional amendment which will see the next President of Indonesia directly elected by the people rather than by the political parties in the MPR. Thus the next President will be theoretically accountable to the people rather than the MPR so that the GBHN as a document of accountability to the MPR no longer has any force.

In the absence of a formal statement of economic principles through the GBHN, a brief examination of Megawati's party, the PDI(P), will suffice. Although the PDI(P) has strictly speaking only been in its present form since 1998, its roots can be easily traced back to the 1950s when Megawati's father, Indonesia's first

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Minister, Burhanuddin Abdullah. (*Indonesian Business*, July 2001; *Indonesian Business*, August 2001; *Warta Ekonomi*, 11.9.00).

President Soekarno, was its leader. Throughout the long history of this party, the broad outline of its economic policies was drawn from *Marhaenist* philosophy with its orientation to smallholders.[86] However, since the PDI(P) rose to power in the 1999 elections on the lasting populist appeal of Soekarno, its economics have been firmly inclined towards a liberal economic philosophy.

Megawati's first economic cabinet was generally considered to have met market expectations with a concentrated technocratic presence, whilst at the same time accommodating the competing interests of the major political parties in the DPR.[87] Within the technocratic bracket, however, there are splits within her economic team which are defined in terms of support for the IMF programme. The 'old guard' technocrats who have been around since the height of Soeharto's power and have appeared in Habibie's, Wahid's and now Megawati's circle of advisors are joined by the Economic Co-ordinating Minister and the Finance Minister as broadly pro-IMF.[88] There is also a presence from political figures who are considered to be more wary of the extent of the IMF's intervention, such as Kwik Gian Gie, Rizal Ramli and Theo Toemion.[89] However, even in view of this apparent division, and whether it is over or understated, the economic advice of the latter group cannot be considered 'nationalist'. The nationalist label does not fit as there is no grand industrial protectionist strategy and in many ways the macroeconomic policies espoused by these figures are very similar to those advocated by the IMF (MacIntyre 2003a, p.145).

Such an environment has left Kadin once again on the margins of economic policy-making as can be evidenced by the less than receptive attitude by Megawati's government to some of Kadin's major policy platforms. For

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[86] *Marhaen* literally means 'farmer' in Sundanese (the indigenous language of West Java). The concept was developed by Soekarno to describe a future idealised society free from dependence on foreign capital with a community of classless but happy *Marhaens*, rather than greedy (Western-style) individualists, that reflected the idealised values of the traditional village. Later the concept became synonymous with socio-nationalism and the struggle for independence (http://reference.allrefer.com/country-guide-study/indonesia/indonesia28.html).
[87] *Jakarta Post*, 10.8.01.
[88] The old guard technocrats are Sadli, Widjojo Nitisastro, Emil Salim and Frans Seda. The Economic Coordinating Minister is Dorodjatun Kuntjoro-Jakti and the Finance Minister is Boediono. For further details see *Warta Ekonomi*, 20.8.01.

example, one such policy from Kadin is in connection to a controversial Ministry of Manpower decree first issued in 2000 which stipulated higher severance and long-service payments for workers. After complaints by the business community and major campaigns by Kadin, new decrees were indeed issued but then later rescinded after a series of strikes and protests by labour unions. The latest revision of this decree in February 2003 conceded to some of Kadin's complaints, but was still considered by most to be pro-labour (MacIntyre 2003a, p.149). Although organised labour is still very much on the margins of any policy-making which is not directly connected to labour, it is nevertheless clear that, on these issues at least, the newly liberated labour unions can be a force with which Kadin must now contend for the ear of government.[90] It is also instructive to note that the illicit payments which Kadin is reported to have made to some MPs in connection with this policy (MacIntyre 2003a, p.149) do not seem to have had an enormous impact on the outcome.

Another key failure for Kadin policy was over the implementation of the ASEAN Free Trade Area (AFTA) which reduces import tariffs throughout the ASEAN region. Kadin had called for AFTA to be delayed until at least 2005 since the agreements to fully implement AFTA in 2003 were made back in 1994 before the economic crisis. However, not only did Megawati ignore these demands, she even personally chided Kadin for their attitude, suggesting that they should instead put their efforts into ways to deal with the 'forces of globalisation.'[91]

Generally, Kadin's complaints about the rises in electricity and fuel prices have been no match for the power of the IMF on these issues. Kadin has instead been reduced to calling on its members to boycott the payment of taxes on the issue of price increases, or in the case of the labour laws, simply ignore them.[92]

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[89] *Warta Ekonomi*, 20.8.01. Note that Kwik Gian Gie was labelled as being too subservient towards the IMF whilst he was Economics Co-ordinating Minister under Wahid. However, after he was replaced he went on record about his unease with the extent of IMF intervention.

[90] Labour Unions were limited and controlled by Soeharto, and workers were not permitted to strike. This changed when Habibie acceded to international labour regulations in 1998 and as of February 2003, there are now 72 trade union federations registered at the national level, 931 at provincial level, 2877 at district level and 15,762 at plant level (Gardner 2003).

[91] *IndonesiaMu Online*, 11.4.01.

[92] *Jakarta Post*, 22.1.03; *Jakarta Post*, 9.10.02.

A further indication that Kadin is not being welcomed at the State Palace is that a new Kadin sponsored body, the 'Crisis Centre', aimed at improving the flow of information from the business community to the government has been sidelined into the Ministry of Trade and Industry by the government. The head of the Crisis Centre, a long time Kadin executive Anton Supit, has himself complained that the body can not be effective without a high level government patron, such as the Economics Co-ordinating Minister or the President, to directly execute decisions. The President has also not responded to calls from the body to legitimise it with a Presidential Decree.[93]

Megawati's style of government in terms of accessibility is very different from the previous regime of Wahid. The experienced *Far Eastern Economic Review* correspondent, John McBeth, describes Megawati's Presidency thus: "Gone are the Presidential spokesmen. Rigid protocol and tight security have been restored, along with the authority of the State Secretariat." (*Far Eastern Economic Review*, 1.11.01). He goes on to report that even some of Megawati's closest aides are complaining about the difficulty of obtaining access to the President.

Concerns over the reinvigoration of the power of the State Secretariat (*Sekneg*) have been widely reported since a Soeharto-era *Sekneg* bureaucrat, Bambang Kesowo, was installed by Megawati as the new State Secretary. Kesowo has openly pledged to return *Sekneg's* power and is reportedly reviving the same departmental structure as existed before Wahid's reforms in order to control access to Megawati.[94] When Kesowo was called before the DPR to account for his lack of progress in restructuring *Sekneg* after Wahid's appointees left, the press reported that the probable hold-up was caused by plans to appoint extra staff from the civil service and political parties to give Megawati a second opinion on issues with political overtones.[95] This seems more likely in view of Megawati's plans to scrap the Supreme Advisory Agency (DPA).[96]

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[93] *Jakarta Post*, 22.8.02; *Jakarta Post*, 9.10.02.
[94] *Jakarta Post*, 30.8.01; *Tempo*, 11.2.02.
[95] *Tempo*, 11.2.02.

However, although Megawati may have decided to use *Sekneg* in similar ways to Soeharto, but this does not mean that it will have the same power. For example, some functions such as the authority to draft bills and supervise state owned enterprises such as Pertamina have already been withdrawn from *Sekneg*.[97] Furthermore, *Sekneg's* power is clearly just a reflection of the President's power, which today is circumscribed by, amongst others, a free press and an active parliament. In any case, it is a widely accepted belief that Megawati does not have a tight grasp on policy-making, preferring instead to leave much of the economic decision-making to her aides and co-ordinating ministers.[98] This is in stark contrast to Soeharto's centralised style of governance.

In comparison to the antagonistic relationship which existed between Wahid and the DPR, Megawati's administration have managed to stay on rather better terms with the parliament. Moreover, with the constitutional revision which will see the next President directly elected by the people in the 2004 general elections instead of chosen by MPs, political parties will no longer be able to remove future Presidents in the same way as occurred in Wahid's tenure. This could mean that in the future the relationship between the parliament and the President may contain less brinkmanship than has been evidenced in the past.

Megawati's government has also had a fairly stable relationship with the IMF since it has adopted many of the IMF's prescriptions of fiscal and monetary prudence, reductions in state subsidies and privatisations. But this adherence to fiscal austerity has also instigated waves of demonstrations as the populace struggle to keep up with the ever-rising prices of staple goods. The four-year, multi-billion dollar IMF programme was not extended by the government beyond the end of 2003 which means that the IMF has now lost its privileged position in economic policy-making. This was precipitated by the activities of a loose coalition of thirty five economists under the leadership of Rizal Ramli, known as *Indonesia Bangkit* (Indonesia Arises), which campaigned strongly for an end to the IMF loans.

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96 *Jakarta Post*, 3.8.02.
97 *Jakarta Post*, 30.8.01.
98 *Jakarta Post*, 19.10.01.

With this end to IMF involvement and in the run up to the 2004 elections, there has been a rise in the nationalist sentiments which have served to counterbalance the liberalist policies of the IMF since the fall of Soeharto. Populist pro-*pribumi* policies are likely to become more central as political parties seek re-election coupled with trade-offs for party funding from big businesses seeking regulatory favours.

A new wave of Indonesian political literature also reflects widespread discontent with the type of liberalist policies promoted by the IMF with titles such as *'Under the Threat of the IMF'* and *'Criticising the IMF: Indonesia's Struggle to Arise from the Economic Crisis'*.[99] Calling on Indonesian academics to teach not *just* neo-liberal economics, these authors generally recognise that some IMF policies make sense whilst at the same time re-affirming the need for state involvement in key sectors which impact directly on staple goods, and promoting land reform and stock ownership programmes for workers.[100] Kadin may be better placed to take advantage of this kind of environment with its own emphasis on pro-*pribumi* policies.

In conclusion to this section on policy-making, it seems that whilst authoritarian corporatist control over economic policy-making has largely abated, the Indonesian business community as a whole is still struggling to find an effective voice beyond the continuing government largesse towards a few favoured conglomerates. Although there have been various attempts to co-operate with new economic bodies, no new enduring channels have arisen. This is particularly true at the level of debate which deals with the broad outlines of national policy rather than the more specific, and by nature more particularistic, level of policy implementation.

After a brief period of more open government under Wahid, Megawati seems to be returning to the use of New Order structures to limit access to policy-making circles. Yet, even with this in mind, it is clear that sucessive Indonesian

[99] Baswir, R. (2003) *Di Bawah Ancaman IMF*, Jakarta, Koalisi Anti-Utang with Pustaka Pelajar. Budisusilo, A. (2001) *Menggugat IMF: Pergulatan Indonesia Bangkit Dari Krisis*, Bina Rena Pariwara, Jakarta.

governments since 1998 have had to contend with a DPR which is both willing and able to intervene in economic policy and the pressure of the IMF. In short, the Indonesian state is no longer insulated from extra-bureaucratic voices the way it was in the New Order.

Kadin's fortunes have fluctuated with the changes in government elite. The threat inherent in the absolute power of Soeharto is no longer there and Kadin is now essentially free from state corporatist control, but whether it is listened to is a different question. Kadin certainly can and does advocate to the government on issues of genuine importance to the Indonesian business community as a whole. But unless there is an overhaul of Kadin's structures and elite it will also continue to act as a vehicle for particularistic interests, so diminishing its wider policy advocacy function.

4.5 Conclusion

This chapter has focused on the notion of state corporatist control as applied to the Indonesian business community. It has been shown that state interference in the election of BA leaders has dissipated and there is now more freedom for BAs to choose the content of their policy advocacy. A more open culture of dialogue between BAs and top state decision-makers also seems to be taking root, although this is affected quite substantially by the individual style of Presidential leadership. Under the very particular circumstances of the multi-billion dollar IMF assistance, BAs have been largely sidelined in national level policy-making in favour of the IMF. Where domestic business has been represented at the level of national policy, sucessive Presidents have chosen to create their own groupings rather than rely on existing BAs.

However, the data presented in this chapter, coupled with the section on the role of BAs in government procurement from the last chapter, also highlight the persistence of bureaucratic connections as a defining characteristic of Indonesian BAs. Sectoral BAs and especially Kadin were conceived of as organisations to promote *pribumi* business through the allocation of government favours and the

[100] Baswir (2003), p.10 and p.241.

internal logic of many of these organisations are largely dictated by this very important function.

If corporatism is applied more widely to include not just the policy process but politics in general, then the relationship between corruption and corporatism can be more easily discerned. For the effect of corporatism on corruption is not dependent on the intervention of pluralist tendencies, as was suggested in the introduction to this chapter by King (1982). Rather, corporatism was used by Soeharto to give form to clientelist patterns, to organise and control them. Clients are dependent on their positions within corporatist networks to gain access to government favours. In their turn, corporatist structures rely on the acquiescence of the business community achieved through clientelism to accept their imposition.

Disaggregating corporatism into constraints and inducements and defining clientelism as an inducement opens up the possibility of such an inter-relationship between the two concepts. Although the corporatism exercised under Soeharto was ultimately grounded in his control over the use of violence through the armed forces and his ability to marginalise offenders against his authority, in practice containment was achieved through the provision of favours rather than a recourse to such constraints.

Thus, the situation today where state corporatist practices are in decline does not so much have an impact on the *level* of corruption, causing it to rise or fall, but rather on the *pattern* of corruption. This corresponds to a theme which arose from all of the interviews for this thesis whereby the granting of government favours is now based on monetary exchanges rather than the old mixture of money and political influence.

Chapter Five

CREDIT AND DEBT

5.1 Introduction

The previous three chapters have examined some of the features of the system of wealth distribution under the Soeharto regime and the changes that have occurred in them since 1998. The granting of government contracts to a few favoured private businesses from such lucrative sectors as forestry, electricity and oil were conceived by Soeharto as a project to build an Indonesian capitalist class whilst at the same time preserving his own political power. Such a project was premised on the perceived threat of foreign economic domination of the Indonesian economy and the delusion that around twenty Indonesian families (and most especially Soeharto's own) represented Indonesian economic interests. It was shown in Chapter Two that the demise of Soeharto's rule has indeed led to a greater role for private international business in the government contract sector, a relative stasis in domestic conglomerate participation and a fragmentation of state recipients of patronage to include the parliament and local government.

Chapter Three looked at the role of business associations (BAs) in the distribution of wealth. It was shown that BAs have many different functions, but one of the most important remains as vehicles of access for medium and large *pribumi* companies to enter the government 'contract loop' through bureaucratic channels.

Chapter Four continued the focus on BAs, highlighting state control of BAs with special reference to the peak Indonesian BA, Kadin. Here, it was suggested that corporatist state control has now dissipated from Indonesian politics, but that continued bureaucratic connections ensure a certain acquiescence of those businesses grouped in Kadin to the state. However, where the distribution of wealth is played out at a more abstract level in national policy-making, the three successive post-Soeharto administrations have eschewed input by Kadin in favour of their own groupings of business. With a newly reduced role in policy-making for the IMF, however, a nationalist backlash may provide an environment more conducive for Kadin.

This chapter will examine a final major feature of the Soeharto system of wealth distribution: the availability of credit. All businesses are dependent on credit to add extra value to the economy, otherwise conceived of as the creation of wealth or the accumulation of capital. For many years, the Indonesian private sector was dependent on credit provided by the state until the liberalisation of the banking sector in 1988 enabled conglomerates to form their own banks with minimal amounts of both initial capital and state supervision.[1] Coupled with the increasing willingness of foreign banks to lend directly to Indonesian businesses, the ease of obtaining credit meant that it was not used optimally in businesses that were productive enough to be self-sustaining in either the present or the short term future. Credit was instead often channelled to businesses that could not make sufficient profits to survive on their own or disappeared into complicated networks of real or fictitious businesses to eventually end up in clandestine bank accounts overseas.

With the onset of the economic crisis, the Indonesian government was forced to either allow the national banking sector to collapse under the weight of unpaid debt or take over those debts and effectively become the main creditor for the majority of Indonesian big business. At the height of the economic crisis, immediately prior to and after the resignation of Soeharto, both the Soeharto and the Habibie governments opted for the latter course of action. In turn, this has led to a situation where Indonesian big business today continues to be more dependent on the state than it has ever been for the survival of its businesses. In other words, capitalist class autonomy from the state, which is often cited as a precondition for a functioning democracy,[2] has in this regard suffered a setback.

[1] The initial capital requirement for opening a new bank at that time was about US$ 6 million (Schwarz, A. 1999, p.74).
[2] Barrington Moore popularised this thesis (Moore 1966).

Nevertheless, the continuing intensity of the negotiations over debt make this sector an interesting case study when examining the post-Soeharto relationship between business and the state. As one analyst suggests, the debt negotiations actually signify the dismantling of the micro-economic structure formed under Soeharto (Sato 2003, p.4). These negotiations also speak directly to a consideration of the distribution of wealth in Indonesia because their results represent nothing less than the sharing out of the economy between four main elite constituents: domestic *pribumi* business, Chinese-Indonesian business, foreign business and the Indonesian state. Thus, corruption in this sector can be viewed as a system of wealth distribution based not just on connections but also on ethnicity.

This chapter is divided into three main sections. Section 5.2 will clarify what happened in the early stages of the economic crisis and the origins of debt. Section 5.3 will then go on to detail some of the issues involved in the negotiations between the government and the business sector. It will be shown here how these negotiations represent not only the relative power of all the constituencies involved, but also the apportionment of blame and responsibility for the debt crisis which in turn represent a re-evaluation of the Soeharto system of wealth distribution. Finally, section 5.4 will look at the effects of these negotiations on patterns of ownership in the Indonesian economy. This last section will particularly provide evidence for the social conflict theorists' view of deregulation as simply shifting economic gains from domestic to international interests.

5.2 Sources of Debt

Indonesia's approximately US$ 200 billion debt is made up of three constituent parts. The first part is the US$ 85 billion owed by the government to international institutions such as the IMF, ADB, WB and foreign governments.[3] This debt covers past loans made by these institutions to both state-owned enterprises and directly to the government for development projects and routine budgetary shortfalls. The second part is debt owed by the private sector to the Indonesian government after the government pumped emergency and longer-term recapitalization funds into the banking sector to stave off a total collapse of the banking sector at the height of the economic crisis. Whilst the government is still drip-feeding this payment to Indonesian banks through interest payments on bonds, receiving banks are required to repay these funds. This part is estimated at around US$ 70 billion. The third part of this total US$ 200 billion debt is owed by the Indonesian private sector to foreign banks that lent directly to Indonesian business owners in the past. This private sector foreign debt amounts to around US$ 60 billion.[4]

Within Indonesia, there seems to be remarkably little debate about the terms of repayment of the first type of debt above, that part incurred by the Indonesian government to international institutions.[5] Controversy over this part of Indonesia's debt tends instead to focus on the appropriate level of economic policy influence that this amount of debt should reasonably be expected to buy for institutions such as the IMF. Similarly, the debt that exists between private domestic firms and private foreign banks has received relatively little attention within Indonesia. The resolution of this type of debt may have important long-term ramifications for ownership within the Indonesian economy, but because there is relatively minimal amounts of government involvement and resources, it is largely left to the parties concerned to sort out between themselves.[6]

[3] Prior to the economic crisis, the World Bank made up close to two thirds of these loans, and the Asian Development Bank close to a third (Feridhanusetyawan 2003, p.235).
[4] Central Bank of Indonesia (March 2003) *Indonesia's External Debt.* ICG reports even higher figures based on a Research Paper by Morgan Stanley Dean Witter (ICG 2001).
[5] Notable exceptions are the NGOs grouped together under INFID (International NGO Forum on Indonesian Development). International organisations such as the Jubilee 2000 Campaign have also been vocal on the Indonesian government's indebtedness to international institutions. See also Feridhanusetyawan (2003) for a useful overview of alternative debt resolution schemes of this type of debt.
[6] Two caveats apply to this statement. There have been some prominent court cases in Indonesia involving foreign private creditors and domestic private creditors which have provoked interest for their testing of the new bankruptcy court. There was a relatively limited involvement of the Indonesian government in the restructuring of debts from domestic private businesses to foreign banks through an initiative known as INDRA (Indonesian Debt Restructuring Agency). INDRA's schemes were largely ignored and it faded away after only two years (EFIC 2002).

In contrast, the debt owed domestically to the Indonesian government has raised a great deal of interest across a broad range of the Indonesian population for several reasons. The Indonesian corporate sector was heavily dependent on state bank loans rather than the re-investment of profits in order to develop and with these loans now in default this effectively means that the state has paid for private sector upgrade and expansion (See Table 5.1). Because the credit flowing from domestic banks over the years was also highly concentrated in the hands of a few favoured conglomerates,[7] the debt now represents to many the corrupt excesses of the Soeharto system of business/state relations. In effect, the present government is paying for the profligacy of the Soeharto regime which is passed on to the Indonesian population through cuts in public services.

Table 5.1	**Financing Patterns of Publicly Listed Non-Financial Companies, 1986-96**
Type of Financing	**% of total**
Internal (retained earnings)	17.3%
Bank borrowing	37.9%
Equity	23.5%
Trade credit	8.6%
Other	12.6%
Total	**100%**

Secondary Source: Asian Development Bank (2000) *Corporate Governance and Finance in East Asia, Volume II*, p.34). ***Primary Source:*** Author's estimates based on the Pacific Basin Capital Markets (PACAP) Databases, PACAP Research Center 1996.

In terms of the value of the debt which the Indonesian government has to repay, it is also the case that the debt incurred from international institutions will similarly burden the Indonesian state for many years to come, and the link between this kind of debt and reductions in the provision of public goods such as government subsidies on electricity, soybeans and sugar is in fact much more direct.[8]

[7] For example, in 1994 the top 20 customers of state banks held over 40 percent of the total credits provided by the six largest state banks (Baker et al 1999, p.26).
[8] IMF demands for the elimination of subsidies on many everyday necessities are outlined in the Letters of Intent (LOIs), http://www.imf.org/external/country/IDN/index.htm. The IMF's position is that past systems of government subsidy on basic goods are inefficient and should therefore be

Moreover, if it is accepted that a major cause of the severity of the economic crisis was the corruption of the Soeharto regime, then it could be argued that the loans from international institutions also represent a shifting of the repayment burden from the Soeharto regime to the present time. However, IMF money at least provides the tangible present benefits of increasing Indonesia's international reserves in order to support the national budget, as well as opening up the way for other multilateral and bilateral loans. In contrast, the domestic debt owed to the Indonesian government by local conglomerates provided highly disproportionate levels of benefit to only a handful of state elite members and conglomerate owners.[9]

Thus, contention over the repayment of domestic debt is borne of a resentment towards the Soeharto system of wealth distribution, especially from the 1990s onwards. But the repayment terms of domestic debt do not just represent a re-evaluation of the past system, it is also effectively the working out of Indonesia's current pattern of wealth distribution. For the economic crisis theoretically presented an opportunity for far-reaching changes in this regard as the first new government for thirty-two years gained ownership of the majority of the Indonesian economy. We will return to this point at the end of this chapter to review exactly what the post-Soeharto governments have done with this power and the constraints which have so far shaped its exercise.

A final possible reason why domestic debt has received so much attention in Indonesia may be due simply to the ease of identification of domestic conglomerate bosses. The highly personal nature of the favouritism which conglomerate bosses received under Soeharto has meant that their vilification in the post-Soeharto era has

replaced. Nevertheless, it remains true that the price of basic necessities have risen substantially with subsidy reductions.

[9] Although, because of the nature of IMF loans, there are no detailed accounts of exactly how IMF money is used, and it is "extremely difficult, if not impossible, to track the specific uses of reserves." (Financial Organization and Operations of the IMF, http://www.imf.org/external/pubs/ft/pam/pam45/contents.htm).

also been highly personal.[10] Being able to identify individuals in order to assign responsibility for all the hardships which Indonesian people currently face is naturally more satisfying that grappling with ideas of abstract structures or systems.

It is for these reasons that this chapter will concentrate on the negotiations between the government and the domestic private business sector. However, before turning to these negotiations, for the purpose of clarification it may first be useful to briefly dissect this domestic debt further.

The first part of domestic debt is derived from the emergency funds which the government injected into private and state banks at the end of 1997 and the beginning of 1998. Known as BLBI (*Bantuan Likuiditas Bank Indonesia*) (Bank Indonesia Liquidity Assistance), these funds were dispersed by the government when the closure of 16 banks in 1997 instigated a rush by Indonesian depositors fearful of losing their savings if their own bank was closed down.[11] Banks obtain profits from using customer deposits as loans to other customers and all banks are vulnerable to collapse if all the depositors suddenly decided to withdraw their deposits. This situation was aggravated in the Indonesian case as debt repayments to domestic banks dried up in the wake of the rupiah devaluation, leaving the banks without adequate cash flow to repay depositors.

However, the purpose of BLBI, to ensure that depositors could recover their savings, was abused by the bank owners who used the funds instead to pour into their own collapsing business empires. There were also reports of bank owners using the BLBI funds to speculate on dollars and transfer them overseas, thus further aggravating the rupiah's devaluation. In addition, BLBI became controversial as it emerged that ten well-connected banks received 70 percent of the total amount issued (see Table 5.2 below). BMPK (*Batas Maksimum Pemberian*

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[10] The frequent use in the Indonesian media of vocabulary such as *konglomerat hitam* (black conglomerates), *dosa* (sin) and *bertobat* (repent) to describe Indonesian conglomerates and their activities testifies to the strength of the idea that corruption is a matter of personal morals.

Kredit) is the legal lending limit from banks to businesses in the same conglomerate group and was set at 20 percent prior to the economic crisis. The BMPK column in the table below thus gives some indication of the degree of the violation of these limits by the various bank recipients as the BLBI funds flowed in.

Table 5.2 Major BLBI Recipients as of December 2000

Bank	**Owner**	**Amount (RP Trillion)**	**BMPK**
BDNI	Sjamsul Nursalim	37.039	90.7%
BCA	Liem Sioe Liong	26.596	N/A
Danamon	Usman Admadjaja	23.049	43.8%
Bank Umum Nasional	Bob Hasan and Kaharudin Ongko	12.067	43.9%
Bank Indonesia Raya	Publicly Listed Company (Bambang Winarso)	4.018	N/A
Bank Nusa Nasional	Aburizal Bakrie	3.020	N/A
Bank Tiara Asia	Publicly Listed Company (HR Pandji M. Noe)	2.978	N/A
Bank Modern	Samadikun Hartono	2.557	63.2%
Bank Pesona Utama	Hutomo Mandala Putra	2.334	N/A
Bank Asia Pacific	--------------------	2.054	N/A
	Total Amount	**115.712**	

Sources: IBRA Annual Report 2000, p.128. For BMPK: *Tempo,* 17.9.01; *Prospek,* 24.8.98; *Tempo,* 31.12.01; *Warta Ekonomi,* 7.9.98.

The initial cost of BLBI to the government amounted to an astonishing Rp 144.5 trillion (US$ 14.45 billion) and is set to rise as interest payments on the bonds the government issued to save the banks fall due.

The second part of domestic debt is composed of unpaid loans made by state banks directly to private businesses throughout the Soeharto era.[12] With the drastic rupiah devaluation at the outset of the economic crisis, the dollar denominated loans which many Indonesian businesses had taken advantage of became very difficult to pay

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back. The day to day operations of many businesses were further paralysed by sudden price rises of imported inputs. The devaluation of the rupiah also led to a sharp contraction in domestic economic demand, and bank interest rates rose substantially in an effort to attract money back into the banking system. Thus, a combination of foreign bank obligations, a shrinking of the economy and a rise in interest rates meant that most of the loans from state banks to the domestic private sector became 'non-performing'.[13]

The third major strand of domestic debt comes from loans made by domestic private banks directly to Indonesian businesses. As already mentioned, these banks were usually owned by the same businesses who were receiving the loans. These loans became non-performing as a result of the same factors mentioned above of interest rate rises, other debt obligations, a contraction in domestic demand as well as a certain degree of wilful default on the part of the loan recipients.

In order to prevent both state and private banks from collapsing as a result of not being able to collect payments on these loans, the government began a recapitalization scheme. This scheme evaluated banks according to their capital adequacy ratio (CAR)[14] and took one of four actions: freezing a bank's operations, closing it down completely, recapitalization (injection of government funds with the continued involvement of the original bank owners)[15] or taking a bank over completely as wholly government owned. Table 5.3 below shows the ownership and status of some major banks.

[12] Although credit from private banks increased substantially due to banking reforms in 1988, state banks continued to provide the majority of capital used by private business, which is apparent by the fact that loans from state banks now constitute 70 percent of all bad loans (*Jakarta Post*, 7.4.99).

[13] Loans officially become 'non-performing' in Indonesia when interest and debt principal instalments are 90 days overdue.

[14] CAR is the ratio between a bank's capital and risk-weighted assets. In other words it measures the level of a bank's stock of capital against its loans.

[15] To avoid closure or take over of their banks by the government, owners had to inject 20 percent of the funds needed to bring CAR levels up to 4 percent. For further details see Fane and McLeod (2001).

Table 5.3	Ownership and Status of Some Major Banks After Bank Restructuring Scheme
Group Name	**Name of Banks**
Argo Manunggal	Bank Bintang Manunggal, Bank Danahutama
Artha Graha	Bank Artha Graha, Bank Artha Prima
Aspac	Bank Aspac, Bank Danpac, Bank Hastin, Bank Kharisma, Bank Patriot, Societe Generale Indonesia, Bank Uppindo
Astria	Bank Astria, Bank Budi, Bank Orient
Bahari	Bank Bahari, Bank Metropolitan
Bakrie	Bank Nusa Nasional, Maybank Nusa, Bank Tabungan Pensiunan Nasional
Bank Bumi Daya	Bank Bumi Daya, Paribas BBD Indonesia
Bank Dagang Negara	BDN, Indovest
Bank Ekspor Impor Indonesia	Bank Ekspor Impor Indonesia, Bank Merincorp
Bank Indonesia	Ficorinvest, Bank Niaga, Bank Pacific, Bank Papan Sejahtera, Pesona Kriya Dana, (Utama), PDFCI, Bank Uppindo
Bank Negara Indonesia	Bank Negara Indonesia, Finconesia, Bank Sakura Swadharma
Bank Rakyat Indonesia	Bank Rakyat Indonesia, Bank Inter-Pacific
Bob Hasan	Bank Duta, Bank Bukopin, IBJ Indonesia, Bank Muamalat, Rabobank Duta Indonesia, Bank Tuga
Ciputra	Bank Ciputra, Bank Jaya International
Danamon	Bank Dana Asia, Bank Danamon Indonesia, Korea Exchange Danamon Bank
Dharmala	Bank Dharmala, Bank Putra Surya Perkasa, Bank Sewu
Djarum	Bank Haga, Bank Hagakita
Gajah Tunggal	Bank Dagang Nasional Indonesia, Dai-Ichi Kangyo Indonesia, Bank Dewa Rutji, Bank Ganesha, Bank Sahid Gajah Perkasa
Gemala	Bank Dana Hutama, Indosuez Indonesia Bank
Lakop	Bank Bali, Bank Mashill Utama, Sanwa Indonesia, United Overseas Bank Bali
Lippo	BNP Lippo Indonesia, Bank Dagang and Industri, Bank Lippo, Bank Mayapada International, PDFCI, Tokai Lippo Bank
Niaga	Bank Niaga, Sumitomo Bank
NISP	Bank Daiwa Perdania, Bank NISIP, OCBC Bank NISIP
Nugra Santana	Bank Pacific
Ongko	Bank Arya Panduarta, Bank Umum Nasional
Panin	ANZ Panin Bank, Panin Bank, PDFCI
Ramako	IFI, Bank Asta
Roda Mas	Bank Buana, Tat Lee Buana Bank
Sahid	Bank Dagang and Industri, Bank Sahid Gajah Perkasa
Salim	Bank Alfa, Bank Central Asia, Bank Dana Asia, Bank

Table 5.3	Ownership and Status of Some Major Banks After Bank Restructuring Scheme
	Danamon Indonesia, LTCB Central Asia, Bank Multicor, Bank Pesona Kriya Dana (Utama), Bank Risjad Salim International, Bank Windu Kentjana, Bank Yakin Makmur (Yama)
Sinar Mas	BII Commonwealth, Credit Lyonnais Indonesia, Fuji Bank International Indonesia, Bank Dagang and Industri, Bank International Indonesia
Sudwikatmono	Korea Commercial Surya, Bank Hanvit Indonesia, Bank Surya, Bank Subentra
Tamara	Bank Tamara, Bank Harda, Bank Hanil Tamara, Bank Hanvit Indonesia, Chinatrust Tamara Bank, Bank Indonesia Raya
Tirtamas	Bank Niaga, Bank Papan Sejahtera, Bank Pelita, Bank Kredit Asia, Bank Industri
Key: Closed Bank; Frozen Bank; Taken Over Bank; Recapitalised Bank	
Sources: Data Consult (2001) *Indonesian Banking Industry,* adapted from pages 20-22, 26-27.	

By the middle of 2000, 83 private national commercial banks were left from the 164 recorded in 1996 and there were five state banks left from the seven which had existed in 1996 (Data Consult 2001, p.14). In total, 52 banks had their operations frozen, 13 were completely taken over by the government and seven were recapitalized (IBRA 2001, p.135). As can be seen from Table 5.3 above, some conglomerate groups benefited more than others from these rounds of closures and recapitalizations and at the time suspicions were high that political connections rather than objective measures of CAR governed decisions about the fate of banks.[16] In particular, it was often alleged that *pribumi*-owned banks were receiving special treatment.[17]

Thus, the debt negotiations which the next section will deal with are negotiations over domestic debt. In turn, this debt is made up of non-performing loans from

[16] In an interview with a senior member of a foreign consultancy firm who advised the government on the recapitalization programme, it was denied that there was any favouritism involved in the decisions. However, a confidential report prepared by the same firm for Bank Indonesia and leaked to the *Far Eastern Economic Review* in 1999, concluded that Bank Indonesia bent its own rules to save seven of the banks in the recapitalization programme (*Jakarta Post,* 12.8.99).

[17] This was because the recapitalization scheme took place under Habibie which had ideological leanings towards *pribumi* businesses (see Chapter Four for more details). See also *Warta Ekonomi* 15.3.99, *Gamma,* 7.3.99 and *Infobank,* March 1999.

closed, taken over and state banks, BLBI emergency liquidity assistance and the recapitalization process. Categorising domestic debt in this way may help clarify the debt negotiation process. For, whilst most conglomerate debtors owe for all of the above types of domestic debt, there are also some who, for example, did not own their own banks and were therefore not involved with BLBI.[18]

Section 5.3: The Debt Negotiation Process

In January 1998 the Soeharto government created an institution to manage all the domestic debt owed to the government. Named IBRA (Indonesian Bank Restructuring Agency) (*Badan Penyehatan Perbankan Nasional* –BPPN) this new agency was charged with the restructuring of non-performing loans taken over from closed and nationalised banks, the sale of assets pledged by debtors as collateral for those loans, and the sale of assets pledged by bank owners for their receipt of BLBI. Essentially, IBRA is the Indonesian government's debt collecting agency.

It has been said that IBRA controlled an astonishing 70 percent of the Indonesian private sector's assets.[19] Due to such a concentration of wealth under the authority of one institution, decisions concerning how much conglomerate debtors can be expected to repay and who the assets should be sold to have been the subject of many power struggles. In an environment of IMF pressure and the invisible influence of the conglomerate debtors, control over IBRA has been played out between various Indonesian political constituencies.

In formal terms, IBRA's top decision-making body is the Financial Sector Policy Committee (FSPC) (*Komite Kebijakaan Sektor Keuangan* – KKSK) which is made up of the top economic cabinet portfolios.[20] On the insistence of the IMF, an Oversight Committee (OC) (*Komite Pemantau Pelaksanaan Tugas* BPPN – KPPT)

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[18] For example, the conglomerate Texmaco falls into this category whilst the Salim conglomerate is indebted to IBRA for the receipt of BLBI alone.
[19] Indonesian Observer, 30.3.00.
[20] Chairman: Co-ordinating Minister of Economy. Members: Minister of Finance, Minister of Trade and Industry, Minister of National Development Planning, Minister of State Owned Enterprises.

was set up to monitor the FSPC. Where the OC had a stable membership of respected technocrats, bankers and academics, membership of the FSPC changed frequently in tandem with cabinet reshuffles. Other oversight bodies included two internal audit committees and an International Review Committee made up of the IMF, the World Bank and the Asian Development Bank. As a government agency, IBRA also originally fell under the authority of the Ministry of Finance.

In June 2001 in particular, political struggles over the control of decision-making at IBRA spilled out into the public arena as it was announced that conflict between IBRA management and the Ministry of Finance on the one hand and the FSPC on the other was resulting in IBRA's refusal to implement the FSPC's recommendations.[21] Headed at the time by a nationalist-oriented Co-ordinating Minister of the Economy, Rizal Ramli, the FSPC was criticised for giving some high profile debtors too good a deal on debt repayment. Within days, Ramli replaced the Finance Minister in a cabinet reshuffle, thus ensuring that his debt deals would go ahead. However, just two days later a cabinet decision to reduce the FSPC's role from 'decision-making' to 'policy recommendation' was announced.[22]

Essentially, then, the route of political party influence on IBRA's decisions through the FSPC was first hampered by IBRA personnel, briefly seemed to have prevailed but was then once again curtailed. Party influence was also exercised through the selection of the IBRA chairmanship, which changed seven times from 1998 until the dissolution of IBRA in February 2004.[23] For example, Cacuk Sudarijanto reportedly had strong support from the 'axis force' of Muslim-oriented parties, as did Putu Gde Ary Suta.[24] How far the IBRA chairmen, or indeed the FSPC members, used their positions to channel party or private funds from grateful debtors must be left to speculation. However, it was clear from the outset that the

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[21] *Jakarta Post*, 21.6.01; *Jakarta Post*, 22.6.01.
[22] *Jakarta Post*, 28.6.01.
[23] The chairmen were: Bambang Subianto (1998), Iwan Prawiranata (1998), Glenn Yusuf (1998), Cacuk Sudarijanto (2000), Edwin Gerungan (2000), I Putu Gde Ary Suta (2001) and Syafruddin Temenggung (2002 – 2004).
[24] *Jakarta Post* 12.1.00; *Asia Times* 27.6.01.

decisions which IBRA made over debt repayment plans were wholly political rather than technical.

On the insistence of the IMF, IBRA presents its financial data grouped according to size of debtor and the 2001 *IBRA Annual Report* states that the 21 largest debtors account for almost 30 percent of the total debt owed (p.17). The potential for corruption in these debt negotiations in particular is thus extremely high and all of the IBRA chairmen have come and gone on waves of accusations surrounding how these 21 debtors are being treated.

Trying to ascertain exactly how much of the debt burden the state and the individual debtors are each having to shoulder is a complex task. The predominant settlement of assets to different economic constituents on a broad scale is in reality composed of a huge number of smaller scale decisions[25] on a multitude of different companies, and no-one really had a full grasp of everything that occurred at IBRA.[26] Table 5.4 below presents IBRA's own calculations from the beginning of 2002.

[25] Just some of the issues involved in settlement decisions are: estimations of the value of assets, whether additional assets should be given, whether debtors should be held personally responsible for debts with personal guarantees, term of repayment, interest rate, penalties, threat of legal process, state equity participation in indebted companies and whether a release and discharge clause is included which effectively pardons debtors.

[26] For example, independent auditors gave a 'no opinion' comment on its findings from an audit conducted in 2000. This is an unusual practice and was largely the result of a number of questions

Table 5.4 Progress of Debt Negotiations of the 21 Largest Obligors 25.1.02

No.	Group	Owner	Outstanding Debt* (Rp trillions) at 25.1.02
1	Texmaco	Marimutu Sinivasan	17.32
2	Barito Group	Prajogo Pangestu	7.84
3	M.Hasan	Mohamad 'Bob' Hasan	6.24
4	Bakrie Group	Aburizal Bakrie	6.13
5	Humpuss	Hutomo Mandala Putra	6.02
6	Tirtamas Group	Hashim Djojohadikusumo	4.56
7	PSP Group	Gondokusumo family	4.15
8	Ongko Group	Kaharudin Ongko	3.69
9	Napan Group	Henry Pribadi	3.76
10	Danamon Group	Usman Admadjaja	3.07
11	Bimantara	Bambang Trihatmodjo	3.15
12	Dharmala Group	Gondokusumo family	3.00
13	Bahana Pembinaan Usaha Indonesia	Bank Indonesia	2.94
14	Tirtobumi	Moertomo Basoeki	2.90
15	Rajawali Group	Peter Sondakh	2.90
16	Djajanti Group	Burhan Uray	3.75
17	Raja Garuda Mas	Sukanto Tanoto	2.60
18	Gunung Sewu Group	Kel. Angkosoebroto	3.08
19	Nugra Santana Group	Sutowo family	2.23
20	Argo Pantes	The Ning King	2.08
21	Kodel Group	Said Umar Husin, Maher Algadrie, Soegeng Sarjadi, Fahmi Idris	1.49
	Total:		**92.90**

Key: * Includes foreign exchange and rupiah debt
Sources: IBRA (2001) *Annual Report,* p.18; *Tempo,* 16.10.00; *Tempo,* 17.9.01; *Gamma,* 29.8.01.

Another indication of the 21 largest obligors' progress on debt repayments can be seen by the amount of debt which has entered stages eight (fully paid) and nine (already sold) of the restructuring process.[27] As of the beginning of March 2002, Rp 3.96 trillion (US$ 396 million) worth of debt had entered stage eight whilst Rp 6.34 trillion (US$ 634 million) had entered stage nine for the '21 largest obligors' group

that IBRA itself could not answer about the value of its assets and the extent of its liabilities (ICG 2001, p.17).

(IBRA 2002a). This means that only 11 percent of the total 21 largest obligors' debt of around Rp 90 trillion (US$ 9 billion) had actually been recovered at the beginning of 2002.

Available information about the progress of debt repayments is problematic for several reasons. Firstly, IBRA tends to present figures on the 'completion of the debt restructuring process' rather than the amount which has actually been paid back. For example, the IBRA *Annual Report 2001* stated that 91.12 percent of the restructuring process had been completed, comprising 298 debtors with total debts of Rp 82.47 trillion (US$ 8.2 billion) (p.17). Essentially what IBRA presented here was the amount of debt which had entered the implementation stage where decisions such as a timetable and interest rate have been agreed on. However, the ability of debtor companies to comply with these agreements into the future is not at all certain and the World Bank has itself warned that restructured Indonesian firms are still vulnerable to future shocks (World Bank 2000, p.17).

On the other hand, it is unreasonable to expect a severely indebted company to be able to pay back their debt in full even within a time period of around four years. Most companies the world over would struggle to fully repay their debt if all of their creditors suddenly pulled out, let alone a debt which had multiplied due to massive exchange rate fluctuations.[28] In any case, the point is that the difference between debt paid and debt rescheduled is an important one.

Another reason why it is difficult to draw firm conclusions about the level of debt repaid is because of drops in the value of assets surrendered by debtors. The assets and companies handed over by debtors to repay their debts are in practice only

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[27] See Appendix Eight for a full description of the stages of loan restructuring.

[28] It could also be argued that most conglomerate bosses do have funds to repay their debt secreted abroad, and that efficient companies would not have such an enormous debt in the first place.

worth around 30 percent of their book value.[29] Table 5.5 gives an estimated breakdown of the real value of various types of assets.

Table 5.5 Estimation of the Market Value of IBRA's Assets (rupiah trillion) (2001)			
Type of assets	**Book value**	**Real value**	**Real Value as a % of book value**
Recorded assets	466.9	97.8	21%
Former bank assets	403.4	88.8	22%
Securities or assets from shareholders	63.6	8.9	14%
Former shareholder's assets	0.2	0.07	35%
Promissory notes from shareholders	61.4	17.4	28%
Bank investments in companies	106.8	42.9	40%
Debts	9.5	9.5	100%
Total	**644.5**	**167.7**	**26%**
Source: Accountancy firm *Hans, Tuanakotta and Mustofa* in *Tempo,* 30.7.01.			

Such re-evaluations of the worth of assets means that a debtor can claim to have surrendered enough assets to repay their debt and be absolved of any further payments, whilst IBRA can only actually collect on about 30 percent of the assets' value. Debt repayment figures based on the value of assets transferred should thus be treated with caution.

Some of this decline in value has been caused by exchange rate fluctuations, but many also suspect that it is due to debtors' deliberate over-valuations of their assets before transferring them to IBRA. Indonesian companies regularly over-valued their assets throughout the Soeharto period in order to secure bigger bank loans and both foreign and domestic auditors, relying only on the companies' own financial records, did not guarantee realistic valuations. As the U.S. based Enron/Arthur Anderson scandal of 2002 shows, collusion between companies and their auditors is a potentially devastating problem for all governments. However, the principal role of public accountants, to protect investors by verifying a company's accounts, has

[29] *Warta Ekonomi,* 7.9.98; *Jakarta Post,* 20.4.99; *Jakarta Post,* 23.11.99; *Jakarta Post,* 29.4.00; *Tempo,* 9.10.00; *Indonesian Commercial Newsletter,* 29.2.00.

been especially problematic in Indonesia both because of a weak regulatory environment and the ease with which firms avoid paying tax.[30]

The most productive assets and companies left over from the economic crisis are more often reserved for either the debtors themselves or their foreign creditors, leaving IBRA with companies which have already stopped production, have incomplete ownership papers or are mired in ongoing lawsuits.[31] This problem dates back to IBRA's early days when President Habibie signed agreements with the debtors absolving them of surrendering additional assets in the event of their devaluation and including a 'release and discharge' clause which promised no criminal prosecutions.[32]

A third problem of assessing genuine levels of debt repayment arises from the more abstract idea of what exactly constitutes ownership. For, whilst IBRA may theoretically own the companies/assets surrendered, in practice control of these companies often remains with the original owners. Companies transferred to IBRA are often grouped into 'holding companies' based on who the majority shareholders are. Whilst the boards of directors of the holding companies tend to be appointed by IBRA, the constituent companies usually remain under previous management and the scope of responsibilities are often blurred between the two. For example, if a company is still achieving a profit, decisions over whether profits should repay creditors or be reinvested in the company can prove contentious as is the identification of who should be responsible for operating costs.[33] Legally, IBRA may have the right to sell these companies, but because in practice buyers are hard to find for all but the most productive companies, ownership in any meaningful sense remains with the original owners.

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[30] In countries where tax collection is more rigorous, companies avoid over-valuing their assets because they would be liable for taxes on the extra value claimed. In contrast, the payment of tax in Indonesia can often be evaded with a bribe to a tax official (*Jakarta Post*, 20.4.99).
[31] *Tempo*, 24.9.01.
[32] These very controversial agreements are known as 'Master Settlement and Acquisition Agreement' (MSAA).

Thus it is that the frantic rounds of domestic debt negotiations over the past few years actually belie a situation of relative stasis. In practice, many debtors have retained control of their business empires by being granted extended repayment schedules, only surrendering their least valuable assets or preserving operational control over their companies.

An alternative to these 'commercial settlements' for the resolution of domestic debt is the use of legal processes. Championed by the IMF and a considerable constituency of government critics within Indonesia, the legal route would entail either criminal prosecutions of the debtors for the abuse of BLBI and legal lending limits, or the wresting of companies from the debtors through bankruptcy proceedings or the seizure of additional assets.

In terms of criminal proceedings for the misuse of BLBI, frequent announcements of impending investigations and the identification of new suspects by the Attorney General's Office have more often than not come to nothing. Moreover, Table 5.6 below shows that even where prosecutions have been followed through, sentences have either been negligible or have remained unenforced. In all, until the middle of 2002 there were 52 criminal investigations in relation to the misuse of BLBI, with 28 making it as far as the courts and 24 still in the police investigation stage.[34] Cases against legal lending limit (BMPK) violators have been even more problematic, with only a handful making it as far as the court room.[35]

[33] *Tempo*, 9.10.00.
[34] *Tempo*, 19.8.02.
[35] Some BMPK cases are: AF Fadillah and Candra Wijaya from Bank Citra were sentenced to 3 months for violations of BMPK in 1999 and the cases against Hashim Djojokusumo and Umar Yudi were thrown out on technicalities in 2002 (*Gamma*, 15.3.00; *Lakamana.net*, 12.4.02).

Table 5.6	Major Criminal Trials of BLBI Abuse 1999-2003		
Defendant and Position	**Crime**	**Outcome**	**Date**
Hendrobudiyanto (Director, Bank Indonesia)	Unregulated issuance of BLBI worth Rp 18.7 trillion	3 years (under appeal)	April 2003
Heru Supraptomo (Director, Bank Indonesia)	Unregulated issuance of BLBI worth Rp 18.7 trillion	3 years (under appeal)	April 2003
Paul Sutopo Tjokronegoro (Director, Bank Indonesia)	Unregulated issuance of BLBI worth Rp 18.7 trillion	2.5 years (under appeal)	April 2003
Kaharuddin Ongko (Deputy Commissioner, BUN)	Misuse of Rp 6.7 trillion	Acquitted	January 2003
Leonard Tanubrata (Director, BUN)	Misuse of Rp 6.7 trillion	10 years (under appeal)	January 2003
David Nusa Wijaya (President Director, Bank Umum Servitia)	Misuse of Rp 1.27 billion	1 year and repay misused Rp1.27. Did not serve sentence, still at large.	March 2002
Samadikun Hartono (President Commissioner, Bank Modern)	Misuse of Rp 169 billion	4 years; did not serve sentence, still at large	July 2002
Handy Sunardio (President Director, South East Asia Bank)	Misuse of Rp 39.9 billion	10 months; Rp500 million fine	August 2002
Jemy Setiawan (President Director,South East Asia Bank)	Misuse of Rp 39.9 billion	8 months; Rp500 million fine	August 2002
Leo Andyanto (Credit Director, South East Asia Bank)	Misuse of Rp 39.9 billion	Freed	August 2002
Setiawan Harjono (Director, Bank Aspac)	Misuse of BLBI	5 years; Rp30 million fine; in hospital	May 2003
Hendrawan Harjono (Deputy Director, Bank Aspac)	Misuse of RP583 billion	Rp500 million fine; 1 year; did not serve sentence; still at large	2001

Table 5.6	Major Criminal Trials of BLBI Abuse 1999-2003		
Supardi Dhirdjoprawiro (President Director, Bank Ficorinvest)	Misuse of Rp319 billion	1.5 years (under appeal Aug 2003)	August 2003
S.Soemeri (Director, Bank Ficorinvest)	Misuse of Rp319 billion	1.5 years (under appeal Aug 2003)	August 2003
Hendra Rahardja (President Commissioner, Bank Harapan Santosa)	Misuse of Rp1.9 trillion BLBI	Life (tried in absentia, died in 2003) and Rp30 million fine	November 2002
Eko Edi Putranto (Commissioner, Bank Harapan Santosa)	Misuse of Rp1.9 trillion BLBI	20 years (tried in absentia, still at large) and Rp30 million fine	November 2002
Sherny Konjongian (Credit Director, Bank Harapan Santosa)	Misuse of Rp1.9 trillion BLBI	20 years (tried in absentia, still at large) and Rp30 million fine	November 2002
Bambang Sutrisno (Vice President Commissioner, Bank Surya)	Misuse of Rp1.5 trillion BLBI	Tried in absentia; found guilty; life sentence, still at large	November 2002
Adrian Kiki Aryawan (Director, Bank Surya)	Misuse of Rp1.5 trillion BLBI	Tried in absentia, found guilty; life sentence, still at large	November 2002

Sources: *Suara Merdeka,* 14.11.02; *Kompas,* 16.8.02; *Gamma,* 15.3.00; *Kompas,* 28.1.03; *Gatra,* 5.9.98; *Warta Ekonomi,* 7.9.98; *Jakarta Post,* 22.8.01; *Jakarta Post,* 20.6.01; *Tempo,* 27.8.01; *Van Zorge Report,* 18.3.02; *Jakarta Post,* 25.1.02; *Lakamana.net,* 12.4.02; *Kompas,* 7.4.03; *Jakarta Post,* 7.3.03.

There are several reasons why the legal course of action appears to be ineffective. The most often cited reason is the prevalence of corruption within the judiciary where decisions are routinely bought. This both discourages the government from using the judicial system in the first place and ensures that when it is used, the outcome favours the party willing to pay the most.

The second reason is the complexity of the crimes committed and the hitherto untested nature of many of the cases. Violations of the legal lending limit (BMPK) from banks to connected companies can be almost impossible to prove. For example, Eka Cipta and Bob Hasan were reported to be involved in 'reciprocal lending' where Hasan's bank would lend Cipta's bank a sum on the understanding that this would be lent back to a company of Hasan's.[36] Another example was the arrangement between two other tycoons, Ongko and Admajaya, that their respective banks would lend to each other's companies.[37] In any meaningful sense, such cases are violations of legal lending limits, but in practice the informality of such arrangements make them extremely difficult to prove. Evidence about the misuse of BLBI has also been difficult to collect from uncooperative bank staff.[38] Moreover, once collected, evidence can be difficult to hold on to, with the occurrence of various fires and thefts in the offices of Bank Indonesia, the audit agency or the Attorney General.[39]

Applying the laws on corporate responsibility is also to a large extent a matter of trial and error because they have been little tested in the past. For example, after some trials against bank commissioners collapsed because they could not be held legally responsible for the actions of bank directors, IBRA is now beginning to prepare cases which include the entire management of a bank into one legal action.[40]

Although in many cases there may simply be direct bribes from conglomerate bosses to political leaders to avoid the legal process, the government's avoidance of pursuing legal procedures should also be seen in the light of the above reasons. This lack of political will for using the legal route has been evident from the very outset of the debt negotiation process. Where the government and IBRA have made the recovery of funds their top priority, the IMF and some domestic commentators rather see the negotiations as an opportunity to restructure the Indonesian economy, or 'cleanse' the Indonesian business world of the most incompetent Soeharto cronies, in order to rebuild investor confidence. Wahid made his position on the use

[36] *Warta Ekonomi*, 14.9.98; *Gamma*, 15.3.00.
[37] *Tempo*, 25.9.00.
[38] *Tempo*, 11.9.00; *Kapital*, 11.4.00.
[39] *Tempo*, 23.10.00; *Laksamana.net*, 16.5.01.

of legal processes against debtors very clear when he announced the suspension of legal actions against the biggest debtors in 2000. Megawati has further endorsed this position by issuing a decree in 2002 allowing IBRA to exonerate the banking crimes of debtors as long as they were co-operative in settling their debts in 2002.[41]

In many ways the diverging positions of the government and the IMF on this issue represent the political conflict between short term and long term goals which decision-makers everywhere must face. However, the government's willingness to let banking violators go unpunished as long as the funds are returned also testifies to the ruling elite's ambivalence about the legitimacy of the Soeharto system of power and wealth. This is certainly not an ambivalence which is shared by very many Indonesians as was proven by the public outcry which met both Wahid's and Megawati's announcements.

Moving away from the question of legal proceedings in the cases of banking crimes, it can also be seen that the legal route for dealing with uncooperative debtors has been similarly under-utilised. For, as well as the use of commercial settlements to oblige recalcitrant debtors to surrender adequate assets, the government also has the option of petitioning for bankruptcy through the courts.[42]

A functioning bankruptcy regime is theoretically indispensable in a modern economy because it provides creditors with an opportunity to recoup some of their funds if a business fails, thereby encouraging creditors to lend in the first place. However, both domestic and foreign creditors evidently did not seem to require such a safeguard in pre-crisis Indonesia where bankruptcy practices were antiquated and petitions extremely rare.[43]

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[40] *Indonesian Business*, 5.2.03.
[41] *Jakarta Post*, 5.2.03; *Tempo*, 6.11.00.
[42] There is a second legal option for the government in forcing debtors to surrender additional assets, a regulation known as PP/17. This regulation gives IBRA the power to bypass the courts and seize assets. However, this regulation has been little tested, partly for fear of counter-suits (*Jakarta Post*, 21.1.02).
[43] There were 13 successful bankruptcy petitions in Indonesia from 1984-1994, only four of which were in relation to companies (Backman 1999, p.35).

With an estimated 70 percent of Indonesian companies technically bankrupt in the wake of the economic crisis,[44] the IMF moved to protect creditors by exerting pressure through its loan agreements to reform the bankruptcy regime. As a result, a new bankruptcy law was passed in 1998 which established a new commercial court *(Pengadilan Niaga)* for bankruptcy petitions. Table 5.7 below shows the numbers of cases which the commercial court has heard since 1998 and their outcomes.

Table 5.7 Bankruptcy Cases at the Commercial Court, 1998-2001

	1998	1999	Jan – April 2000	2001	Total
Bankruptcy petitions filed	31	100	84	61	276
Bankruptcy petitions granted	13	26	4	16	59
Debt payment postponed	9	14	2	3	28
Bankruptcy petition rejected	4	40	2	25	71
Cases not received/thrown out	5	20	8	5	38

Sources: Warta Ekonomi, 17.4.00; *Tempo,* 31.12.01; Marie Christine Schroeder-Van Waes, Presentation at *ANU Update Conference,* 2003.

Although such a new enterprise inevitably needs time before it can function optimally, the figures in the above table must nevertheless be disappointing for the commercial court's promoters. When the new law and court were first conceived, it was expected that the court would be dealing with around 30 petitions a day and it was estimated in 2003 that there should be around 1500 bankruptcies per year in Jakarta alone.[45] It was hoped that the new bankruptcy regime would be key to clearing the 'deadwood' of Indonesian companies, allowing creditors to recoup some of their losses and thus bring back investor confidence in Indonesia's economy and judicial system.

Many analysts have also perceived a good deal of the court judges' decisions to be questionable, and indications of corruption are high with favourable decisions

[44] *Warta Ekonomi,* 10.5.99.
[45] Marie Christine Schroeder-Van Waes (Faculty of Law, University of Utrecht, Netherlands) Presentation at *ANU Update,* 2003. By comparison, Australia receives 200 bankruptcy petitions a month (*Suara Pembaruan,* 1.6.99).

costing a reported US$ 25,000 to US$ 35,000.[46] Thus, despite the government and the IMF's efforts to introduce a pocket of the rule of law into the Indonesian judicial system through the establishment of the commercial court, many creditors are still reluctant to initiate bankruptcy proceedings because of the uncertainty which corruption introduces into judges' final decisions.

IBRA itself has not been particularly active in the commercial court, with its own statistics showing that from 1998 until the end of 2002 it has lost 22 bankruptcy cases and won 44, with only 5 of the latter so far being executed (IBRA 2002b, p.39). Forcing technically insolvent companies into bankruptcy carries a high political price as it speaks to fears of further unemployment and increased foreign ownership of the economy when liquidated assets are eventually sold on. For, just as the protection of the Indonesian economy against the encroachment of foreign business is intrinsically linked to the system of corruption in contract giving, so there are associations between the two when it comes to working out debt repayments. Such an association will be made more explicit in the next section.

In sum, the negotiations over domestic debt show that the government has opted for long-term repayment settlements of a portion of what they are owed by debtors, rather than using the debt crisis as an opportunity to purge the Indonesian economy of state-dependent conglomerates. The legal processes which would have enabled such a purge are used instead as a bargaining chip to force debtors to pay up but ultimately survive.[47] Such an approach does not sit easily with many reformists who see the debtor conglomerates as having escaped responsibility for the credit which both enriched them personally and brought down the Indonesian economy.

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[46] *Warta Ekonomi*, 17.4.00. See also *Jakarta Post*, 31.3.99; *Jakarta Post*, 30.4.99; *Tempo*, 25.9.00.
[47] The government has declared deadlines for the end of commercial negotiations and the beginning of legal procedures many times without following through on its threats. For example, see *Prospektif*, 16.8.99; *Jakarta Post*, 30.4.99; *Jakarta Post*, 15.5.99; *Tempo*, 17.9.00; *Tempo*, 9.10.00; *Tempo*, 25.12.00; *Tempo*, 31.12.01; *Van Zorge Report*, 21.1.02; *Tempo*, 19.8.02. The latest threat came in July 2003, days before the government faced the Paris Club creditors (*Business Day*, 9.7.03).

IBRA's mandate to manage domestic debt was ended on the 27th of February 2004 with a final recovery rate of just 28 percent.[48] Unsold assets will now be handled by a 'clearance team' set up by Presidential Decree. In terms of institution building, the creation of IBRA was an ambitious project with a mandate that would inevitably be subject to the interests of a multitude of constituents. Political parties, the Indonesian executive, the IMF and the debtors themselves all struggled throughout the six years of IBRA's existence to gain control over the decision-making processes there. With the establishment of IBRA, the corrupt relationships which led to obtaining credit under Soeharto simply re-organised themselves to fit this new institution whilst at the same time becoming more inclusive with the addition of political parties into the fray.

The low recovery rate of assets transferred to IBRA means that the Indonesian state has ended up paying around 70 percent of the costs of the economic crisis. Whilst the transfer of the burden of private business debt to the state is manifestly undesirable, it would be hypocritical to suggest that Indonesia's case is unique. Such a practice is in evidence all over the world, even in the developed economies of the West. Writing on the U.S. economy, Chossudovsky states:

> During the merger boom of the late 1980s, the burden of corporate losses was shifted to the state through the acquisition of bankrupt enterprises. The latter could then be closed down and written off as tax losses. In turn, the "non-performing loans" of the large commercial banks were routinely written off and transformed into pre-tax losses (Chossudovsky 1995, p.2).

The question is rather one of the appropriate share of the burden between private debtors and the state and crucially the basis upon which this decision should be made. For example, if decisions are made based purely on how much a debtor is prepared to pay a political party or an individual politician, then the concentration of

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48 *Jakarta Post*, 28.2.04. In comparison, Korea's assets management company, KAMCO, has a recovery rate of around 45 percent, Thailand's TAMCO has a recovery rate of around 40 percent and Malaysia's Danaharta stands at around 55 percent (Fung et al 2004, p.66).

wealth in the hands of a few will prevail. However, the above account of the debt negotiations brings many other factors into the decision of how the debt burden should be shared, such as the weakness of legal institutions and the need to recover payments as quickly as possible. An additional factor in such a decision is a concern with the level of foreign ownership of the economy if domestic businesses are dissolved *en masse*. The next section will examine further such a concern.

Section 5.4 Post-Soeharto Patterns of Economic Ownership

This section will now consider changes to the patterns of ownership within the Indonesian economy since 1998 and the debates which surround them. Patterns of ownership will be gauged in terms of three main categories. The first is the domestic private sector and, where the information is available, further distinctions will be made within this category between large, medium and small size of business. The second category is private foreign business and the third the Indonesian state. Whilst the focus is initially on IBRA's asset disposals, broader indications of economic activities will also be taken into consideration before turning finally towards indications of future patterns in the granting of credit.

Section 5.4.1: IBRA's Asset Disposals

The following Table 5.8 shows IBRA's major asset disposals from its inception until the end of 2001. The table lists the name of the company sold, the price in rupiah, US dollars, Hong Kong dollars or Singapore dollars and the name of the buyer or consortium of buyers. 'Market placement' indicates that shares of a company for sale were floated or placed on the stock market by selling large blocks to institutional investors such as pension funds and banks. In addition, the previous owner is identified in order to highlight that the large majority of assets sold by IBRA came from the Salim Group, which appeared to be the only IBRA debtor to have surrendered assets with any immediate worth.

Table 5.8	**Major IBRA Asset Disposals 1999- 2002**			
Asset Sales 1999	**Price**	**Buyer**	**Buyer's Nationality**	**Previous Owner**
Credit Card Business Unit of Bank Papan Sejahtera	IDR 39.3 billion	ANZ Panin Bank	New Zealand	
56 auction sales of non-core assets (through AMC)	IDR 221.4 billion			
PT Indofood Sukses Makmur	IDR 373.1 billion + USD 28.5 million	Market placement		Salim
PT Standard Toyo Polymer	IDR 114 billion	Mitsui co/Toso	Japan	Salim
PT Pacific Indomas Plastics Indonesia	IDR 36.5 billion	Dow Chemical Company	USA	Salim
PT Indo-American Ceramics	IDR 39 billion			Ongko
PT Gatari Air Services	IDR 20 billion			Bob Hasan
Asset Sales 2000				
Land lot at block L3/17 Cinere Mas	IDR 640 million			
PT Astra International	USD 389.28 million	Cycle and Carriage Consortium (J.P. Morgan Securities Asia Pte. Ltd. and Batavia Investment)	Singapore	Danamon
First Pacific Co. Ltd.	HKD 536.9 million	Market placement		Salim
Wisma BCA	IDR 280 billion	Keppel Land Ltd	Singapore	Salim
Karimun Granite	IDR 21.7 billion	PT Pendawa Sempurna	Co-owner, Indonesia	Salim
QAF	SGD 35.56 million	Market Placement		Salim
Land lot at block L2/9 Cinere Mas	IDR 43 million			
Danamon Usaha Mobil and Lestari	IDR 58.3 billion			Danamon

Table 5.8	Major IBRA Asset Disposals 1999- 2002			
Indolakto and Indomilk	IDR 400 billion	NV Marison	Netherlands	Salim
Oleochemicals	USD 127.1 million	Bhakti Investama consortium (Djarum, Wings, Lautan Las).	Indonesia	Salim
PT Aetna Life Indonesia	IDR 12.4 billion	PT ING Insurance	Indonesia	Danamon
Landbanks Property	IDR 8.3 billion			Modern
Indomiwon	USD 8.5 million	Daesang Corporation	Korea	Salim
Mosquito Coil Group	IDR 610 billion	Reckitt Benckiser Ltd.	UK	Salim
Salim Palm Plantations	USD 350 million	Guthrie Berhad	Malaysia	Salim
Danamon Sanatel	IDR 35.1 billion	PT Gemawidia Statindo Komputer	Indonesia	Danamon
Asset Sales 2001				
Danataru Jaya	IDR 2 billion			
First Pacific Co. Ltd.	HKD 66.7 million	Market Placement		Salim
Citicon Griyanugraha	IDR 6.3 billion			Modern
Indocoal	USD 45.5 million	PT Centralink Wisesa International	Indonesia	Salim
PT Indocement Tunggal Perkasa	USD 43.8 million + IDR 605.4 billion	Heidelberger Zement AG	Germany	Salim
PT Indomarco Prismatama	IDR 162 billion	Bhakti Asset Management	Indonesia	Salim
PT Kerismas Witikco Makmur	IDR 297 billion	PT Sentralindo Bumi Persada Consortium (Trimegah Securities)	Indonesia	Salim
PT Indopoly Swakarsa Industry	USD 29.2 million	Jefflyne Golden Holdings	Singapore	Salim

Table 5.8	Major IBRA Asset Disposals 1999- 2002			
PT Yunnan Kunlene	USD 14.4 million	Jefflyne Golden Holdings	Singapore	Salim
Salim Rengo Containers	IDR 204 billion	Rengo Co. Ltd.	Japan	Salim
PT Gumindo Perkasa Industri	USD 1.7 million	Ridwan Soeriyadi	Co-owner, Indonesia	Salim
PT Poli Contindo Nusa	IDR 49.5 billion	PT Kerismas Witiko Makmur	Indonesia	Salim
Guangdong Jiangmen Float Glass, Ltd.	USD 34.2 million	Feature Technology Limited	Singapore	Salim
Yakult Indonesia Persada	IDR 60 billion	Yakult Honsha Co. Ltd	Japan	Salim
Indosiar Visual Mandiri	IDR 1.15 trillion	PT TDM Asset Management	Indonesia	Salim
Riau Industrial Estate	IDR 710 billion	PT Dwi Sinergi Utama	Indonesia	Salim
Indomobil Sukses Makmur	IDR 542 billion	PT Trimegah	Indonesia	Salim
Sulfindo Adi Usaha	USD 41.2 million	Durability Enterprise Ltd	Hong Kong	Salim
Berdikari Sari Utama Flour Mills	USD 21.4 million	ATS Consortium	USA	Salim
Sugar Group	IDR 1.3 trillion	PT Garuda Pancaarta	Indonesia	Salim
Total 1999-2002	**IDR:** 7.4 trillion (US$ 740 million) **USD:** US$ 1.13 billion **HKD:** 603.6 million (US $77 million) **SGD:** 35.56 million (US$ 21 million)			

Sources: IBRA (1999) *Annual Report,* p.30; IBRA (2000) *Annual Report*, p.25; IBRA (2001) *Annual Report*, p.25; IBRA, *Asset Disposal Progress Report*, http://ibra2.bppn.go.id/en-us/disp_prog.asp; *Tempo,* 4.12.00; *Kontan,* 5.11.01; *Bisnis Indonesia,* 11.12.01; *Tempo,* 8.1.01.

From its establishment in 1998 until its closure in 2004, IBRA has contributed Rp 168.2 trillion (US$ 16.8 billion) to government coffers in cash and bonds.[49] The total from the table above is considerably less than this figure not only because of the extra 14 months but also because it only accounts for the sale of assets forwarded by former bank shareholders and does not include receipts from restructured corporate loans and non-core assets.[50]

Nevertheless, the above table gives some indication of who bought IBRA's assets. Disregarding the assets which were sold on the stock market and those whose buyers are unknown, foreign purchases in this table make up 74 percent of the total value of sales made. An ex-IBRA employee has estimated that around 40 percent of IBRA sales have been made to overseas companies, whilst an Indonesian business analyst thinks that the 'foreign investors are the principal buyers of IBRA assets'.[51]

However, there has been a good deal of speculation that behind many of the Indonesian buyers of these ex-Salim assets is Salim itself. The government's initial ambivalence about the principle of debtors being allowed to buy back their own companies turned fairly quickly into prohibition. Whilst some in government maintained that debtors should be able to regain control of their old assets as long as the sale process was fair and transparent, others saw it as a mechanism for the debtors to offload all responsibility for the debt crisis onto the state.[52] For, if these 'buy backs' were permitted then the difference between the reduced price at which IBRA sells assets and the inflated book value of the assets when surrendered would be effectively paid for by the state whilst the debtor loses nothing. But more importantly, the claims by debtors that they did not have enough funds to fully repay their debt to the state could not be reconciled with their ability to buy their

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[49] *Jakarta Post*, 28.2.04.
[50] 86 percent of the buyers of the third tranche of the sale of restructured loans were foreign. (http://ibra2.bppn.go.id/en-us/amc/ReportII(eng).pdf) Non-core assets are those derived from the liquidation or take-over of banks such as property, office equipment, motor vehicles.
[51] Felia Salim, Presentation at *ANU Update Conference*, 2003. Sato 2003, p.16.
[52] For example, see *Kompas*, 4.8.00.

assets back, and one of IBRA's oversight committees ruled in 2000 that debtors would only be allowed to repurchase their assets once their initial obligations to the state were met in full.[53]

Yet despite this ruling, speculation that Salim was behind various consortia bidding for ex-Salim assets continued, based on allegations that the consortia did not themselves hold enough funds to be able to buy such attractive assets or that none of the consortia members had themselves any experience of an asset's particular industry.[54] Other commentators suggested that if the management of a newly bought company was not changed then this was a sign that the old owner was back in charge.[55] In all, media reports have alleged that Salim has repurchased QAF, Karimun, Indomarco, Indosiar, Oleochemicals, Indomilk and Indomobil.[56] But whilst IBRA's oversight committee has made some efforts to ensure that old owners do not repurchase their assets,[57] in practice it is difficult to prove one way or the other. Although only two conglomerates have been reported to have tried to maintain control of their assets in this way,[58] it is certainly possible that it represents a future pattern whereby the original owners regain control of their business empires after a few years despite initial indications that companies have been bought by new players.

This issue of whether the original conglomerate owners should be allowed to make a comeback through IBRA's asset disposals is part of a broader debate concerning new patterns of ownership that also includes the DPR, the IMF, the government and IBRA. Although IBRA is not legally obliged to seek approval from the DPR for the

[53] *Tempo*, 20.11.00.
[54] For example, see *Tempo*, 17.9.00; *Suara Karya*, 6.1.01; *Tempo*, 30.10.00; *Tempo*, 20.11.00; *Tempo*, 18.12.01; *Tempo*, 23.4.01.
[55] Interview with Lin Che Wie (22.5.02).
[56] *Tempo*, 24.12.01; *Kompas*, 25.11.00; *Tempo*, 8.1.01; *Tempo*, 13.11.00; *Tempo*, 27.11.00.
[57] For example, IBRA refused to deal with German company Heidelberger until it dropped Salim as a partner and has introduced a declaration which all buyers must sign that the previous owner is not involved in the sale. If found otherwise the sale can be unilaterally cancelled by IBRA. The anti-monopoly commission (KPPU) even became involved in a similar case with Indomobil (*Tempo*, 18.12.01; *Tempo*, 25.12.00; *Tempo*, 15.1.01; *Tempo*, 23.4.01.
[58] In early 2003 a scandal broke surrounding the alleged efforts of Lippo to buy back its Lippo bank which led to the government stopping the sale (MacIntyre 2003a, p.151).

sale of its assets, in practice political pressure from the parliament has held up some high profile sales on the basis that ownership should not be ceded abroad.[59]

A particularly controversial case was the sale of Salim palm plantations which serves well to illustrate the power struggles inherent in IBRA's asset disposal process. Like the oil, forestry and electricity sectors in Chapter Two, the ownership of oil palm plantations is especially sensitive because it is a natural resource which affects the lives and livelihoods of many Indonesians.[60] When IBRA found a foreign buyer for a bundle of 25 plantations previously surrendered by the Salim Group, protestations from the DPR delayed the sale for months amidst bitter recriminations that the government was selling out Indonesia's natural wealth.

Whereas the government's priority in the sale of the plantations was to both recoup funds and accede to increasing IMF pressure to speed up the sale of assets under IBRA, the people living locally to the plantations saw the sale as an opportunity to redress the injustices of the Soeharto regime which had forcibly seized the land for the Salim Group many years ago.[61] Approached by local farmers' delegations, the DPR became more heavily involved when it became apparent that the plantations were to be sold to a Malaysian firm which would tip the balance of global control of this resource in favour of Malaysia.[62] However, another version of this episode claims that DPR members held up the Salim plantations sale in order to force the government into paying them bribes to pass the sale.[63]

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[59] The practice of seeking legislative approval for IBRA asset sales and privatisations started under former Finance Minister Bambang Sudibyo as a way of securing political support but is not a legal right (*Jakarta Post*, 25.10.01).

[60] The importance of natural resource ownership is codified into Indonesian political culture through the 1945 constitution, article 33, which states that any resource which directly affects the livelihood of ordinary Indonesians must be controlled by the state.

[61] *Tempo*, 5.2.01; *Kompas*, 25.1.01; *Jakarta Post*, 7.3.01; *Jakarta Post*, 20.3.01.

[62] Between them, Malaysia and Indonesia have for many years controlled the crude palm oil (CPO) market. With the sale of the Salim plantations, Malaysia now controls 89 percent of the world's CPO market whilst Indonesia has been relegated to a raw material provider only, controlling 50 percent of CPO supplies (*Tempo*, 11.12.00).

[63] Interview with Ross McLeod (12.10.03).

Whatever the real motivations of MPs, the struggle between the DPR on one side and the government and the IMF on the other lasted several months with periodic contradictory reports that the deal was final, was under review or had been cancelled. In the end, the Malaysian company, Guthrie Berhad, became the official owner of the plantations, albeit with some rather vague contractual obligations to set aside some shares for the local community.[64] Three years on from this deal, it would be interesting to find out what these obligations have actually produced.

Similar cases of DPR involvement in the disposal of IBRA assets occurred over the sale of Bank Bali and Bank Central Asia where the DPR objected to foreign ownership of these two high profile retail banks.[65] But, as the sale of automotive giant Astra showed, the rejection of foreign ownership was not the only motivation for DPR involvement in IBRA disposals. Here, protestations from both the DPR and Astra's board of management effectively blocked Astra's sale to its founding owners who had been forced to sell the company in 1992 as the result of the collapse of the family's bank.

These are just some examples which show that the sale of assets under IBRA's control is in fact a highly charged political process of wealth distribution involving previous conglomerate owners, the DPR, the government and the IMF. Two *pribumi*-oriented business associations, HIPMI and HIPPI, have also attempted to gain a share of IBRA's assets, but as a reflection of a decline in *pribumi* influence, they have been largely ignored.[66] Under conditions where the IMF still wielded the power which accompanied its loan disbursals and the Indonesian economy was desperately short of working capital, the government generally cleared the way for foreign buyers of IBRA assets. The DPR, on the other hand, has often advocated continued state involvement in the management of some of IBRA's best assets as can be seen by its reluctance to allow IBRA to sell a majority stake in BCA.

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[64] *Media Indonesia,* 28.11.01.

[65] The IMF suspended a loan disbursement to the Indonesian government for 8 months over the stalled sale of BCA.

[66] *Warta Ekonomi,* 24.11.98; *Tempo,* 1.10.01.

Meanwhile, the only conglomerate debtor to have handed over assets of any immediate value seems to be in the process of regaining control of them.

Section 5.4.2 Economy-wide Patterns of Post-Soeharto Ownership

In order to assess the full implications of the initial patterns of ownership shown in the last section, it is necessary to move the focus away from IBRA sales to include more wide-ranging economic indicators. This section will now therefore consider post-Soeharto patterns of ownership within the economy as a whole in terms of state, private domestic and private foreign constituents.

5.4.2.1 Levels of State Ownership

As already mentioned, the state may theoretically own up to 70 percent of the domestic private sector through IBRA, but in practice a lack of control over most of these assets coupled with an intention to sell others in the near future reduces the significance of the state's ownership. In contrast, the government has committed on a long-term basis to some indebted companies through what is known as a debt to equity swap. Essentially, this is where the government agrees to swap the debt a company owes the state for state participation in that company as opposed to demanding the payback of debts by surrendering other assets. The state then receives repayment of debts over the long term by taking a percentage of profits.

Debt to equity swaps are controversial because they are often advantageous to the original owners, especially if the state takes a majority share. In such a case, the owner maintains a stake in their company, whilst the state takes on responsibilities such as paying back the company's other creditors and providing working capital. The reasons the government usually gives for entering into such a deal are concerned with whether a company, or a project which the company is involved with, is considered to be 'strategic' to the Indonesian economy and if its debts are sustainable in the long term.[67]

However, because both of these factors are open to interpretation, inevitably there have been allegations that by accepting equity instead of debt repayment the state is showing favouritism to those companies. In this regard, a pattern seems to have indeed developed where the state takes on equity involvement in projects which have influential foreign partners who want to save their original investment without injecting more capital themselves. For, just as U.S. government support strengthened the bargaining position of some U.S. firms in the electricity sector, so here Japanese government backing for Japanese companies has forced the Indonesian government's hand in deciding which projects to accept equity in.[68] Indeed, the former Finance Minister, Bambang Sudibyo, openly admitted that the government is accommodating Japanese companies' interests in this way because of Japanese government support in government debt negotiations with the Consultative Group Indonesia (CGI) and the Paris Club.[69]

Some of the major projects and companies which have been involved in debt to equity swaps by the government are the Timor national car project, petrochemical plant Chandra Asri, the textile giant Texmaco, paper factory Kiani Kertas, and shrimp farm Dipasena.[70] Thus, although this type of state ownership is not especially prevalent in terms of the economy as a whole, it nevertheless represents a new and interesting trend towards state involvement in previously privately owned firms.

Another indicator of post-Soeharto state economic ownership is the progress of the privatisation programme. The principle of the privatisation of state owned

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[67] *Jakarta Post,* 12.5.99; *Tempo,* 16.10.00.
[68] Most notably Marubeni's involvement in petrochemical centre, Chandra Asri. Also KIA's involvement in the Timor national car project.
[69] *Tempo,* 16.10.00.
[70] *Jakarta Post,* 6.5.00; *Tempo,* 27.11.00; *Tempo,* 11.12.00; *Tempo,* 8.1.01; *Tempo,* 9.10.00; *Tempo,* 27.11.00; *Tempo,* 16.10.00; *Indonesian Business,* May 2000.

enterprises (SOEs) is central to IMF policy prescriptions for the recovery of the Indonesian economy. Accordingly, since 1998 there have been numerous announcements of restructuring programmes and intended privatisations.[71] However, both in terms of numbers and sale value, the privatisation programme has consistently fallen short of stated intentions and where privatisations have been completed they have often represented only a minority divestment (see Table 5.9 below). From the table below it can be seen that there have been only three sales of around 50 percent of an SOE which can actually be said to have changed ownership from the state to the private sector. Stock market offerings of small percentages of an SOE otherwise ensure that state ownership is maintained but with an additional injection of private capital.

[71] Corporate plans for SOEs have been announced from Habibie's administration onwards. Each year around 10 SOEs are slated for privatisation (see Jakarta Post, 19.3.99; Jakarta Post, 18.2.00).

Table 5.9	Privatisations 1998-2002				
1998	**% Sold**	**% still state-owned**	**Price**	**Method**	**Buyer**
Semen Gresik (Cement)	14%	51%	Rp1.317 trillion	Strategic Sale	Cemex, Mexico
1999					
PT JICT (subsidiary of PT Pelindo II) (Seaport)	49%		US$190 million	Strategic Sale	Grosbeak, Hutchinson Whampoa, Hong Kong.
PT TPS (subsidiary of PT Pelindo III) (Seaport)	51%		US$157 million	Strategic Sale	
PT Telkom (Telecommunications)	9.62%	66%	Rp3.188 trillion	Stock Market	Block sale to mainly foreign institutional investors
2000					
No sales in 2000					
2001					
PT Kimia Farma (Pharmaceuticals)	9.2%	90.8%	Rp110 billion	IPO	
PT Telkom (Telecommunications)	11.9%	54.1%	Rp 3.1 trillion	Stock Market	Block sale to mainly foreign institutional investors
PT Indofarma (Pharmaceuticals)	19.8%	80.2%	Rp100 billion	IPO	
2002					
PT Telkom (Telecommunications)	3.1%	51%	Rp 1.1 trillion	Stock Market	
PT Indosat (Telecommunications)	8.06%	54%	Rp 967 billion	Stock Market	Private placement
PT Indosat (Telecommunications)	41.9%	12%	Rp 5.62 trillion	Strategic Sale	Singapore Technologies Telemedia
PT Tambang Batubara Bukit Asam					

Sources:
http://www.ipanet.net/documents/WorldBank/databases/plink/soceco/10indonesia.htm; Department of State Owned Enterprises, personal communication; *Jakarta Post,* 19.5.03; *Jakarta Post,* 18.1.03; *Jakarta Post,* 20.5.02.

In total, from April 1998 to October 2001, privatisation proceeds reached Rp 5.4 trillion (US$ 540 million)[72] and those shares which have been sold have at least not followed the Soeharto pattern of going cheap to Soeharto family or well-connected businesses.

As McLeod (2002) points out, in recent years privatisation has progressed as a more complicated private sector participation in state run sectors and enterprises rather than simple changes of ownership which makes studying changes in levels of state ownership a rather more complex task.[73] It is nevertheless apparent that state economic ownership has remained relatively static in the sense of companies run by state personnel according to state-issued guidelines and targets. Otherwise, the *partial* participation of private capital in SOEs and conversely state capital in private enterprises through debt to equity swaps seems to have increased.

As periodic clashes in the DPR over the timing and level of privatisation show, there is little political appetite within Indonesia for further transfers of ownership from the state to the private sector even if willing investors could be found. Yet despite this, the government's need for additional funds is likely to ensure a slow and fitful movement towards partial divestments in the future.

5.4.2.2 Levels of Private Foreign Ownership

In terms of perceptions of the levels of foreign ownership within the Indonesian economy there seems to be something of an anomaly. On the one hand figures show that foreign investment within Indonesia has declined drastically since the economic crisis and the Wahid and Megawati administrations especially have been very keen to attract foreign capital back into Indonesia through various deregulation measures and foreign 'road shows' extolling the virtues of investing in Indonesia.[74]

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[72] *Investor*, 24.10.01.
[73] Examples of this kind of privatisation are in the oil, electricity and aviation sectors.
[74] Controversially, President Wahid prioritised the task of attracting foreign capital back to Indonesia over other problems when, soon after he was made President, he went on an extended world-wide

On the other hand there is a great deal of unease from some government individuals, many members of the DPR and many sections of the media and ordinary Indonesians that foreign companies are buying up vast swathes of the Indonesian economy.

So, has foreign investment increased or decreased? In some ways such a discrepancy is simply the product of different conceptions of the appropriate level of foreign ownership. Too little foreign investment for some may at the same time be too much for others depending on how acceptable the concept of foreign ownership is to each side. However, it is also very likely that differences in perceptions of the degree of post-crisis foreign ownership can be attributed to a lack of clarity in what exactly constitutes foreign investment. For, as we shall see, if foreign investment is first disaggregated, it then becomes clear that some types have diminished whilst others have increased substantially.

The three main constituents of foreign investment are foreign direct investment (FDI), portfolio investment and bank loans.[75] FDI is perhaps the most sought after type of investment by recipient governments because it reflects a long-term interest between an investor and a recipient company. Here investors identify particular companies for long-term relationships which imply, under the best circumstances, not only the creation of jobs and an improved capacity for production, but also the transfer of technology and skills. In order for such transfers to occur, a foreign investor needs a significant degree of influence over the management of a recipient company which is obtained by at least a 10 percent ownership of that company (UNCTAD 2003, p.232).

In contrast, portfolio investment does not imply a direct relationship between the investor and the recipient company but rather the purchase of shares directly from

trip to persuade foreign investors of the attractions of investing in Indonesia. Since then, both IBRA and representatives from the Ministry of Trade and Industry have organised numerous such trips.

the stock exchange where the recipient company has floated its shares. Although portfolio investment provides a recipient company with much needed capital, an investor does not have any interest in influencing the way the recipient company does business and will typically pull out as soon as share prices begin to drop. This was indeed the case during the economic crisis in Indonesia, where portfolio investment was the first type of investment to pull out, with an outflow of over US$ 7.5 billion in 1997 alone (see Table 5.10). Portfolio investment is further defined as ownership of less than 10 percent.

Table 5.10			**Portfolio Investment in Indonesia 1993-2002 (US$ Millions)**						
1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
1805	3877	4100	5005	-2632	-1878	-1792	-1909	-243	1222
Source: IMF, International Financial Statistics, http://www.imf.org.									

Lastly, there are injections of capital in the form of loans or trade credits which do not imply any degree of control by the investor unless the recipient company defaults on the loan, in which case ownership of the assets used as security for the loan will move to the investor.

This section will focus on FDI since this type of investment better represents foreign ownership in terms of control of a company rather than simple injections of capital through portfolio investment or loans. As Table 5.11 below shows, the net inflow of FDI, which peaked in 1997 at nearly US$ 4.7 billion, turned into a net outflow with the onset of the economic crisis. Although FDI has rebounded steadily since its lowest point in 2000, the latest figures for 2002 indicate a continued reluctance of foreign investors to invest in Indonesia.

[75] Another form of foreign investment is known as financial derivatives which includes trade on currencies, interest rates, commodities and the like. Because this type of investment does not involve

Table 5.11	FDI Inflows into Indonesia 1991-2002 (US$ Millions)					
1991-1996 (Annual Average)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
2 985	4 678	- 356	-2 745	- 4 550	-3 279	-1 523
Source: UNCTAD, *World Investment Report* 2003, p.251.						

However, these figures alone provide something of a skewed picture which can only be redressed once FDI is further disaggregated into its component parts. The first part of FDI is *equity capital*, which is the foreign investor's purchase of shares in a company. The second part is *other capital*, which mainly consists of intra-company loans, that is short- or long-term borrowing and lending of funds between investors and recipients[76] (UNCTAD 2003, p.231). Table 5.12 below shows the values of FDI in Indonesia in terms of two of its constituent parts.

Table 5.12	Sources of FDI Finance in Indonesia 1999-2002 (US$ Millions)		
Year	**Equity**	**Other Capital**	**Total FDI Inflows**
1999	1 110	-3 856	-2 746
2000	992	-5 442	-4,450
2001	688	-3 966	-3,278
2002	1 817	-3 339	-1,522
Source: UNCTAD, *World Investment Report 2003,* p.225 (data based on 'national official sources').			

These figures show that FDI flows continued to be positive in terms of foreign investors buying shares of a company, but were only pushed into a negative flow by the debt repayments which recipient companies were obliged to make to investors as a result of previous loans. In other words, despite the initial picture which the negative FDI flows present in Table 5.11, foreign direct investors have not pulled out of Indonesian companies en masse and so have maintained a presence within the

recipient companies it is excluded from this analysis.

[76] UNCTAD distinguishes a further category of *reinvested earnings* for some countries, but these figures are not available for Indonesia. These are earnings which have been reinvested into the recipient company with the agreement of the investor rather than forwarded to the investor as profit.

Indonesian economy.[77] This is the first main point of relevance to a consideration of post-crisis levels of foreign ownership.

The second major point to be made in this regard is connected to how far the levels of FDI represent new investments or expansions of previous investments. In the language of investors this is translated as 'green field' investment as opposed to mergers and acquisitions (M&As). Unfortunately, it is not possible to distinguish between these two types of investment within the FDI figures,[78] but there is data available for the value of M&As (see Table 5.13 below).

Table 5.13			**Cross Border Mergers and Acquisitions in Indonesia 1988-2002 (US$ Millions)***			
1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
530	332	683	1164	819	3529	2790
Key: * Deals involving the acquisition of an equity stake of more than 10 percent.						
Source: UNCTAD, World Investment Report 2003, p.292.						

Judging from the rise of the value of M&As captured by the figures above, it seems likely that M&As now account for a larger proportion of FDI than in the past compared to green field investment. This corresponds to anecdotal information which indicates that minority stakes previously held by foreign investors in Indonesian companies are increasingly expanding to become controlling majority stakes as a result of debt to equity swaps.[79]

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[77] It would have been more interesting to compare the relative importance of the two constituent parts of FDI with before the economic crisis, but unfortunately these figures are not available.

[78] See UNCTAD, World Investment Report, 2000, p.104 for the difficulties involved in assessing the relative proportions of M&As and greenfield investment.

[79] For lists of newly foreign owned companies, see *SWA*, 8.4.99; *Warta Ekonomi*, 3.1.00. This M&A trend was also confirmed by Kelly Bird who listed sectors such as banking, agro-processing, manufacturing, property, paper, automobiles and food and beverages where M&As have been particularly common (ANU *Update Conference* 2003).

Such an increase in the M&A type of foreign investment is of consequence because M&As are widely considered to be not only much less beneficial to host countries than green field investment, but in many cases actually deleterious to national interests. They do not add to productive capacity, often result in layoffs and can lead to market concentration and reduced competition as well as a loss of national control over strategic firms or whole industries. In the long term, there may be benefits from M&As, such as improved efficiency and corporate governance, hard currency inflows, possible sequential investment, technology transfers, world market access and crucially they can prevent indebted firms from becoming totally bankrupt. However, the prospects of such benefits remain contentious.[80]

The rise in M&As has only been made possible by the introduction of deregulation in many areas of the economy. For example, the negative lists which bar foreign ownership in some sectors have continued to be reduced whilst 100 percent foreign ownership is now permitted in most sectors for companies domiciled in Indonesia without the requirement to later divest (Soesastro et al 2001).

In sum, whilst levels of private foreign investment have indeed decreased within Indonesia, conversely levels of private foreign ownership have increased. This apparent contradiction can be reconciled once two points are taken into consideration. Firstly that foreign investors who have direct relationships with Indonesian companies have not pulled out and retain their equity and presence with previous partners despite the fact that funds in the form of debt repayments are now flowing out of Indonesian affiliates rather than into them. Secondly, new 'greenfield' investment has now been overtaken by mergers and acquisitions (M&A) as the predominant pattern of foreign investment.

Whilst the Indonesian economy desperately needs more investment from any source, it is hardly surprising that at the same time many sections of Indonesian

[80] See UNCTAD 2000 for the debates surrounding the merits of M&As.

society are privately and publicly resentful of foreign control. At least part of the reason why debts were so huge in the first place was because of imprudent lending by foreign banks and companies coupled with international advice to deregulate the banking sector. The economic crisis was then in part precipitated by panic selling of the rupiah on the international foreign exchange markets. Since then, foreign consultants have been shipped in to value Indonesian assets, usually at very low prices and the best ones have been bought by foreign buyers. All of this takes place within an environment where the IMF has more political power than most sections of the Indonesian state over important issues of economic deregulation. This is, of course, a simplistic and one-sided view and it should be remembered that the only alternative to foreign investment is domestic investment, which in poor countries such as Indonesia is problematic. Nevertheless, it is understandable why such a view might exist and how it can feed nationalist sentiments. As we shall now see in the next section, in the absence of effective state economic stewardship, the problem for Indonesia is that the only domestic alternative to foreign ownership of these large assets are the conglomerates previously nurtured by corruption under Soeharto.

5.4.2.3 Levels of Private Domestic Ownership

Although foreign direct investment became increasingly important to Indonesia's economy throughout the 1990s, even at its peak from 1991-1996 it accounted for only around 6 percent of gross fixed capital formation (UNCTAD 2003, p.275).[81] In other words, although largely financed by both foreign and domestic bank loans, domestic ownership has historically been much more substantial than foreign ownership within the Indonesian economy. Moreover, it should already be clear by now that the concentration of this domestic ownership in Indonesia is extremely high. This is confirmed by Table 5.14 below which provides comparative estimates of the concentration of wealth in several East and Southeast Asian countries.

Table 5.14	Concentration of Ownership Amongst Top 15 Families in Selected East and Southeast Asian Countries (Mid 1990s)
Country	**% Owned by Top 15 Families**
Japan	2.8%
Taiwan	20.1%
Malaysia	28.3%
Singapore	29.9%
Hong Kong	34.4%
Korea	38.4%
Thailand	53.5%
Philippines	55.1%
Indonesia	**61.7%**
Source: World Bank (2000), *East Asia Recovery and Beyond*, p.68.	

The purpose of this section is to briefly consider any information available that may indicate changes in this pattern of domestic ownership. In order to do this, the fate of some of the biggest Indonesian conglomerates will first be reviewed in the wake of the economic crisis since the sales of the top 20 conglomerates are said to account for something in the region of 20 percent of GDP.[82] However, it should be cautioned that much of the data on this subject represents at worst pure conjecture and at best educated guesswork given the complex structures of many conglomerates and the continued state of high flux in the economy.[83]

A conglomerate can be defined as a group of companies which are under the influence of a single businessman or group of businessmen.[84] A further defining characteristic of a conglomerate is its diversification into many different and often unrelated sectors. It is precisely this diversification which enables conglomerates to

[81] 'Gross fixed capital formation' can be roughly translated as the value of fixed assets such as land, buildings and machinery.
[82] *Indonesian Commercial Newsletter,* 26.10.98.
[83] In interviews with some of the most prominent Indonesian and foreign business consultancies, all analysts confessed to a high degree of uncertainty regarding the fate of the top conglomerates given the ambiguity surrounding IBRA's ownership of conglomerate assets (interviews at PDBI, Data Consult, CISI Raya Utama and Mckinsey).
[84] It can be difficult to precisely define a conglomerate because ownership can be indirect through other companies and thus disguised. See Data Consult (1998) Anatomy of Indonesian Conglomerates, p.4.

control such large sections of the economy, but causes difficulties in assessing their post-crisis vigour.

Although 90 percent of conglomerates are thought to be technically bankrupt,[85] and it has been estimated that only 25 out of 300 conglomerates will ultimately survive,[86] there are some which are in a better position to make a subsequent comeback than others. The ones which are particularly in decline are those which were heavily involved in large scale industrial projects such as power plants, petrochemicals and ports and the construction of property or toll roads.[87] Many of these sectors are also those which were originally conceived as import substitution projects, but still relied on imported inputs which, in the wake of the rupiah devaluation, have become prohibitively expensive.[88] These are all sectors which were particularly lucrative before the economic crisis and so tended to be concentrated in the hands of the most well-connected business owners.
There are many often conflicting reports about the current state of individual business groups, but some agreement that the best known and most well-connected conglomerates are in serious financial trouble.[89] The conglomerates most intimately connected with the Soeharto children such as Humpuss, Bimantara and Citra Lamtoro are all unlikely to survive the crisis in their present form. Similarly such notorious groups such as Gadjah Tunggal, Bakrie, Texmaco and Dharmala are in drastic decline.

In contrast, the conglomerates which have survived and are doing best now are those which did not expand and diversify beyond their core business but instead were built from reinvesting profits rather than relying on bank credit. Companies involved in basic needs sectors such as food, pharmaceuticals and cigarettes have

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[85] *SWA*, 22.4.99; *Indonesian Business*, September 1998.
[86] Interview with Wilson Nababan (14.5.02).
[87] *SWA*, 2.11.00; *Indonesian Commercial Newsletter*, 26.10.98.
[88] *Bisnis Indonesia*, 13.3.99; *SWA*, 18.4.02.
[89] For estimations of individual conglomerate health, see *SWA*, 2.11.00; *SWA*, 18.4.02; *Indonesian Commercial Newsletter*, 26.10.98; *Indonesian Business*, Sept 98; *Bisnis Indonesia*, 13.3.99; *SWA*, 22.4.99; *Warta Ekonomi*, 5.2.01; *Indonesian Commercial Newsletter*, 27.4.99; *Infobisnis*, May 1998.

now overtaken the high profile, capital intensive conglomerates of the Soeharto era (see Table 5.15).

Table 5.15 Top Post-Soeharto Indonesian Conglomerates (Rp billion)

2000					1996		
Rank in 2000 (sales)	**Sector**	**Group**	**Sales**	**No. of Companies**	**Rank in 1996 (sales)**	**Sales**	**No. of Companies**
1	Cigarettes	Gudang Garam	11,784.2	50	**4**	6,625.0	47
2	Cigarettes	Djarum	9,000	60	**9**	3,700.0	44
3	Cigarettes	Sampoerna	7,521.5	34	**16**	2,600.0	29
4	Pharmaceuticals	Kalbe	4,771.8	145	**30**	1367.5	82
5	Financial Services; Textile; Property	Panin	4,449.9	44	**19**	2,350.0	46
6	Metals; Glass; Detergents	Rodamas	4,305.5	57	**17**	2,550.0	36
7	Financial Services	Lippo	4,150.6	263	**5**	4,700.0	240
8	Agriculture	Central Pertiwi	3,050.3	55	**27**	1,808.9	43
9	Investments	Bhakti	2,146.5	26			
10	Retail	Ramayana	1,861.1	6	**52**	865.6	6
11	Trade; Pharmaceuticals	Tempo	1,523.5	83	**33**	1,250.0	67
12	Distribution	Wicaksana	1,372.0	19	**51**	894.6	14
Total			**55,936.8**	**842**		**28,711.6**	**654**

Source: PDBI (Pusat Data Bisnis Indonesia) in *SWA*, 18.4.02.

As a sign of the times, the only conglomerate on the table above to have entered the top ten from an unranked position in 1996 is Bhakti, an investment company which specialises in mergers and acquisitions of indebted companies.

Essentially, the ‘assets’ which enabled some conglomerates to grow exponentially during the Soeharto period, such as easy access to bank credit, admittance to lucrative import substitution sectors and direct connections to Soeharto have now turned into ‘liabilities’. Almost immediately following Soeharto’s resignation, most of the Soeharto children and other family members distanced themselves from their companies by resigning from their boardroom positions. Other high profile conglomerate owners are now left with minority stakes in their companies as a result of surrendering equity to IBRA or foreign partners in repayment of the credit they received under Soeharto.[90]

However, this is not to suggest that these conglomerate owners are finished as business people. Many conglomerate owners had already begun to invest abroad in the 1990s and, with the onset of the economic crisis, this trend increased substantially as liquid assets were moved out of Indonesia en masse.[91] Many conglomerate owners thus still have at least part of their business empires intact overseas and are in a position to wait until the final resolution of IBRA decisions before reinvesting domestically.[92] Others, such as Sinar Mas, Salim and Lippo had such enormous domestic operations throughout the 1990s that even with a drastic reduction of their capabilities they still represent some of the largest business operations in Indonesia today. It is also extremely likely that the previously high-profile investments of some of these conglomerates have been replaced today by smaller investments which are more difficult to trace. Essentially, many are restructuring and biding their time abroad from where they will be in a position to take up their old positions at the top of the economy in a few years' time. Indeed, one analyst maintains that the debtor conglomerates are now better off than under Soeharto because they have been effectively cleared of the responsibility to pay back the loans that they previously received.[93]

Although many conglomerates have, at least temporarily, reduced their involvement in the Indonesian economy, this does not necessarily imply a greater distribution of wealth to a wider range of businesses. At first glance, this may seem to be at odds with the widely held belief that small and medium enterprises (SMEs) have

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[90] For example, Aburizal Bakrie has been left with a 2.5 percent stake in Bakrie Brothers. Sjamsul Nursalim has 10 percent of Gajah Tunggal, Marimutu Sinivasan has 10 percent of Texmaco.
[91] Otherwise known as 'capital flight', estimates of the amount of conglomerate assets moved abroad during the economic crisis range from US$10 – 80 billion. *Republika,* 19.11.99
[92] For some information on the levels of investment by Indonesian conglomerates abroad, see *Prospek,* 27.7.98 and Aditjondro 2000.

weathered the economic crisis better than the large industrial conglomerates. Indeed, the resilience of SMEs has been confirmed by some interesting new research which suggests that the limited access of SMEs to credit in the past has meant that the debt crisis has had little impact on their present viability and in some cases has actually led to an upsurge in SME business (Berry et al 2002). One study which concentrated on batik, garment and Jepara furniture manufacturers found that from 1996 to 2000, jobs in the smallest firms had declined less than 1 percent, risen by 10 percent in medium firms and declined by 3 percent in big firms.

The only economy-wide data available which may help shed light on this issue is derived from the manufacturing sector which accounted for 26 percent of Indonesian GDP in 2000 (BPS 2001).[94] Table 5.16 below shows percentages of value added shared between small, medium and large enterprises.

Table 5.16 Percentage Share of Value Added in Manufacturing Sector

Scale of Firm*	1996	1997	1998	1999	2000
Large	83.41	84.64	83.84	84.27	85.93
Medium	5.92	7.09	6.99	6.68	6.89
Small	10.67	8.27	9.17	9.06	7.19
Total	**100**	**100**	**100**	**100**	**100**

Key: *Small = 0-19 employees; Medium = 20-99 employees; Large = over 100 employees.
Sources: Ministry of Trade and Industry, *National Industrial Strategy,* 2001, p.12; BPS (2001) *Statistik Indonesia 2000.*

The table above shows that in the manufacturing sector at least, an initial drop in the share of value added accounted for by large scale enterprises in 1998 has since turned into an increase at the expense of small enterprises. Such a pattern is confirmed at the very top of the manufacturing sector through a consideration of the

[93] Interview with Lin Che Wie (22.5.02).
[94] The Indonesian statistics office (BPS) collects fairly robust data on Indonesian manufacturing every year, although BPS staff privately admit that obtaining information from businesses can be unreliable as they are unwilling to disclose accurate information for fear of being held liable for further taxation.

percentage of value-added accounted for by the top ten manufacturing companies out of the top 100. Table 5.17 shows that the biggest ten manufacturing firms experienced a decline through 1997 and 1998, but began to rebound in 1999 and 2000.

Table 5.17 Percentage of Value Added Controlled by the Top 10 Manufacturing Firms out of the Top 100 Manufacturing Firms

Year	Percentage
1996	47.84
1997	42.75
1998	39.62
1999	44.90
2000	44.48

Source: BPS

To summarise this section on economy-wide patterns of ownership, it has been suggested that many of the large scale conglomerates, and especially those most easily identified with the Soeharto regime, have suffered the most spectacular decline of economic ownership. However, at the same time a great deal of them are still in a position to re-enter the domestic economy as soon as the threat of asset seizure by IBRA has diminished. Furthermore, such a decline represents a contraction in the economy rather than a more equitable distribution of resources to a wider range of businesses. Meanwhile, foreign ownership has indeed risen since the economic crisis through a spate of mergers and acquisitions and IBRA asset purchases. Finally, overall state ownership remains static with some new involvement in large, previously private-run projects coupled with some partial divestments from SOEs.

Section 5.5 Conclusion

The current debt crisis in Indonesia is due to the devaluation of the rupiah, capital flight, a contraction in economic activity and imprudent pre-crisis bank lending. The latter was made up of loans from state banks based on connections rather than business acumen, loans from private banks affiliated to the recipient companies and loans from foreign banks keen to be included in what at the time must have seemed like a risk-free profit.

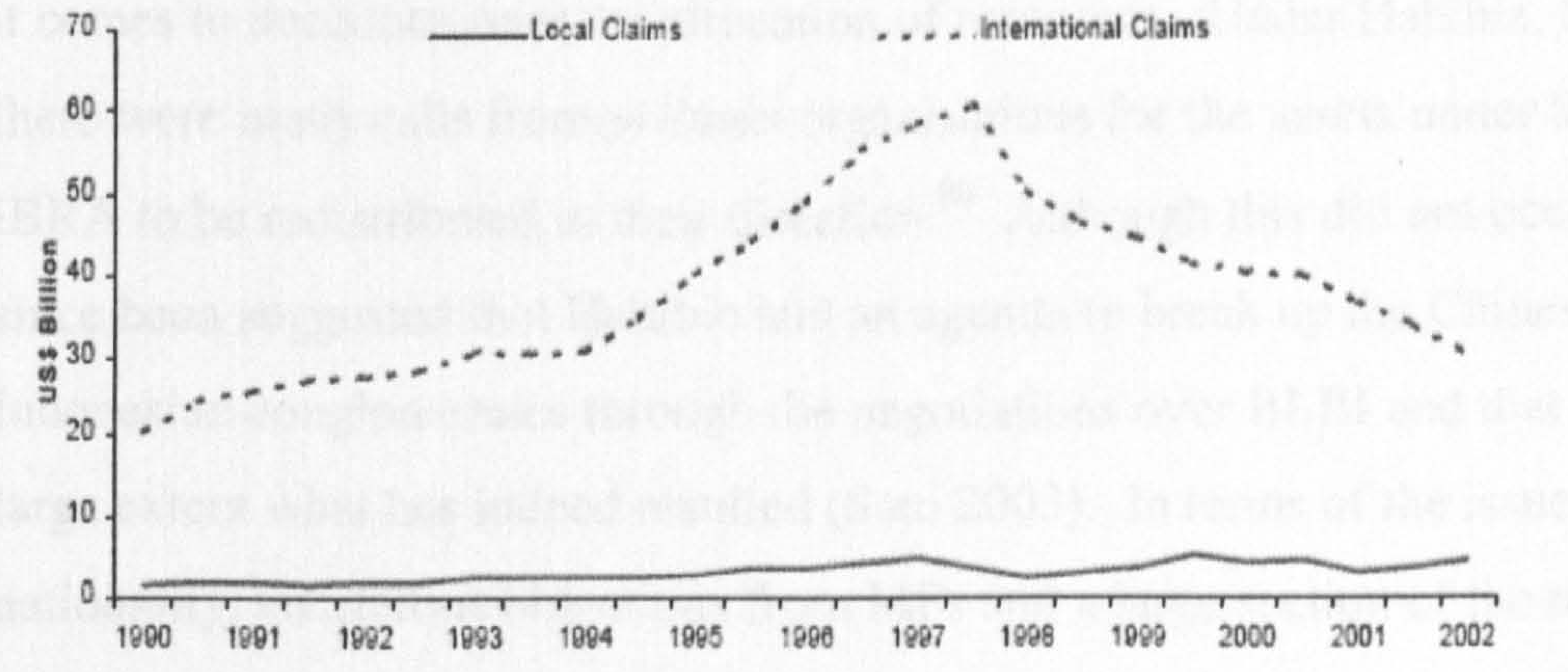
In post-Soeharto Indonesia all of these channels of credit have become much more difficult to access. The injection of government bonds into state banks through the recapitalisation process has meant that they are today more inclined to collect on the guaranteed interest rates of these bonds rather than risk lending again to third parties. However, despite the fact that most state banks have been slow to resume lending in general, there have still been scattered reports of conglomerates obtaining questionable loans[95] and using them to buy back their own assets under IBRA.[96]

In terms of the private banks with pre-crisis affiliations to business groups, such a pattern has now declined quite substantially. Out of the 58 banks previously affiliated to conglomerates 28 have now been closed and 10 completely nationalised, which includes all of the biggest banks (Sato 2003). Although, again there have been reports of some conglomerates trying to regain control of their previously affiliated banks, most notably Salim with BCA and Lippo with Bank Lippo. Yet these two high profile cases at least were, for the time being, prevented. It is also the case that foreign banks are now much more reticent in their lending to Indonesian companies (see Chart 5.1 below).

[95] One such story began with a US$ 60 million loan from state Bank Mandiri to the conglomerate Texmaco in early 2001 where it was alleged that a close relationship between the heads of Texmaco and Bank Mandiri was the basis upon which the loan was to be made (*Tempo*, 5.3.01). However, it was also reported that the loan, requested in order to fill a government contract for buses, was eventually refused because Texmaco had not yet settled its debts with IBRA and also because Bank Mandiri could not get priority amongst Texmaco's other creditors for repayments (*Jakarta Post*, 1.3.01).

[96] In an interview with banking analyst Lin Che Wie (22.5.02), he maintained that a process of 're-labelling' was occurring where IBRA debtors were buying back their discounted assets from IBRA with state bank loans.

Chart 5.1: International and Local Claims of BIS-Reporting Banks



Source: Bank for International Settlements, http://www.bis.org/publ/cgfs22mas.pdf#xml=http://search.atomz.com/search/pdfhelper.tk?sp-o=3,100000,0

In place of these previous credit deals, the post-Soeharto distribution of wealth has taken place through the debt negotiations at IBRA. These negotiations have been full of largely unsubstantiated rumours around the motivations of decision-makers, but cases such as the Bank Bali Scandal[97] testify to the truth which is sometimes behind them. That is, money being siphoned off one way or another for the private interests of the political and economic elite. Judging from the low rate of debt recovery for the government, most of the conglomerate debtors seem to have avoided much of the repayment, but at the expense of emptying out their domestic companies of their most valuable and mobile assets and sitting on them abroad. Undoubtedly though, many have sustained heavy losses. Although some private foreign firms are likely to have lost money in the Indonesian crisis, others have done rather well from the opportunities now open to buy some of the best Indonesian assets at a relatively cheap price.

[97] The Bank Bali Scandal arose in 1999 as a payment made by IBRA to Bank Bali as part of the government's blanket guarantee programme had an extraordinary US$ 64 million skimmed from it by an intermediary company who then passed much of it on the Habibie re-election campaign.

The terms within which the struggle for the control of assets has been played out is also of interest, for, it is clear that nationality and ethnicity are still important when it comes to decisions over the allocation of resources. Under Habibie, for example, there were many calls from *pribumi* organisations for the assets under the control of IBRA to be redistributed in their direction.[98] Although this did not occur, it has since been suggested that Habibie had an agenda to break up the Chinese-Indonesian conglomerates through the negotiations over BLBI and that this is to a large extent what has indeed resulted (Sato 2003). In terms of the issue of nationality, vociferous objections from MPs and a large section of the media to the sale of assets to foreign companies have now become common place. This is in contrast to the attitude of the Wahid and Megawati administrations which have both cleared the way for foreign ownership under both IMF pressure and the urgent necessity to fund the state budget.

The difficulty with this discourse is in knowing how far these arguments are mere justifications for personal enrichment and how far they are genuine. In practice, both motivations inevitably intermingle and must be weighed up by the government in terms of the employment creation benefits of international investment, the disadvantage of profits being channeled away from the Indonesian economy through foreign firms and the political advantages which illicit funding from corruption can bring them. In any case, the point once again is that efforts to prevent corruption must also include a more proactive element to address these nationalist concerns.

In terms of patterns of corruption, political parties again appear as a set of important new constituents in corrupt exchange. Yet, interestingly, their power over decisions at IBRA is derived not from any formal legal rights but from their ability to stall the political process in the DPR, to leave laws unpassed or otherwise hamper their progress through parliament. Such a proliferation of state actors in corruption indicates once more the new multi-polar nature of the post-Soeharto state.

[98] Aburizal Bakrie called for preference to be given to pribumi companies in the sale of BCA (*Kompas*, 26.8.98). Two *pribumi* business associations, HIPPI and HIMPI also made similar demands on IBRA assets (*Warta Ekonomi*, 24.11.98; *Tempo*, 1.10.01).

As the section on private domestic ownership showed, the levels of domestic wealth concentration on the business side of the corruption equation has remained the same, even in view of the overall contraction of value in the economy. Having said this, however, the increasing role of foreign capital in the Indonesian economy through the purchase of IBRA assets and an upsurge in M&As is a new development as foreign companies entering the economy on this basis no longer require the domestic partners of the Soeharto era. In place of the guarantees which these domestic partners brought to foreign business in the Soeharto era is, in some cases, pressure from their own domestic governments through negotiations on the Indonesian state's own terms of international debt repayment. With foreign businesses able to circumvent domestic partners in this way, this pattern of corruption is likely to decline in the future. However, it was also shown that the institutional changes which were implemented in the financial sector, such as the introduction of a whole new court for bankruptcies and the creation of IBRA itself along with its various oversight bodies, have fallen somewhat short of their ideals and patterns of corruption have simply adapted to the new circumstances.

In echoes of the role of legal institutions in the negotiations over contracts at PLN, here again, because the legal process is expensive and unpredictable for all potential parties, it has been used more as a bargaining device than as an arbiter of justice. Thus, if, as argued in Chapter One, it is accepted that law is an intermediary of the political and economic spheres, then this new pattern of courts relying solely on monetary inducements rather than a mixture of money and political influence has wider implications. Coupled together with the conclusions of the chapter on corporatism, this view of law as now relatively more free from political influence adds weight to an interpretation of post-Soeharto corruption as having become somewhat more inclusive and competitive.

CONCLUSION

This thesis has examined the process of change in Indonesian business/state relations in the immediate post-Soeharto period (1998 – 2002). In order to do this, the substantive research chapters have focused on three main sites of enquiry. These are: firstly, the allocation of government contracts to individual businesses in the oil, electricity and forestry sectors, secondly, organisations which group businesses into business associations and thirdly, the negotiations over debt at IBRA.

Within these sites of enquiry, corruption is used as an indicator of the way in which business and the state interact. Changes in patterns of corruption were discerned in the allocation of government contracts and the debt negotiations where there has been a proliferation of constituents in corruption but mostly from the state side of corrupt exchange. However, the chapter on business associations showed that where government favours are accessed by medium-sized companies from bureaucrats working underneath the level of the executive, there may also be some increased access to corrupt opportunities for a wider range of businesses. Thus, where the contracts and debt deals are at their most valuable, there has been a proliferation of state actors in corruption but not business, whereas there is now more potential for a broader range of medium-sized businesses to be involved in corruption at a lower level of contract allocation.

Another change in patterns of corruption is the decline of corruption based on political influence in favour of a system where money is the major currency of influence. Although financial rewards are the *raison d'etre* of all systems of corruption, under Soeharto access to corrupt exchange was based not just on bribes but also on proximity to Soeharto. Now it is no longer the case that business clients can rely on their political connections in the same way since the cultivation of such connections is hampered by a high turnover of different state patrons. This again relates to the inclusion of a whole new array of state actors in corruption, but is also the result of the new role of political parties in choosing the heads of SOEs as well as cabinet members. The decline of corporatism, the lack of state interference in the struggle between business associations for access to the government 'contract loop', and the way in which the legal process has become more unpredictable are all reflections of the decline of political influence in corruption.

The previous chapters also highlighted one particular continuity in patterns of corruption from the Soeharto period in the close identification of nationalist 'pro-*pribumi*' arguments with corruption. The chapters on the allocation of government contracts and debt negotiations in particular showed how corruption is conceived as one of the mechanisms through which protection of the domestic economy is achieved from encroachment by foreign interests. Where foreign interests are not involved, such as in the forestry sector, corruption is instead linked to the promotion of economically weak groups from the regions as opposed to the centre. This is not to deny the other functions of corruption, such as the maintenance of political power or the provision of personal wealth, but simply adds an extra dimension. Thus, corruption in Indonesia can be viewed as a system of wealth distribution based not only on connections and money, but also ethnicity and nationality.

These findings give rise to two main conclusions. Firstly, they correlate with a growing body of literature linking democratic reforms with the further spread of corruption, at least initially. Where there has been a general consensus for years that a lack of political competition provides an environment in which corruption flourishes (Cassing 2000; Doig et al 2000), there is now much evidence to suggest that the increased political competition following democratic reforms enables an expansion of corruption across a broader range of elites.[1] The consensus now is that,

> when authoritarian control is challenged and destroyed through economic liberalisations and political democratisations, but not yet replaced by democratic checks and balances, and by legitimate and accountable institutions, the level of corruption will increase and reach a peak before it is reduced with increasing levels of democratic governance (Andvig et al, 2000, p.57).

Thus, the findings of this thesis uphold the proposition that corruption spreads in tandem with political democratisation. However, in the Indonesian context, the more controversial question is whether this new inclusion of more actors in corruption represents an intermediary stage on the road to a more fundamental shift in the system of power or whether nothing has really changed. Robison and Hadiz (2004) argue that the 'predatory logic' of the political system remains the same and that new political players have little choice but to operate within the predatory processes already in place (p.256). Throughout this thesis, it has been shown that this is indeed the case. Where local government, MPs and political parties have gained more political power, they have entered the predatory process, ruthlessly exploiting the opportunities for corrupt exchange.

Nevertheless, it is also significant that the composition of these predatory interests has changed. On the business side, although there still remains a hardcore of Soeharto-era cronies attempting to save their business empires through government favouritism, many of the least viable crony companies have been fatally weakened by the economic crisis, including a large proportion of the Soeharto children's enterprises. Whether or not these previous owners make a comeback into the Indonesian economy in later years remains to be seen, but they certainly have the resources to do so. Currently, however, their place as the most profitable enterprises

[1] See, for example, Philip (2001), Moran 2001, Ockey (1994), Doner et al (1997), Sidel (1996), Doig

in the Indonesian economy has been overtaken by those companies oriented towards the domestic consumer market with products such as cigarettes and pharmaceuticals and in these sectors, the scale of government favouritism seen under Soeharto cannot be replicated.

It is also of note that many more state actors are involved in corruption now than under Soeharto, even if the long-term significance of this development for levels of corruption remains to be debated. For example, it could be argued that such increased competition lowers the return on rent-seeking, thus making it a less attractive option (Cassing 2000, p.166). Equally, it is intuitively credible that more participants in corruption means an even wider range of people with a vested interest in seeing the predatory logic continued. In any case, such abstract and amorphous concepts as systems of power are bound to change slowly and almost imperceptibly. In the meantime, trying to uncover smaller changes to patterns within these systems can contribute towards an understanding of the evolution of the larger relations of power as well as what these relations of power mean in terms of the distribution of wealth. For example, if opportunities for involvement in corrupt exchange were to expand beyond the elite to become more inclusive of smaller domestic businesses, this would surely have an impact on conceptions of the overall system of power. As Le Billon states, 'corruption may have a corrosive effect on economies and rule-based institutions, but it also forms part of the fabric of social and political relationships' (Le Billon 2003, p. 416). Thus this endogenous nature of corruption means that charting changes in the pattern of corruption adds more value to the identification of a predatory logic.

In Section 1.5.3 of the literature review it was suggested that institutions have a direct effect on the composition of interests compared to the way in which social conflict theory tends to think of interests being unaffected by institutional change and able to reconstitute around it at will. The evidence upholding such a

(2000), Harris-White and White (1996).

proposition has come from many of the different sectors reviewed in this thesis. For example, in Chapter Two on oil contracts the new power of the legislature, a new range of oversight bodies and the adjustment to Pertamina's position within the state system of accountability have substantially changed the composition of interests on the state side of the corruption equation. Similarly, the decentralisation laws and the myriad of regulations which accompanies them have decisively redefined the composition of interests in the forestry sector to include *Bupatis*, Governors and the regional parliaments. The introduction of new deregulatory laws in the electricity sector have also raised the potential for new groups of state interests from local governments and other sections of the bureaucracy to benefit from corruption.

On the other hand, the institutionalist perspective that institutional configuration is a 'significant and independent' variable in explaining economic and political processes is not borne out in this thesis. For example, the case study of the struggle between Kadin and sectoral BAs over the certification regime in Chapter Three highlighted the ways in which institutional reform proceeds as a reflection of contending interests. Here the frequent changes to a new Presidential Decree regulating the involvement of business associations in government procurement clearly reflected the conflict between Kadin, Kadindas and sectoral BAs. Another example of the weakness inherent in focusing exclusively on institutions to explain the distribution of power can also be seen in Chapter Four. Here vestiges of Soeharto state power in the form of Golkar and HIPMI exercise their influence over the election of Kadin's leaders not through institutional structures but through a more nebulous form of power derived from their proximity to state elite. Thus, any attempts to explain the distribution of power within the business association sector which relied on institutional configuration would effectively miss the reality of how power is exercised. Such an exclusive focus on institutional configuration also leaves no room for situations where institutional reforms are completely blocked by vested interests, such as the unceremonious abandonment of reformist measures aimed at curtailing the concentration of harvesting licenses in the forestry sector.

The institutionalist would run into difficulties trying to explain change in the forestry sector if they focused only on institutional configuration.

The institutionalists' eye for the organisational attributes of legal-rational institutions is helpful and there is by now an emerging consensus on what mediating institutions in the business/state relationship *should* look like, the rules and regulations which set up theoretical lines of accountability and systems of transparency. However, it is not enough to discern obstacles to this ideal functioning of institutions in the motivations of political actors, to attribute institutional failure to a lack of 'political will' or a lack of education in how institutions *should* function. If the use of institutions in this field is to move away from these normative considerations of what institutions should look like to become capable of *analysing* corruption, then their very definition must first alter.

The problem with institutional analysis as it stands is that institutions are largely defined as a set of rules. For example, Douglass North (1990, p.3) has defined institutions as 'the rules of the game', whilst Hall (1986, p.7 in Peters 1999, p.66) defines them as 'formal rules, compliance procedures, and standard operating procedures.' Essentially, 'rules define institutions and they are also the means through which those institutions have their influence on individuals' (Peters 1999, p.107). Such definitions inevitably lead to analyses of dysfunctional institutions which center around suggestions for readjusting their rules. However, if their definition can be expanded so that they can also be described as 'formalised relationships' as well as a set of rules, then the reality of how they function is better captured. In this way the element of power can be locked in to the analysis of institutions and they can therefore be seen as both a reflection of the more fundamental issues which govern power relations as well as the set of rules designed to regulate these relationships. In other words, the functioning of institutions reflects existing deeper currents at the same time as striving to change them.

This leads onto the second major conclusion of this thesis, that one of these more fundamental currents governing the functioning of institutions is the state's commitment to fostering the accumulation of domestic capital. All states protect their major domestic business interests through political influence. For example, tying development aid to the attainment of contracts for donor countries' domestic business is already established practice. It is also widely accepted, even by institutions such as the World Bank, that different stages of economic growth require different levels of competition and that the policy of protecting infant industries has its merits (World Bank 1998, p.2).

However, as Gomez (2002, p.24) suggests, the absence of autonomy between the Indonesian state and the business community under Soeharto meant that state protectionism degenerated into corruption. In other words, decisions concerning the allocation of resources for the protection of domestic business were based on connections and illicit payments rather than merit. One way to conceive of the relationship between legitimate protection and illegitimate corruption is to place the two on opposite ends of a sliding scale rather than view them as mutually exclusive. In this way, where protectionism often degenerates into corruption, it could also be suggested that intervention by international institutions in the post-Soeharto economy can be located on a continuum between genuine anti-corruption efforts and the opening up of the economy to benefit private foreign interests.

Corruption is a part of all polities the world over, but the point being made here is that the structural influence of delayed capitalism should also be considered in any analysis of corruption in developing countries. As Szeftel writes:

> In the context of underdevelopment, local accumulation rests heavily on political power and the ability it provides to appropriate public resources. Corruption provides a means of transferring public resources to the new middle class and bourgeois strata which emerged in the post-colonial order.

> And underdevelopment ensures that dependence on political power for accumulation is continuous (2000, p.287).

The point is that even though this distribution of wealth through corruption was based on connections and the ability to provide illicit political financing, it would nevertheless be negligent to omit the concept from analyses of corruption, dismissing it as nothing more than a justification. At the very least, the promotion of the domestic accumulation of capital in the face of foreign economic domination can be seen as an ideological framework within which the corruption discourse takes place.

The involvement of foreign business interests in the Indonesian economy is presumed by some to have a natural 'regularising' effect, with the potential to introduce good corporate governance and a stricter adherence to the rule of law. However, as Robison and Hadiz (2004) note, there is nothing *inherently* liberalising about foreign businesses, which are generally prepared to operate under any type of regime as long as a degree of predictability and protection for property rights can be guaranteed (p.259-261). Indeed, it was foreign finance that supported all of the biggest and most corrupt projects throughout the Soeharto era. In terms of the most powerful international institutions such as the IMF, it has also been shown throughout this thesis that their efforts to establish neo-liberal institutions have been less than successful in combating corruption. Whether it was through attempts to apply piecemeal reform in already existing institutions, or the wholesale creation of institutions such as the bankruptcy court, institutional engineering on its own has already been shown to have a limited impact on corruption. However, if it is accepted that concerns over the foreign domination of the Indonesian economy have been key to the corruption discourse, then it may be that the increased role of foreign interests will indirectly further entrench corruption. Take-overs by foreign businesses may help to push out the Soeharto-era cronies in some places, but the opposite tendency could occur at the same time if foreign economic involvement is even just perceived as a threat.

The view taken in this thesis of international interests owes much to the ideas developed by the social conflict theorists. Just as Rosser (2002) detailed the international interests which lie behind economic liberalisation, so in this thesis it has been shown how anti-corruption measures in, for example, Pertamina or IBRA have effectively shifted the distribution of economic benefits from domestic to international interests. Also in this regard, it has been shown that deregulation does *not* separate economics and politics as the neo-liberals claim. The section on PLN in Chapter Two particularly highlighted the ways in which international business exerts pressure on the Indonesian government to safeguard their interests through the leverage which their own national governments possess as a result of Indonesia's sovereign debt.

Other than nationalist concerns about foreign economic ownership, within Indonesia the distribution of wealth is very often defined in terms of ethnicity. The potentially explosive situation where an ethnic minority conspicuously controls a large proportion of the economy has affected the pattern of corruption in many different ways. For example, the preferential state bank loans which were examined in Chapter Five were made mostly to *pribumi* businesses as a kind of compensation for the credit boom benefiting the mostly Chinese-Indonesian owners of the private banks. The role which *pribumi*-oriented business associations play in corruption is another such example.

Post-Soeharto, the politicisation of ethnicity has become further ingrained as ethnic conflicts have erupted all over the archipelago with tragic consequences. As part of this process, the identification of particular ethnic groups as economically weak has gained in currency leading to distributional conflicts and calls for state policies to rectify imbalances. One analyst has detailed the conflict between multiple ethnically-defined groups over the sale of the state-owned Padang cement plant in West Sumatra, concluding that patronage based on loyalty to Golkar has now been replaced with patronage based on ethnicity (Van Klinken 2002). In terms of corruption, the point here is that imbalances in wealth amongst ethnic groups both dictates the pattern of corruption as well as contributing to its cause. Kahn and Formosa (2002) make the same point, describing the Indonesian economy as characterised by a close embedding of commodity circuits in social and political hierarchies which are in many cases also 'ethnicised' (p.55-56).

Thus, if corruption is to be replaced as a method of wealth distribution, imbalances in wealth between ethnically defined groups must also be addressed. Yet, in view of both past and present experiences, government schemes aimed at correcting such imbalances are very likely to be appropriated by groups of vested interests. This then begs the question, how can change possibly occur? As we have seen throughout this thesis, policy prescriptions and institutional change have been less than successful in eradicating corruption in the face of its more fundamental structural causes, such as class conflict, position in the global economy, ethnic imbalances in wealth and the disorganisation of civil society. However, the struggles which are informed by such structural determinants of power are also expressed in how effectively these institutions function. Similarly, institutional change has the capacity to alter the pattern of corruption, determining new constituents in corruption as well as accommodating those already deeply entrenched. The point is not that institution building is always and everywhere a futile task, but rather that analyses of why they are unsuccessful should move beyond simplistic assertions of a lack of political will to include these underlying currents.

Identifying the role of ethnicity in discourses on the distribution of wealth in this way also highlights the idea that class and ethnicity are inextricably intertwined in

Indonesia. Such an idea would benefit from a more determined effort to investigate its theoretical implications, but it nevertheless remains the case that a relationship exists between the two concepts in Indonesia where it does not in classic Marxist accounts of class conflict.

So, how do the findings presented in this thesis contribute to understandings of the business/state relationship in Indonesia? One fundamental problem with the pluralist, elitist, Marxist and statist models of business/state relationships presented in Chapter One is that they all seek to understand the process through which the capitalist class dominates the state. Such a characterisation of the business/state relationship may have more relevance for Western countries, but in the case of Indonesia it misses the essentially reciprocal character of business/state interactions which the clientelist model instead captures. Such a reciprocity, a sort of mutual dependence, has been further entrenched by the economic crisis. With the parlous condition of state finances, private investment is urgently needed and measures to attract back the conglomerate capital which was moved abroad at the height of the crisis has resulted in many state concessions to the conglomerates, especially concerning debt repayments. But equally, the state's control of conglomerate assets through IBRA has meant that conglomerates are more dependent than ever on state decisions for the survival of their business empires. In terms of international business, however, their structural power has been strengthened and translated into a much more tangible type of power with the intervention of international institutions in the domestic policy process.

Whilst the existence of a hardcore of politicians and businesses from Soeharto's rule still remains constant, the element of a more open competition now apparent in business/state relations also casts doubts on the relevance of both statist and elite analyses. The reified state of statist analyses and the elite cohesion of elite analyses have now been replaced by a fragmented multi-polar state extending into the regions and a high degree of instability in the positions of the state elite. Essentially, then, patterns in the business/state relationship in Indonesia have changed quite substantially whilst still operating within the logic of reciprocity.

Finally, there are many aspects of the business/state relationship in Indonesia that remain opaque. Beyond the more spectacular examples of corruption reported in the media, the relationship between medium and small sized businesses with the state at lower levels in the bureaucracy is less well understood. The decentralisation process also begs questions about processes of contract allocation and the general implementation of regulations at these bureaucratic levels operating away from the centre. For example, business association contact with local government was found in this thesis to be substantial and understanding on what terms these relationships are developing would be useful. Systematic surveys of business attitudes towards business associations and the relationship between business associations and the parliament are other potential areas of research which have yet to be undertaken.

Also in relation to the business/state relationship away from the very heights of economic activity, it would be interesting to discover more empirical data about the functioning of the various government schemes aimed at correcting domestic economic imbalances, such as the stipulations for local community involvement in large government contracts and the allocation of HPHs to co-operatives. Such a focus might also aid the development of further information on potential sources and directions of reform. In any case, finding out exactly who benefits from these schemes and under what terms would add a great deal to a more comprehensive understanding of the political economy of wealth distribution developed in this thesis.

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Indonesian Observer
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Infobisnis
Investor
Jakarta Post
Kapital
Kompas
Kontan
Koran Tempo
Laksamananet
Media Indonesia
Merdeka
Prospek
Prospektif
Rakyat Merdeka
Republika
Satunet Online
Suara Karya
Suara Pembaruan
SWA
Tempo
Van Zorge Report
Warta Ekonomi

Appendix 1

Appendix One		Interviews	
Name	**Position**	**Organisation**	**Date of Interview**
Ibrahim Z. Fahmy Badoh	Division of Investigations	Indonesia Corruption Watch	October 2001
Danang Widoyoko	Division of Investigations	Indonesia Corruption Watch	October 2001
Wasingatu Zakiyah	Division of Investigations	Indonesia Corruption Watch	October 2001
Amrir Kotto	*Direktorat Bina Usaha Dalam Negeri* (Directorate of Domestic Business)	*Departemen Perindustrian dan Perdagangan* (Department of Trade and Industry)	October 2001
Naseer Ahmad Rana	Senior Procurement Specialist	World Bank	19.10.01
Respondent #2	Banking Analyst	International Consultancy	23.10.01
Gary Andrews	Executive Director	Britcham Business Centre	24.10.01
Syahrial Loetan	*Kepala Biro Pemantauan dan Evaluasi Pembiayaan* (Head of Bureau of Monitoring and Evaluation of Payments)	Bappenas	28.10.01
Bernard Drum	Private Sector Development Coordinator	World Bank	31.10.01
Arief Hermawan	Executive Secretary, *Badan Akreditasi dan Registrasi* (BARKI) (Accreditation and Registration Body)	Kadin	November 2001
Tulus Tambunan	Executive Secretary	LP3E, Kadin	1.11.01
Arfan Sofyan	Head of Department of Business Associations	Kadin	2.11.01
Elias L Tobing	Chairman	Kadin UKM	14.11.01
Faisal Basri	Commissioner of KPPN; Member of DEN; Lecturer at Perbanas University	KPPN; DEN; Perbanas	14.11.01

Appendix 1

Name	Position	Organisation	Date of Interview
Soy Pardede	Vice-President Co-ordinating Trade Affairs; Kadin and KPPU Commissioner	Kadin; KPPU	16.11.01
Thomas Darmawan	Chairman of GAPMMI; Chairman of Compartment of Multifarious Industry, Kadin; Chairman of AUMI)	GAPMMI: *Gabungan Pengusaha Makanan & Minuman Seluruh Indonesia* (Indonesian Food and Beverages Association); Kadin; AUMI: *Asosiasi Usaha Menengah Indonesia* (Indonesian Medium Enterprises Association)	16.11.01
Sutrisno	Head of National Affairs	Kadin	17.11.01
John Palinggi	Chairman	Ardin: *Asosiais Rekanan Pengadaan Barang dan Distributor Indonesia* (Association of Procurement Partners and Distributors Indonesia)	27.11.01
M. Husain	Head of Research Division	*Lembaga Penelitian dan Penerangan Ekonomi dan Sosial* (LP3ES) (Institute for Social and Economic Research, Education and Information)	27.11.01
James Castle	President AMCHAM; Executive Director Castle Group	AMCHAM; Castle Group	29.11.01
Nur Muhammad	Senior Investigator	*Komisi Pengawas Persaingan Usaha* (KPPU) (Supervisory Commission for Business Competition)	4.12.01
Ibu Tuti	Project Director	USAID	5.12.01
Arya Dwi Paramita	Press Relations Officer	Pertamina	12.12.01
Amaluddin Ganie	Vice-Chairman	Kadin Jakarta	12.12.01
Anthony Sunarjo	Chairman	*Forum Kerjasama Asosiasi* (FNKA)	13.12.01
Sulvester Budi Agung	Economist	*Direktorat Jenderal Pembinaan BUMN* (Directorate General of SOE Development), Department of Finance	January 2002

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Name	Position	Organisation	Date of Interview
Hermanto Dardak	Director Bureau of Planning and International Co-operation	Ministry of Settlements and Regional Infrastructure	8.1.02
Sarwedi	Procurement Consultant	Bappenas	19.1.02
Utama Kajo	*Wakil Ketua Kompartemen Kebijaksanaan Publik* (Vice Chairman of Public Policy Unit)	Kadin	28.1.02
Parlindungan Sihombing	Consultant	CIC Economic and Investment Consulting	February 2002
Herry Soetanto	Head of Research and Development on Foreign Trade	Agency for Research and Development of Industry and Trade, Ministry of Trade and Industry	February 2002
Ayudha Dharma Prayoga	Director	Partnership for Business Competition	February 2002
Respondent #5	Conglomerates Analyst	International Consultancy	13.2.02
Adiatma Sardjito	Press Relations	Pertamina	20.2.02
Irfan Muktiono	Director, Department of Political Corruption	Indonesian Corruption Watch	20.2.02
Stephen Sherlock	Governance Advisor	World Bank	26.2.02
Nizar Suhendra	Executive Director	The Indonesian Society for Transparency	March 2002
Sarwedi	Team Leader for 'Public Relations Activities in Support of Government Anti-corruption Efforts Project', TA No.3608-INO	Asian Development Bank	7.3.02
Mahmud		Department of State Owned Enterprises	16.3.02
Suhardo	*Kabag Humas dan Protokol* (Head of Public Relations and Protocol Section)	Bulog	April 2002
Mangara Tambunan	Researcher	Center for Economic and Social Studies (CESS)	4.4.02
David Brown	Advisor, Industrial Restructuring Working Group	Ministry of Forestry	8.4.02

Appendix 1

Name	**Position**	**Organisation**	**Date of Interview**
Harry Seldadyo	Researcher	Center for Economic and Social Studies (CESS)	9.4.02
Ubaidillah	Researcher	Center for Economic and Social Studies (CESS)	9.4.02
Richard Holloway	Programme Advisor on Civil Society/Anti-corruption	Partnership for Governance Reform in Indonesia, UNDP	11.4.02
Graham Rettke	Team Leader for 'Improving Public Sector Procurement Project', TA 3471 - INO	Asian Development Bank	12.4.02
Respondent #1	IMF Representative	International Monetary Fund	16.4.02
Steffan Synerstorm	Senior Advisor for Governance	Asian Development Bank	19.4.02
Ayudha Dharma Prayoga	Researcher	Partnership on Business Competition	23.4.02
Geoff Forester	Programme Manager	Technical Assistance Management Facility (TAMF)	24.4.02
Stuart Andrews	Procurement Consultant	Asian Development Bank	26.4.02
Roderick Brazier	Project Director	The Asia Foundation	26.4.02
Wawan Sukawan	*Sub Direktorat Kelembagaan dan Usaha Perdagangan* (Sub-Directorate for Trade Organisations and Businesses)	*Direktorat Jenderal Perdagangan dalam Negeri* (Directorate General Domestic Trade), *Departemen Perindustrian dan Perdagangan* (Department of Trade and Industry)	May 2002
Tito Pranolo	*Kepala Pusat Jasa Logistik* (Head of Logistical Service Division)	(Bulog)	May 2002
Prof. Lepi Tarmidi	*Lembaga Penyelidikan Ekonomi dan Masyarakat* (Institute of Economic Investigations and Citizens)	Economic Faculty, University of Indonesia	14.5.02
Wilson Nababan	President Director	PT CISI Raya Utama	14.5.02
Priambodo	Public Relations Officer	IBRA	15.5.02
Indria Samego	Lecturer and author of *'Bila ABRI Berbisnis'*	Jayabaya University	16.5.02

Appendix 1

Name	Position	Organisation	Date of Interview
David Ray	Domestic Trade Advisor, Partnership for Economic Growth: A Joint Project of USAID and the Government of Indonesia	*Departemen Perindustrian dan Perdaganan* (Department of Trade and Industry)	16.5.02
Teten Masduki	Coordinator of Working Committee	Indonesian Corruption Watch	17.5.02
Lin Che Wie	Director Equity Corporate Finance	SG Securities Investment Banking	22.5.02
Respondent #4	Senior Corruption Investigator	Attorney General	22.5.02
Respondent #3	Legal Consultant	Indonesian Legal Consultants	5.6.02

Appendix 2

Jakarta 8.2.02

Jacqueline Hicks,
Jl. Taman Bendungan Jatiluhur I/2,
Bendungan Hilir,
JAKARTA PUSAT
From the Department of Politics

University of Leeds
Leeds LS2 9JT

Telex 556473 UNILDS G
Fax 0113 233 4400
Telephone 0113 243 1751
Direct line 0113 233 4382; 4383; 4384

Dear Sir/Madam,

- **What is this letter about and who has sent it?** My name is Jacky Hicks and I am a British researcher from the University of Leeds in the UK. I am currently in Jakarta completing fieldwork for my PhD which is about Business Associations in Indonesia. I have no affiliations to any institution within or without Indonesia except my own university in the UK. As part of my fieldwork I sending this questionnaire to all business associations, Gabungan, Himpunan and Ikatan in Indonesia. I obtained the address of this association from a directory of NGOs and associations published annually by Masindo which I followed up with a telephone call to your association's office to confirm who I should send this questionnaire to.

- **What is this questionnaire about?** The questionnaire is designed to find information about three aspects of your association. These are (1) simple factual information about your association such as year of formation, membership numbers, budget and type of daily activities (2) the frequency of your association's contact with Kadin and how you feel about this contact (3) your association's lobbying activities to the government and how you feel about your association's relationship with government.

- **Why should I complete this questionnaire?** I believe that this survey is important feel strongly because there has never before been any attempt to canvas the opinions of the business association sector as a whole in Indonesia. I further believe that today all associations who represent business have the potential to be involved in the recovery of the Indonesian economy in a way that was not possible just a few years ago and as such deserve more attention from both observers and government practitioners. I hope my research will contribute towards a better understanding of the sector that you work in, but this will only be possible if I receive responses from all of you since the more responses that are sent back to me, the more meaningful my results will be. Your opinion about the issues included in this questionnaire is very important but will be missing from the final results and any subsequent analysis if you do not complete the questionnaire. I must also emphasise that there are no right or wrong answers to the questions I have sent to you, I simply want to know your true opinions. I would also like to assure you that all of the information you give me will be treated as completely confidential and it will not be possible for anyone to identify the information you give me when I write up the results. Your individual response will not be revealed to anyone but will go to learn about overall attitudes.

- **How long will it take to complete this questionnaire?** I know that your time is valuable to you and because of this I have tried to make the questionnaire as easy and quick to fill in as possible by providing boxes for all the questions where you simply have to tick one. I also realise that because this questionnaire is being sent to such a wide range of associations, in some cases not all the questions will be relevant to you or that some of the information I ask for may be difficult for you to find. If this is the case, then I ask you to please return the questionnaire anyway with the answers that it was possible for you to fill in. I have included a pre-paid envelope for your convenience.

Please return completed questionnaires **before the 28th February 2002.** As an incentive, I promise to send a copy of the results to every association who has taken the time to complete the questionnaire. I hope you will find the results interesting.

If you wish, please feel free to add any additional information in the section entitled "Additional Comments" at the end of the questionnaire. If you have any questions then please feel free to contact me: **Jacky Hicks (021) 573 6889.**

I would be very grateful to all of you who respond. Thank you

JH

Jacky Hicks

Appendix 2

Jakarta 8.2.02

Jacqueline Hicks,
Jl. Taman Bendungan Jatiluhur I/2,
Bendungan Hilir,
JAKARTA PUSAT

From the Department of Politics

University of Leeds
Leeds LS2 9JT

Telex 556473 UNILDS G
Fax 0113 233 4400
Telephone 0113 243 1751
Direct line 0113 233 4382; 4383; 4384

Dengan Hormat,

- **Surat ini tentang apa dan siapa mengirimkanya?** Nama saya Jacky Hicks, saya peneliti warganegara Inggris dari Universitas Leeds di Inggris. Saat ini saya berada di Jakarta untuk melakukan studi lapangan dan pengumpulan data mengenai **Organisasi Bisnis** di Indonesia. Saya tidak memiliki hubungan institusi di dalam maupun di luar Indonesia, kecuali dengan Universitas tersebut diatas. Sebagai bagian dari studi lapangan, saya mengirimkan kuesioner terlampir kepada semua Organisasi Bisnis, Gabungan, Himpunan dan Ikatan yang ada di Indonesia. Alamat Organisasi ini saya dapatkan dari buku panduan tentang LSM dan asosiasi yang diterbitkan setiap tahun oleh Masindo, serta diikuti dengan menelpon ke kantor-kantor organisasi untuk memastikan nama dan alamat yang dituju.

- **Kuesionar ini tentang apa?** Kuesioner ini di rancang untuk memperoleh informasi mengenai 3 aspek, yaitu:
  (1) Informasi mengenai data faktual seperti tahun berdiri, jumlah anggota, anggaran dan jenis aktivitas harian
  (2) Frekuensi hubungan antara organisasi dengan Kadin dan bagaimana pendapat anda mengenai kontak tersebut
  (3) Aktivitas-aktivitas lobby yang dilakukan terhadap pemerintah dan bagaimana pendapat anda tentang hubungan organisasi ini dengan pemerintah.

- **Kenapa seharusnya mengembalikan kuesioner ini?** Saya sangat percaya bahwa survey ini penting artinya, karena penelitian semacam ini yang mencakup seluruh anggota organisasi belum pernah dilakukan sebelumnya. Selain itu, saya yakin bahwa organisasi bisnis ini mempunyai potensi untuk berperan dalam pemulihan **Krisis Ekonomi** di Indonesia. Peran ini tidak dimungkinkan berberapa tahun sebelumnya, sehingga pemerintah dan peneliti saat ini perlu memberikan perhatian yang lebih besar. Saya harap penelitian ini akan menyumbangkan saling pengertian yang lebih besar dalam sektor yang anda kerjakan. Oleh karena itu, saya sangat mengharapkan respon yang baik dari anda, karena semakin banyak yang memberikan jawaban akan semakin berarti. Pendapat anda mengenai masalah ini sangat penting, tetapi tidak akan ada artinya tanpa upaya anda mengembalikan jawaban terhadap kuesioner ini. Perlu saya tekankan bahwa tidak ada jawaban yang benar atau salah dalam kuesioner ini, hanya sekedar menginginkan jawaban yang paling mendekati kebenaran. Saya jamin bahwa semua informasi akan diperlakukan sebagai data pribadi, dan tidak dimungkinkan lagi orang lain untuk mengetahui jawaban yang telah diberikan, dalam penulisan akhir. Jawaban pribadi anda tidak akan diumumkan kepada orang lain, hanya menggambarkan situasi umum.

- **Butuh berapa lama untuk selesaikan kuesioner ini ?** Saya menyadari waktu anda yang sangat berharga, oleh karena itu kuesioner ini dirancang secara sederhana. Anda hanya perlu menjawab dengan memberikan tanda silang pada jawaban yang dipilih. Kerjasama anda bersifat sukarela, dan anda dapat melewati pertanyaan-pertanyaan yang sulit dijawab. Akan tetapi, saya harapkan agar kuesioner ini dikembalikan dengan jawaban yang ada. Untuk kemudahan anda, bersama ini saya kirimkan amplop berperangko.

Saya persilahkan untuk mengembalikan jawaban **sebelum 28 Pebruari 2002**. Sebagai **insentif pengembalian** kuesioner ini, saya akan mengerim ringkasan k asar hasil kuesioner kepada anda. Saya berharap hasil penelitian ini merupakan informasi yang menarik dan berguna untuk anda.

Saya persilahkan untuk menambahkan informasi pada bagian "Komentar Tambahan" pada halaman terakhir kuesioner. Jika masih belum jelas, silahkan menghubungi saya pada nomer **(021) 573 6889**.

Terima kasih atas kerjasama yang baik,

JHicks

Jacky Hicks

Appendix 2

Business Associations in Indonesia

(1) About This Association

1.1. In what year was this business association formed?

☐

1.2. How many years has the Chairman of this association held that position?
(PLEASE GIVE NUMBER OF YEARS)

☐

1.3. In this association, how many of the following are there?
(PLEASE GIVE NUMBER OF EMPLOYEES)

Paid full-time employees .... ☐

Paid part-time employees .... ☐

Volunteer workers .... ☐

1.4. This question is about the office premises of this association.
(PLEASE TICK ONE BOX BELOW WHICH BEST DESCRIBES YOUR OFFICE)

☐ The office is owned/rented by the association itself
☐ The office is owned/rented by a member of the board of this association and is rented to the association for a sum of money
☐ The office is owned by a member of the board of this association and is given rent-free to the association
☐ Other, please state ______________________________

____

1.5. Does this association have regional branches?
(PLEASE TICK ONE)

☐ Yes
☐ No
☐ Don't know

1.6. How many members does this association have?
(PLEASE GIVE A NUMBER)

☐

1.7. Please give a rough estimate of who your members are as a percentage of your total membership (definition of an SME is an enterprise employing less than 100 workers)
(PLEASE GIVE A PERCENTAGE)

%

Small and medium enterprises (SME)................................. ☐

Larger businesses .... ☐

Other associations .... ☐

Other, please state ______________________________

____

1.8. Have you ever had to sanction any of your members for bad conduct?
(PLEASE TICK ONE)

☐ Yes
☐ No
☐ Don't know

1.9. What was the total gross income of your association last year? (2001) *(PLEASE TICK ONE)*

- ☐ Up to Rp 10 million
- ☐ Rp 10 million - Rp 50 million
- ☐ Rp 51 million - Rp 100 million
- ☐ Rp 101 million - Rp 500 million
- ☐ Rp 501 million - Rp 1 billion
- ☐ Over Rp 1 billion

1.10. Please give a rough estimate of the sources of this association's income as a percentage of its total income. *(PLEASE GIVE A PERCENTAGE)*

	%
Membership dues..	☐
Government contributions..	☐
Contributions from other institutions..................................	☐
Contributions from your members.......................................	☐
Earnings from business association work............................	☐
Contributions from the board of this association..................	☐

Other, please state ____

____

1.11. What are the daily activities of this association? *(PLEASE GIVE TWO TICKS FOR ACTIVITIES WHICH TAKE UP MOST TIME AND ONE TICK FOR ANY OTHER ACTIVITIES THAT APPLY)*

- ☐☐ Providing information to your members
- ☐☐ Lobbying the government to try to influence public policy
- ☐☐ Lobbying other institutions in the interests of your members (e.g. media, other business bodies, international institutions)
- ☐☐ Technical/ managerial assistance to your members
- ☐☐ Other member services such as providing certification
- ☐☐ Informal meetings and socialisation of members
- ☐☐ Other, please state ____

____

(2) Contact with Kadin

2.1. **Is this association a member of a Kadin?** *(PLEASE TICK ONE. IF THE ANSWER IS NO PLEASE GO TO QUESTION NO.3.1)*

- ☐ Yes
- ☐ No
- ☐ Don't know

2.2. Approximately how many times in the last six months has your association been in contact with Kadin Indonesia? *(PLEASE TICK ONE)*

- ☐ Not at all
- ☐ 1 - 5 times
- ☐ 6 - 10 times
- ☐ 11 - 20 times
- ☐ 21 - 40 times
- ☐ Over 40 times

2.3. In your opinion, how responsive is Kadin Indonesia to the needs of this association?
(PLEASE TICK ONE)

- ☐ Not very responsive
- ☐ Moderately responsive
- ☐ Very responsive

2.3. Compared to five years ago, how would you rate the present responsiveness of Kadin to the needs of your association?
(PLEASE TICK ONE)

- ☐ Less responsive
- ☐ Equally responsive
- ☐ More responsive

(3) Contact with Government

3.1. Has this association ever been in direct contact with the government?
(PLEASE TICK ONE. IF NO, PLEASE GO TO QUESTION NO.3.7)

- ☐ Yes
- ☐ No
- ☐ Don't know

3.2. Approximately how many times in the last 6 months has this association been in direct contact with government officials at the following levels?
(PLEASE GIVE ONE TICK FOR EACH COLUMN)

	Not at all	1 - 3 times	4 - 10 times	11 - 20 times	More than 20 times
Minister	☐	☐	☐	☐	☐
Director General	☐	☐	☐	☐	☐
Echelon 1 Civil Servant	☐	☐	☐	☐	☐
DPR Members	☐	☐	☐	☐	☐
Local Government	☐	☐	☐	☐	☐

3.3. For what reasons have you been in contact with the levels of government mentioned in question 3.2?
(PLEASE GIVE TWO TICKS FOR THE MOST COMMON REASON AND ONE TICK FOR ANY OTHERS THAT APPLY)

- ☐☐ Laws
- ☐☐ Goods inspection
- ☐☐ Transport and electricity costs
- ☐☐ Tariffs
- ☐☐ Manpower laws
- ☐☐ Other, please state______________________________

____

3.4. In your opinion, how responsive are senior government officials/agencies to this associations' current problems or requests?
(PLEASE TICK ONE)

- ☐ Not very responsive
- ☐ Moderately responsive
- ☐ Very responsive

3.5. Compared to 5 years ago, how would you rate the present responsiveness of government officials to your problems/requests?
(PLEASE TICK ONE)

- ☐ Less responsive
- ☐ Equally responsive
- ☐ More responsive

3.6. In your opinion, which are the most effective ways for this association to influence government policy?
(PLEASE GIVE A NUMBER. USE A SCALE OF 1 TO 5 IN TERMS OF EFFECTIVENESS FOR YOUR ASSOCIATION WHERE 1 IS NOT VERY EFFECTIVE AND 5 IS VERY EFFECTIVE)

- ☐ Direct contact with ministers
- ☐ Direct contact with other senior government officials
- ☐ Direct contact with members of the DPR
- ☐ Hold press conferences
- ☐ Organise demonstrations
- ☐ Form coalitions with other organisations
- ☐ Testify before relevant DPR commissions
- ☐ Ask your association members to contact government departments
- ☐ Ask your association members to contact members of DPR
- ☐ Contact Kadin
- ☐ Other, please state ____________________

____

3.7. In your opinion, to what extent do the following groups influence policy-making at the national level in Indonesia?
(PLEASE GIVE A NUMBER. USE A SCALE OF 1 TO 5 IN TERMS OF YOUR PERCEPTION OF THEIR POLITICAL INFLUENCE. WHERE 1 MEANS NOTVERY INFLUENTIAL AND 5 IS VERY INFLUENTIAL)

- ☐ President and cabinet
- ☐ Local governments
- ☐ Labour organisations
- ☐ Kadin
- ☐ Business associations and groupings
- ☐ Mass media
- ☐ Foreign Conglomerates
- ☐ Domestic conglomerates
- ☐ IMF
- ☐ Universities/research institutes
- ☐ DPR members
- ☐ NGOs
- ☐ Military
- ☐ Other, please state____________________

____

Additional Comments: ____________________

____

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____

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Please return the completed questionnaire in the enclosed pre-paid envelope to: Jl. Taman Bendungan Jatliluhur I/2, Bendungan Hilir, Jakarta Pusat.

Thank You Very Much For Your Help!

Appendix 2

Organisasi Bisnis di Indonesia

(1) Mengenai Organisasi Anda

1.1. Tahun berapa organisasi ini berdiri?

[ ]

1.2. Sudah berapa tahun Ketua Umum yang sekarang menjabat?
(TOLONG DI ISI DENGAN JUMLAH TAHUN)

[ ]

1.3. Dalam menjalankan aktivitas sehari-hari, berapa organisasi ini punya karyawan?
(TOLONG DI ISI DENGAN JUMLAH KARYAWAN)

Karyawan yang digaji dan bekerja penuh.............................. [ ]

Karyawan yang digaji dan bekerja paruh waktu......................... [ ]

Karyawan yang tidak digaji.. [ ]

1.4. Pertanyaan ini mengenai kantor organisasi ini.
(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)

☐ Kantor dimiliki/disewa sendiri oleh organisasi ini
☐ Kantor dimiliki/disewa oleh salah seorang pengurus organisasi dan dibayar oleh organisasi ini
☐ Kantor dimiliki/disewa oleh salah satu pengurus organisasi ini dan organisasi tanpa membayar sewa
☐ Jawaban lain, jelaskan____

____

1.5. Apakah organisasi ini memiliki cabang di daerah?
(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)

☐ Ya
☐ Tidak
☐ Tidak tahu

1.6. Berapa banyak anggota organisasi ini?
(TOLONG DI ISI DENGAN JUMLAH ANGGOTA)

[ ]

1.7. Tolong berikan perkiraan kasar mengenai jenis keanggotaan organisasi ini dalam persentasi total. (Definisi UKM: adalah perusahaan yang punya karyawan kurang dari 100) *(TOLONG DI ISI DENGAN PERSENTASI)*

%

Usaha kecil dan menengah (UKM).. [ ]

Perusahaan besar.. [ ]

Asosiasi lain... [ ]

Jawaban Lain. Jelaskan____

____

1.8. Apakah organisasi ini pernah memberi sanksi kepada anggota karena melakukan kesalahan? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)*

☐ Ya
☐ Tidak
☐ Tidak tahu

1.9. Kategori mana yang paling tepat untuk pendapatan kasar organisasi ini di tahun 2001? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)*

- ☐ Sampai Rp 10 juta
- ☐ Rp 10 juta - Rp 50 juta
- ☐ Rp 51 juta - Rp 100 juta
- ☐ Rp 101 juta - Rp 500 juta
- ☐ Rp 501 juta - Rp 1 milyar
- ☐ Di atas Rp 1 milyar

1.10. Tolong berikan perkiraan kasar sumber-sumber pendapatan organisasi ini menurut persentasi pendapatan total. *(TOLONG DI ISI DENGAN PERSENTASI)*

	%
Iuran anggota..	☐
Sumbangan dari pemerintah...	☐
Sumbangan dari lembaga-lembaga lain......................................	☐
Sumbangan dari anggota..	☐
Penghasilan organisasi...	☐
Sumbangan dari pengurus organisasi ini....................................	☐

Jawaban Lain. Jelaskan____

____

1.11. Apa aktivitas sehari-hari organisasi ini? *(TOLONG MEMBERIKAN DUA TANDA SILANG UNTUK AKTIVITAS YANG BIASANYA PERLU BANYAK WAKTU, DAN AKTIVITAS YANG PERLU SEDIKIT WAKTU MEMBERIKAN SATU TANDA SILANG, SERTA AKTIVITAS YANG TIDAK DILAKUKAN DIBIARKAN KOSONG)*

- ☐☐ Memberikan informasi untuk anggota
- ☐☐ Melobi pemerintah untuk mempengaruhi kebijakaan
- ☐☐ Melobi lembaga lain untuk kepentingan anggota-anggota (contoh: Media, organisasi bisnis, lembaga-lembaga internasional)
- ☐☐ Layanan tehnik atau managerial untuk anggota-anggota
- ☐☐ Layanan lain untuk anggota seperti menyediakan sertifikasi
- ☐☐ Pertemuan-pertemuan informal dan sosialisasi anggota
- ☐☐ Jawaban Lain. Jelaskan____

____

(2) Mengenai Hubungan Organisasi Anda Dengan Kadin

2.1. **Apakah organisasi ini merupakan anggota Kadin?** *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG. KALAU TIDAK, SILAHKAN LANGSUNG KE PERTANYAAN 3.1)*

- ☐ Ya
- ☐ Tidak
- ☐ Tidak tahu

2.2. Kira-kira sudah berapa kali selama 6 bulan terakhir organisasi ini berhubungan dengan Kadin Indonesia? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)*

- ☐ Tidak pernah sama sekali
- ☐ 1 - 5 kali
- ☐ 6 - 10 kali
- ☐ 11 - 20 kali
- ☐ 21 - 40 kali
- ☐ Lebih dari 40 kali

2.3. Menurut Anda, seberapa jauh Kadin Indonesia peduli terhadap kepentingan organisasi ini? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)*

- ☐ Tidak terlalu peduli
- ☐ Kadang-kadang peduli
- ☐ Sangat peduli

2.3. Dibandingkan dengan lima tahun lalu, bagaimana sekarang tingkat kepedulian Kadin Indonesia terhadap kepentingan organisasi ini? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA* SILANG)

- ☐ Kurang peduli
- ☐ Sama saja
- ☐ Lebih peduli

(3) Mengenai Hubungan Organisasi Anda Dengan Pemerintah

3.1. Apakah organisasi ini pernah berhubungan langsung dengan pemerintah?
(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG. KALAU TIDAK, SILAHKAN LANGSUNG KE PERTANYAAN 3.7)

- ☐ Ya
- ☐ Tidak
- ☐ Tidak tahu

3.2. Kira-kira sudah berapa kali selama 6 bulan terakhir organisasi ini berhubungan langsung dengann pemerintah di level di bawah ini?
(TOLONG MEMBERIKAN SATU TANDA SILANG UNTUK SETIAP LEVEL DI BAWAH INI)

	0 kali	1 - 3 kali	4 - 10 kali	11 - 20 kali	Lebih dari 20 kali
Level Menteri	☐	☐	☐	☐	☐
Level Direktorat Jenderal	☐	☐	☐	☐	☐
Level Pejabat Eselon 1	☐	☐	☐	☐	☐
Level Anggota Parlemen	☐	☐	☐	☐	☐
Level Pemerintah Daerah	☐	☐	☐	☐	☐

3.3. Untuk alasan-alasan apa organisasi ini pernah berhubungan dengan pemerintah pada Pertanyaan nomor 3.2? *(TOLONG MEMBERIKAN DUA TANDA SILANG UNTUK ALASAN-ALASAN YANG PALING SERING DAN SATU UNTUK ALASAN-ALASAN YANG RELEVAN SERTA ALASAN-ALASAN YANG TIDAK RELEVAN DIBIARKAN KOSONG SAJA)*

- ☐☐ Undang-undang
- ☐☐ Pemeriksaan barang
- ☐☐ Biaya transportasi dan listrik
- ☐☐ Tarif
- ☐☐ Undang-undang ketenagakerjaan
- ☐☐ Jawaban lain, jelaskan ____________________

____

3.4. Menurut Anda, seberapa jauh tingkat kepedulian para pejabat pemerintah terhadap masalah-masalah organisasi ini sekarang yang muncul? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)*

- ☐ Tidak terlalu peduli
- ☐ Kadang-kadang peduli
- ☐ Sangat peduli

3.5. Dibandingkan dengan lima tahun yang lalu, bagaimana sekarang tingkat kepedulian para pejabat pemerintah terhadap masalah organisasi ini? *(TOLONG PILIH SATU JAWABAN DENGAN TANDA SILANG)*

- ☐ Kurang peduli
- ☐ Sama saja
- ☐ Lebih peduli

3.6. **Menurut Anda, cara mana yang paling efektif bagi organisasi ini untuk mempengaruhi kebijakan pemerintah?** *(TOLONG MEMBERIKAN SALAH SATU ANGKA UNTUK SETIAP CARA DI BAWAH INI. DI MANA 1 = SANGAT TIDAK EFEKTIF, 2 = TIDAK EFEKTIF, 3 = CUKUP EFEKTIF, 4 = EFEKTIF DAN 5 = SANGAT EFEKTIF)*

- ☐ Hubungan langsung dengan menteri-menteri
- ☐ Hubungan langsung dengan petugas-petugas pemerintah
- ☐ Hubungan langsung dengan anggota-anggota DPR
- ☐ Menyelenggara konperensi pers
- ☐ Mengadakan demonstrasi
- ☐ Membuat koalisi dengan lembaga-lembaga lain
- ☐ Memberikan kesaksian depan komisi-komisi DPR releven
- ☐ Minta anggota-anggota organisasi Anda menghubungi departemen pemerintah
- ☐ Minta anggota-anggota organisasi Anda menghubungi anggota DPR
- ☐ Menghubungi Kadin
- ☐ Jawaban lain, jelaskan________________________________

____

3.7. **Menurut Anda, sejauh mana kelompok-kelompok dibawah ini mempengaruhi pembuatan kebijakan pada tingkat nasional di Indonesia?** *(TOLONG MEMBERIKAN SALAH SATU ANGKA UNTUK SETIAP KELOMPOK DI BAWAH INI. DI MANA 1 = PUNYA PENGARUH SANGAT LEMAH, 2 = PUNYA PENGARUH SIDIKIT, 3 = PUNYA PENGARUH CUKUP KUAT, 4 = PUNYA PENGARUH KUAT DAN 5 = PUNYA PENGARUH KUAT SEKALI)*

- ☐ Presiden dan anggota kabinet
- ☐ Pemerintah daerah
- ☐ Organisasi buruh
- ☐ Kadin
- ☐ Organisasi bisnis
- ☐ Media massa
- ☐ Kelompok konglomerat asing
- ☐ Kelompok konglomerat nasional
- ☐ IMF
- ☐ Universitas dan lembaga penelitian
- ☐ Anggota Parlemen
- ☐ LSM
- ☐ Militer
- ☐ Jawaban lain, jelaskan________________________________

____

Komentar Tambahan: ____

____

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____

Tolong kembalikan kuesioner ini dalam amplop berperangko terlampir atau kepada: Jl. Taman Bendungan Jatliluhur I/2, Bendungan Hilir, Jakarta Pusat.

Thank You Very Much For Your Help!

Appendix Three — Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Tirtamas Majutama	Contract for the sale and purchase of Tatun and Bontang return condensate	Hashim Djojohadikusumo; Titiek Prabowo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Arthindo (senget)	Sale and purchase of gas	Siti Hediati Harijadi Prabowo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Atlas Wire line logging	Electric Wire Logging services and data processing	PT. Bimantara (10%) - (Bambang Trihatmodjo)		2 tahun t.m.t 25-03-1997
Arsa Prawira	Supply of Zigler Fire Trucks	Siti Hediati Harijadi Prabowo & Sudwikatmono	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Dwi Pangga sakti Prima	Terminal LPG P. Jawa	Siti Hutami Endang Adiningsih	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Proposal
Manggala Krida Yudha	Installing of Premium tanks, Avtur and ADO Dumai Refinery	Siti Hutami Endang Adiningsih	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Finished
Artha Patra Abadi	Development of digital topographic system	Venche Mulzer; Siti Hediati Hariyadi (Head Commissioner)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Ganergi Gema Sukses	Contract for Manggis - Sanggaran Bali pipe project and Built & Rent (Depot Satelit A, Jakarta) project	PT. Ganesa Prima (52%); Aria Harjo Wibowo Sigit H (20%); Ida Bagus Oka SuryaPutra (8%); Ir. Ida Bagus Oka Indra Tenaya (20%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Both under construction
Pelayaran Nusantara Ekawasita Bahari	Sea transport to PLN Tambak Dorokf	Ari Haryo Sigit		
Indocokes Prima	Cooperation Operation	Sudwikatmono	Victim of Pertamina's tightening	

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Perkasa	(Kerja Sama Operasi) Calciner Green Coke Dealer		according to Prospektif source (27.3.00)	
Indobent Wijaya	Supply of chemical mud	Sudwikatmono	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Indo Acidatama (Aciotama)	Supply of Acetic Acid	Sudwikatmono	Cancelled (Suara Pembaruan 12.10.98)	
Tasikmadu	Sea transport: 1 container ship	Sudwikatmono (Commissioner)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Humpuss Pengolahan Minyak	Mining	Hutomo Mandala Putra	It has been taken over by IBRA in repayment of debts.	
Ariyo Seto Wijoyo	Mining	Sigit Harjojudanto		
Kujang United Catalysts	Energy	Sigit Harjojudanto		
Montrose Pestindo Nusantara	Energy	Sigit Harjojudanto		
Bima Kimia Citra	Energy	Sigit Harjojudanto		
Polychem Lindo Inc	Energy	Sigit Harjojudanto		
Multi Nitrotama Kimia	Energy	Sigit Harjojudanto		
Danapaints Indonesia	Paint factory	Sigit Harjojudanto; Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Active @1998
Daya Tatra Matra	Furuno agent (Communication	Siti Hediati Haryadi; Sudwikatomo	Victim of Pertamina's tightening according to Prospektif source	Active @1998

Appendix Three — Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
	equipment)		(27.3.00)	
Nusa Perkasa Permai	Shinko pumps agent	Sudwikatmono; Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Produk Indonesia	Conference and exhibition organisation for ASCOPE VI Jakarta Nov 1997	Thareq K. Habibie	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Golar Gas Cryogenic, Inc. (Liberian Corporation)	Transportation of LNG from Arun III project for export to Korea Gas Corporation	First Stage (1983): Indra Rukmana (97 shares); Bambang Trihatmodjo (97 shares); Rossano Barack (25 shares); M. Tachril (25 shares); P.F. Gontha (6 shares); PT. Samudra Petrindo Asia (250 shares) Total: 500 shares = 50%; Golar Gas Holding – 500 shares = 50% After restructuring (1994): Osprey Maritime PTE. Ltd. (owned by PT. SPA (10,10%); Delphi (4%); Winston Park (34,20%); Rigby (1,14%); Braemar (11,56%); Norbetina (1%); Public (38%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	

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Appendix Three **Soeharto-Related Contracts at Pertamina**

Company Name	Activities	Owner(s)	Status	Additional Details
Liquimarine Gandaria Chartering Co.Ltd. (Grand Cayman Corp.)	Transportation of LNG from Arun III project for export to Korea Gas Corporation	First stage (1993): Liquimarine Gandria Shipping (LGS) + Liqiumarine Gandria Chartering (LGC) – (100%); Fast Marine Service (0%) After 10 years: LGS + LGC (51%); Fast Marine Service (49%) (Samudra Petrindo Asia)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Already operational
MCGC II Incorporation (Liberian Corporation)	Transportation of LNG for export to MCGC – Japan (Osaka Gas, Hiroshima Gas dan Nippon Gas)	Humpuss Intermoda Trans. (Hutomo Mandala Putra) (45%); Nissho Iwai Corp. (11%); Mitsui OSK (44%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	The design and construction process at NKK shipyard, TSU – Jepang. Delivery due October 2000
Faraway Maritime Shipping Company, Ltd. (Liberian Corporation)	Transportation of LNG for Badak VI project to Chnese Petroleum Corp. Taiwan	Chinese Petroleum Corp. (40%); Golar Maritime (Asia) Inc. (20%) owned by Osprey Maritime Ltd.(Bambang Trihatmodjo); Oxbow Holding (40%) owned by Osprey Maritime (17%); Thorlow Investment Group (23%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	The design and construction process at NKK shipyard, Nagasaki-Japan. Delivery due 25 Desember 1999
Fast Marine Service	Sea transport: 1 container ship, 1 tug boat	PT. Samudra Petrindo Asia	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Elnusa Reka Bina	Improvement of refinery in terms of planning and scheduling; Data management package	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
Bukaka Artika	Installation of ADO and	Bambang Trihatmodjo	Bottlenecking operation: Victim of	Installation of ADO and Residue tanks at Dumai

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Permai	Residue tanks at Dumai; Strutural steel de-bottlenecking in Cilacap; Sports building development at LNG Train H Project		Pertamina's tightening according to Prospektif source (27.3.00)	is finished. Strutural Steel Debottlenecking in Cilacap still under construction. Sports building still under construction
Berca Indonesia	DCS de-bottlenecking system in Cilacap	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
Toyo Kanetsu Indonesia	Tangk for Train G Project	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
CBI	Tangk construction in Cilacap	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
Medcom/Elnusa	Apply 2000 UP VI	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
Datra	Terminal LPG P. Jawa	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Proposal
Bina Jasa Hatarindo	Terminal LPG P. Jawa	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Proposal
Tripolyta Indonesia	Cooperation project for the supply of Polypropelene and Propane	Sudwikatmono; Liem Sioe Liong	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Proposal
Samudra Petrindo Asia	LPG floating storage and offloading in Jawa	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Presentation
Bayu Pribumi Sakti	Extraction of LPG from natural gas for PT. Pupuk	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source	Proposal

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
	Kaltim		(27.3.00)	
East Java Power Plant	Sale and purchase of gas	PT. Pasuruan Power Company (Bambang Trihatmodjo)	Cancelled (Suara Pembaruan 12.10.98)	
Citra Kalimantan Energy	Sale and purchase of gas (MOU)	Bambang Trihatmodjo (Head Commissioner); Rossano Barack (Head Director)	Cancelled	
Bimantara Citra	Sale and purchase of Co2 (MOU)	Bambang Trihatmodjo (Head Commissioner); M. Taufik Arifin (Head Director)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Perta Oil Marketing	Sale and purchase of oil and refinery products	Hutomo Mandala Putra (through PT. Humpuss 25%); Pertamina (30%); YDPP (20%); M. Hasan (through PT. Nusamba) (25%)	Cancelled	The fee paid to Pertamina for it's services amount to US$ 36 million. (Info Bisnis, September 1998) Tommy sold his shares.
Arga mulya Buana Tirta	Supply of additive & catalyst	Hutomo Mandala Putra; Sudwikatomo	Cancelled	
Katalis Indopratama	Supply of additive & catalyst	Hutomo Mandala Putra	Cancelled	Kuntoro said that if this company couldn't offer a price lower than the new winner of a new tender then the contract would be cancelled (Bisnis Indonesia, 13.6.98)
Humpus Mini Refinery	Refinery project in cepu	Hutomo Mandala Putra	Cancelled	
Humpuss Trading	Supply of Purified Terephtalic Acid for a project in Cilacap; Sale and purchase of BBM.	Hutomo Mandala Putra	Cancelled	In process
Nusa Emas Baharu Putra	Supplying Tetra-ethyl lead	Hutomo Mandala Putra; Probosutedjo	Cancelled	
Permindo Oil Trading	Sale and purchase of oil and refinery products	Pertamina (35%); MINDO Petroloum Co (65%) (as at 25-5-1998 made up of	Cancelled	The fee paid to Pertamina for it's services amount to US$ 36 million. (Info Bisnis, September 1998)

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
		Bambang Trihatmodjo (14,1%); Sudwikatmono (20,6%); Indra Rukmana (14,1%); Nirwan D. Bakrie (10,3%); Syarief Sutardjo (7,6%); Mohammad Tachriel (7,1%); Rossano Barack (7,1%); Aminusal Amien (6,6%); Tony Chan (12,5%))		
Humpus Aromatic	Sale and purchase of condensate and oil	Hutomo Mandala Putra	Cancelled. According to Media Indonesia (10.10.98) the selling of BBM from Kilang Humpuss Aromatik is still going ahead because the price is a good one.	
Bima Artika Citra	Supply of chemical products agents e.g. octal, ethyl & navastan; Hitachi agent	Bambang Trihatmodjo; Indra Rukmana; Sumito Ibnu Hardjono	Cancelled	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken. The case is against this company for gasoline additive (OGP 2238).
Graha Centermine	Asphalt refinery development	Bambang Trihatmodjo	Cancelled	
Asia Pacific Petroleum (PT. APPRI)	Oil refinery project in Situbondo	Bambang R. Soagomo (10%); Bambang Trihatmodjo (40%); BJ. Kim (50%)	Cancelled	Still in negotiations as at 1998. Oil refinery construction project was probably put on hold with the economic crisis. (JP 18.7.98)
Bimantara Citra	Retrofit of instruments for Train A, B, C, D	Bambang Trihatmodjo	Cancelled	It has been 68% taken over by IBRA in repayment of debts.
Bima Intan Kencana	Catalyst refinery in PTA Plaju	Bambang Trihatmodjo	Cancelled	Presentation @1998
Pakartri Trimitra	Infrastructure development and maintenance	Ari Sigit	Cancelled	Proposal @ 1998
Panutan Selaras	Synthetic lubrication	Johnie Hermanto (95%);	Cancelled	Panutan Group holding company has Sigit

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Company Name	Activities	Owner(s)	Status	Additional Details
	refinery; Sale and purchase of Premix dan Super TT; Supplier of base oil; Cooperation project to blend lubricating oil at Cilacap; Monopoly on blending of lubricating oil for "Mega Oil" at LOBP Cilacap	Edwin Joanoes (2%); Johny Sepna (1%); Wiloeyono (2%)		Hardjojudanto as commissioner.
Menara Bumi	Chemical product agent e.g. Tetra-ethyl lead	Probosutedjo; Bambang Trihatmodjo & Indra Rukmana	Cancelled	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken. There are two cases against this company, one for additive to diesal oil and one for additive Hitec 4035.
Buana Ganda Perkasa	Oil refinery project in Probolinggo; Sale and purchase of private refinery products	Probosutedjo	Cancelled	Oil refinery probably put on hold as Krismon set in (JP, 18.7.98) Kontan writes that it doesn't look like this refinery is doing anything, eventhough last year it looked as though this was one of the refineries nearest to completion. (Kontan 20.7.98)
Yayasan Tiara	Old steel & iron utilization	Siti Herdiyati Hastuti Rukmana	Cancelled	
Mahoni Harapan	Supplying additive & catalyst	Sumito Ibnu Hardjono; Hutomo Mandala Putra	Cancelled and at the AGO.	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken.
Nusamba	Oil refinery project in Lombok	Bob Hasan	Cancelled	Presentation @1998
Tugu Pratama Indonesia	Insurance service for coverage at refineries	PERTAMINA (45%); Ydpp (20%); Nusamba (35%) (M. 'Bob' Hasan; Hutomo Mandala Putra)	Cancelled.	No tender when this company was given the contract. 70% of it's business comes from this contract with pertamina. Bob Hasan released his 35% shares at Tugu Pratama by transferring ownership to the Office of the Co-ordinating

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
				Minister for People's Welfare and Poverty Alleviation. Pertamina would like to take over these shares. Although Soegianto in 1998 said that Pertamina had these shares.
Yala Perkasa International	General work on Train Bontang	Siti Harijanti Rukmana	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction @1998
Citra Janesia Persada	Transportation	Siti Harijanti Rukmana	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Citra Utama Persada	Transportation	Siti Harijanti Rukmana	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Citra Patenindo NusaPratama	Cooperation project to enhance oil recovery in Abab, Raja, Dewa & South Sumatra fields	PERTAMNA (50%); Citra Patenindo Nusa Pratama (12,5%) (Siti Hardiyanti Rukmana); HED (37,5%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Duration of contract is 15 years from 5-6-1993. Already in production from 23-4-1994
Citra Sarana Bahari	Asphalt agent	Head Commissioner: Siti Hardiyanti Rukmana (35%); Commissioner: Indra Rukmana (20%); Commissioner: Joezak Joesfar (5%); Commissioner: Bambang Prajitno S (5%); Head Director: Paula Ayustina (5%); Siti Hediati Hariyadi Prabowo (10%); Siti Hutami Endang Hendro adiningsih P (10%); Sofyan Harto (5 %); Fatona Basuki (5%)	Cancelled	There are a total of 21 asphalt agents
Energi Sengkang	Sale and purchase of gas	Siti Hardiyanti Rukmana (Head Commissioner); Paul Edward (Head Director)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	

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Company Name	Activities	Owner(s)	Status	Additional Details
Bali Energi	Construction of natural heat project in Bedugul, Bali	California Energy (90%); Mahaka Elektrik Nusantara (10%) (Sigit Hardjojudanto)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	PLTP Unit 1,2 under investigation and Unit 3,4 delayed according to Keppres No. 5/1998
Pandanwangi sekartaji	Construction of Satelit A depot, Jakarta; Construction of Depot B at Serang for BBM	Sigit Hardjojudanto (60%); Johnie Hermanto (40%)	Depo 'B' at Serang for BBM cancelled in 1998. To be continued by Van der Horst. Built and rent depot project: Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
El Nusa	Provision of seismik survey, logistic base, and marketing of premix	Bambang Trihatmodjo		Kuntoro said that there would be a new tender and if necessary Pertamina would sell it's shares in Elnusa. (Kompas, 10.6.98)
Chandra Asri	Sale and purchase of Naptha	Bambang Trihatmodjo; Prayogo Pangestu	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
IKPT (Inti Karya Perkasa Teknik)	Bontang Project LNG Train E,F,G,H. Bontang	Bambang Trihatmodjo; Bob Hasan	Bob Hasan's shares of 7.8% are to be released but not yet clear who will be buying them. Perhaps Pertamina. IKPT denies any mark-up, saying they have been checked by international auditors, Merlin Associates USA. Some of these, such as Train F, have already been finished and have worked for many years. Mentamben says that IKPT's special facilities for building Kilang Gas Proyek Tangguh in Irian Jaya are withdrawn and will be tendered openly. (Suara karya, 10.12.98) Victim of Pertamina's tightening according to Prospektif source (27.3.00) Building of oil refinery in Tangguh has been cancelled (Republika, 10.12.98)	Appointment not through open tender. Proyek LNG train E, F, G is already completed. LNG Train H is under construction. LNG Train I is at the proposal stage and highly likely to be re-tendered (Prospek, 15.6.98) Out of all the trains for LNG, the only one which can possibly be cancelled is train I because it is the only one where work has not yet begun (Kontan, 5.10.98)

Appendix Three — Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Samudra Petrindo Asia	Transportation of LNG for export from Arun III Project, Aceh: 22 tankers and tug boats	Indra Rukmana; Bambang Trihatmodjo	Oil transport operation: victim of Pertamina's tightening according to Prospektif source (27.3.00) One of the 4 contracts with tankers said by Prospektif to be continued by Pertamina. (Prospektif, 7.2.00)	
Atlantic Richfield Bali North (ARBNI)	Offshore production sharing contract at Kagean Selat, Madura	A.R. Bali North Inc. (54%); B P Exploration (Kangean) Ltd (36%); PT. Citraduta Samudra 10% (Bimantara Group)	BP acquired Arco in 2000 and Bimantara gave up it's 10% to BP. Atlantic Richfield Bali North changed it's name to BP Kangean. (Tempo, 6.5.02) KPS onshore, which was also managed by ARBNI, was also bought out. (Data Consult, 23.11.98) Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Term of contract to run 30 years from 14-11-1980. The Indonesian government is now left with a contract which is biased towards BP, because it was Bimantara who originally negotiated it. (Tempo, 6.5.02)
Citraduta Samudra	Offshore production sharing contract at Sepanjang, Jawa Timur	ARMEI (Bambang Trihatmodjo) (54%); British Gas (36%) PERTAMINA (37,5%)	Cancelled in 1999 (Petroleum Report 2001, US Embassy, Jakarta)	30 year contract from 17-02-1995
Genindo Western Petroleum PTY.LTD	Offshore production sharing contract at Simenggaris Blok, Kalimantan Timur	PT. Genindo Citra Perkasa (9,375%) (Bambang Trihatmodjo); Western Petroleum PTY. Ltd. (53,125%); Lapindo Inc. (45%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	30 year contract from 24-02-1998
Overseas Petroleum and Invesment Corp (OPIC)	Offshore production sharing contract at Peudada Blok, Aceh.	Opic Peudada Corp. (32,5%); TBE (35%) (Bambang Trihatmodjo); Mobil Peudada (32,5%)	Cancelled in 1999 (Petroleum Report 2001, US Embassy, Jakarta)	30 year contract from 08-05-1996
Treasure Bay Enterprise (TBE)	Offshore production sharing contract at Peudada Blok, Aceh.	Bambang Trihatmodjo	Cancelled in 1999 (Petroleum Report 2001, US Embassy, Jakarta)	
Tranjaya Pipe	Pipe Project at Kangean,	PT. Bimantara Citra (49%);	No longer active, BP has taken over	This work has now been completed. Wall Street

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Company Name	Activities	Owner(s)	Status	Additional Details
Line	Selat Madura	PT. Tranco (28%); YDP Pertamina (10%); YDP PLN (5%); YDP BDN (3%); PT. Adhi Raksa Tama (5%)	Bimantara's shares. (Tempo, 6.5.02)	Journal estimated in 1998 that the project was marked up by US$150 million.
Pasada Pemunah Limbah Industri	Management of B-3 pipes	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Completed
Elnusa Terbuka	Seismic surveys, logistic base, telecommunications, elektronics, computers, construction and marketing of BBM (premix)	Pertamina (51,5%); PT. Tri Daya Esta (48,5%) (Bambang Trihatmodjo & legislator Indra Bambang Utoyo)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Kuntoro said that there would be a new tender and if necessary Pertamina would sell it's shares in Elnusa. (Kompas, 10.6.98)
Primantara Persada	Upgrade of fire extinguishing network of pipes at Balik Papan	Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Completed
Cometco Shipping (Liberian Corporation)	Transportation of LNG for export from Badak III Project, Kalimantan Timur	PT. Humpuss (95%); Mitsui OSK (5%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Already operational
Bermis Sarana Wisma	Sale and purchase of gas	Praptono H. Hupojo; Ari Haryo Sigit H	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Huffco Brantas Inc/PT. Sarimbi Menur Sari (Opn. Lapindo Brantas Inc.)	Production sharing contract of onshore-offshore Brantas Block, Jawa Timur	Novus Indonesia Brantas Coy (45%); PT. Sarimbi Menur Sari (10%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	30 year contract from 23-04-1990
Nusamba Energy Pratama/PT. Unocal Ganal Ltd.	Production sharing contract offshore at Block Ganal, Kalimantan Timur	PT. Unocal Ganal Ltd. (90%); M. Hasan/Yayasan Dharmais (10%)	The 10% shares have been taken over by Unocal (Bisnis Indonesia, 24.11.98)	30 year contract from 24-02-1998

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Company Name	Activities	Owner(s)	Status	Additional Details
Unocal Rapak Ltd. PT. Nusamba Kaltim Pratama	Production sharing contract offshore at Block Rapak, Selat Makasar	Unocal Rapak Ltd.(90%); PT. Nusamba Kaltim Pratama (10%) (M. Hasan/Yayasan Dharmais)	The 10% shares have been taken over by Unocal (Bisnis Indonesia, 24.11.98)	30 year contract from 04-12-1998
Ustraindo Petrogas Pendopo	TAC at Block Pendopo, Sumatera Selatan	Praptono H. Hupojo (Close Soeharto colleague)	Cancelled in 1995 and at the AGO.	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken. Contract was signed on the 23-02-1993 and terminated on the 20-09-1995
Genindo EPS Petroleum	TAC at Lapangan Sembakung, Kalimantan Timur	PT. Genindo Citra Perkasa (35%) (Bambang Trihatmodjo)	According to Bimantara Bambang does not own any shares in this company anymore. (Kontan 5.10.98) Victim of Pertamina's tightening according to Prospektif source (27.3.00)	20 year contract from 22-12-1993 and already in production from 1-5-1994. Genindo were brought in to increase the production capacity of this oil field, but actually it didn't need it. The case was going to be brought to court but then just disappeared. (Kontan 5.10.98)
Ustraindo Petrogas Prabumulih	TAC at Area Prabumulih, Sumatera Selatan	Praptono H. Hupojo	Cancelled in 1995.	Contract signed on the 27-02-1993 and terminated on the 20-09-1995
Ustraindo Petrogas Jatibarang	TAC at Area Jatibarang, Jawa Barat	Praptono H. Hupojo	Cancelled in 1995 and at the AGO.	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken. This company has two cases against it. Contract signed on the 27-02-1993 and terminated on the 20-09-1995
Ustraindo Petrogas Bunyu	TAC at Bunyu Kalimantan Timur	Praptono H. Hupojo	Cancelled in 1995 and at the AGO.	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken. Contract signed on the 31-12-1992 and terminated on the 20-09-1995
Goden Spike Energy Indonesia Ltd.Yayasan Garda Dharma		PERTAMINA; Golden Spike Energy Ind.Ltd.; Yayasan Garuda Dharma Nusantara		

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Company Name	Activities	Owner(s)	Status	Additional Details
Nusantara (KOBAME)				
Mandala Nusantara (MNL), Wayang Windu Jawa Barat	Natural heat production at Total Project (JOC & ESC), Wayang Windu, Jawa Barat	Asia Power (90%); Pengalengan Bumi Mandala Perkasa (10%) (Hutomo Mandala Putra)	Cancelled	Unit 1 (110 MWE) is proposed to go into production in April 1999. Unit 2 (110 MWE) is proposed to go into production in November 1999
Bumi Mandala Perkasa	Natural heat production at Total Project (JOC & ESC), Hulu Lais	Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Contract not yet signed
Unocal Geothermal of Indonesia, Ltd.	Natural heat production (JOC & ESC) at Salak, Jawa Barat	Lapangan Uap Unit 1, 2, 3: UGI (90%); Nusamba Geothemal (10%) (M. Hasan) PLTP Unit 4, 5, 6: Daya Bumi Salak Pratama/UGI (90%) (M. Hasan); Nusamba Geothemal (10%) (M. Hasan)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Contract signed on the 16-11-94. The project is made up of 6 units: Unit I, II, III & IV sell steam and Unit IV, V & VI sell electricity. To build units IV,V,VI PT. Daya Bumi Salak Pratama was formed in order to secure bank loans
Unocal North Sumatera Geothermal Ltd.	Natural heat production (JOC & ESC) at Sarulla, Sumatera Utara	Unocal North Sumatra (90%); Parama Geo Power (10%) (M. Hasan)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Contract signed on the 27-02-93; Project still under construction
Dayabumi Lumut Balai	Natural heat production (JOC & ESC) at Lumut Balal, Sumatera Selatan	PT. Dayabumi Lumut Balai (M. Hasan); Unocal South Sumatera Geothermal Company	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Contract not yet signed
Indah Pertiwi Mitra Sejati	SPBU 34.0311; SPBU 34.0431 Pondok Indah; SPBU 340521	Yayasan Taman Mini Indonesia Indah	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Perorangan	SPBU 340522 Toll Jakarta – Merak	Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Humpuss	Transport of Premix; Sale	Hutomo Mandala Putra	Premix and Super TT and lubricant	

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Company Name	Activities	Owner(s)	Status	Additional Details
Trading	and purchase of Premix and Super TT; Special agent for lubricant for Timor car; Supplier producer of pure methanol; PTA agent; SPBU 34.0736 Ciawi, Bogor		for Timor car contracts are cancelled. (Prospektif 27.3.00)	
Personal Involvement	SPBU 44.0630 Kabupaten Sleman	Bambang Trihatmodjo		
Personal Involvement	SPBU Taman Bunga Jonggol	R. Noto Suwito (Soeharto relative)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
Mekarsari	SPBU Cikampek	Siti Hutami Endang Adiningsih	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction
Mandala Pratama Permai	Sale and purchase of Premix and Super TT; Supplier of base oil; Partner in lubricant blending operation at Cilacap; Monopoly toll charged for lubricant blending for "Mega Oil" at LOBP Cilacap; SPPBE at Sawangan Bogor; Sale and purchase of "Avtur"	Yayasan Harapan Kita (Johnie Hermanto (95%); Edwin Joanoes (2%); Johny Sepna (1%); Wiloeyono (2%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Panutan Group holding company has Sigit Hardjojudanto as commissioner.
Sempati Air	Sale and purchase of "Avtur"	Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	

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Company Name	Activities	Owner(s)	Status	Additional Details
Hanurata Coy	T.m.t. 30-03-1988 under police investigation for falsifying lubricant at Tangerang	Yayasan Harapan Kita (50%); Yayasan Platu Trikora and Yayasan Bantuan Bea Siswa (50%)	Pemegasan barang Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Sarana Sirkuitindo Utama	Principal sponsor at the Sentul Racing Circuit, Bogor in exchange for a promotion package including installing billboards inside and outside the circuit	Head Commissioner: Hutomo Mandala Putra; Commissioner: Nugroho Joko P., Ir Rafiq Hakim; Head Director: Tinton Suprapto	Cancelled	Already operational for four years
Timor and PT. Humpuss	Construction and sale of mesran Timor	Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Graha Centermine	Pipe project in Jawa	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Pending PKLN
Tri Hasra Binanusa Tunggal	Plans to build an outside media room for promotion at Areal SPBU	Siti Hardiyanti Rukmana	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Artha Bangun Nusantara	Bunker transportation service at Tanjung Priok	Head Commissioner: Ari H. W. Sigit; Head Director: Venche Mulzer	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Multi Wahana Wijaya	Transport by sea to PLN Muara Karang and Senggaran	Head Commissioner: Sutinah Djuhron S (95%) (Close contact of Tien Soeharto)		
Gading Cakra Loka	Transport by sea to PLN Muara Karang	Sutinah Djuhron S (60% shares) (Close contact of Tien Soeharto)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Insani Baru	Bunker transportation service at Tanjung Priok	Ibnu Widodo (53% shares) (Close contact of Tien Soeharto)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	

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Company Name	Activities	Owner(s)	Status	Additional Details
Pelayaran Nusantara Ekawasita Bahari (PNEB)	Transport of BBM to PLN	Ari sigit (60% shares)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Daya Nusa Gading	Transport of BBM to PLTD Pesanggaran and PLTGU Grati	Sutinah Djuhron S (60% shares) (Close contact of Tien Soeharto)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Kemusuk	Bunker transportation service at Tanjung Perak	Sutinah Djuhron S (60% shares) (Close contact of Tien Soeharto)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Kemusuk Jaya Karya	SPBB	Sutinah Djuhron S (25%); H. Amir Arifin Tan Sri Malayu (25%); Noto Karyo (25%); H. Aliah Rahayu Nitisasmito		
Wahana Sari Sakti	Transport by sea to PLN Limo & D. Pontianak; PSPD/KPN Sanggau & Ketapang	Ratnawati Sigit H. (60% shares)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Daya Tata Matra	Transport of BBM to SPBU in wilayah UPPDN III	Head Commissioner: Siti Hediati Hariyadi (54% shares)	Buying of ship parts cancelled (Suara Pembaruan 12.10.98) Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Marina Sindang Laut	SPBU 34.0130	Hutomo Mandala Putra (90%); Benny Rachmat (10%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Perorangan	SPBU 44.0514; SPBU 44.0627	Sutini Seger Sudrajat		
Mekar Unggul Sari	SPBU	Yayasan Purna Bhakti Pertiwi (100%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Under construction

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Company Name	Activities	Owner(s)	Status	Additional Details
Granadi	Agent for the domestic supply of "Enomoto Srikandi Drum Closure"	Yayasan Super Semar (20%); Yayasan Dharmais (20%); Yayasan Dakab (20%); Yayasan Amal Bhakti Muslim Pancasila (10%); Purna Bhakti Pertiwi (10%); Yayasan Tabungan Pegawai Pertamina (20%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	There are 2 drum closure agents
Kem Gas Tama	Supply and production of aluminium LPG tanks	M. Hasan (70%); YDPP (30%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Policontinqo Nusa	Producer of Kosdong drums	PT. Suwantra Indah Supply (80%) (Head Director: Anthony Salim); Dino Sudrajat (20%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Masullagung Garbhamas	SPPBE in Lampung	Bambang Siswanto (5%); Ir. Ketut Suardhana Linggih & Gde Sumardjaya Linggih (65%); Tubagus Muhammad Sulaeman & Ny. H. Martini Nita Karyadi (30%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Karsa murni CS	Sulphur agent; Asphalt drum agent	Head Commissioner: Hendro Angesti (34%); Commissioner: Elleen Widjaya (13%); Head Director: Wakito Purwana (20%); Director: Aris setyanto Nugroho (33%) (Cousin of Soeharto)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	There are a total of 2 agents for sulphur and a total of 39 asphalt drum agents
Yoso Mulyo Jajag	Sulphur agent; Coke agent	Head Commissioner: Bambang Koentjoro (33%); Commissioner: Siti		There are a total of 2 agents for sulphur and 3 coke agents

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Company Name	Activities	Owner(s)	Status	Additional Details
		Rochmani Soeharmojo (relative of Ibu Tien Soeharto); Karyono R (27%); Head Director: Ina Lakolollo; Director: Raden Tumenggung Harjo Begug (40%)		
Tricipta Buana Karsa	PTA agent; Minarex agent; Parafinic agent; LAWS,SSP agent; Minasol agent; Pertasol agent	Head Commissioner: Ellen Widjaya (17,5%); Commissioner: Noek Bressina (17,5%) (Soeharto sibling); Essy Kurniasih Adiriana (17,5%); Adiguna Sutowo (12,5%); Director: Waskito Purwana (3,5%)		Total number of PTA agents = 3; Total number of Minarex agents = 16; Total number of Parafinic agents = 17; Total number of LAWS,SSP agents = 17; Total number of Minasol agents = 12; Total number of Pertasol agents = 22
Pelumas Tasulindo Perdanan	LOBP JOVEN in Ujung Pandang	Pertamina (40%); CPC (30%); PT.Graha Centemine (30%) (Bambang Trihatmodjo)		
Wiraswata Gemilang Indonesia	Provision of lube base oil ingredients through PERTAMINA	Chairman Sudwikatmono; Head Director: Ibrahim Risyad		
Dirga Buana Sarana	Provision of lube base oil ingredients through PERTAMINA	Noek Brissina Soeharjo (25%); Drs. Poerwanto (12,5%); Drs. Ciptadi (12,5%); Nugraha Tresnadi (12,5%); H. Soekarno (10%); Ong min Jam (30%)		

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Company Name	**Activities**	**Owner(s)**	**Status**	**Additional Details**
Pandanwangi sekartaji	Principal sponsor at the Sentul Racing Circuit, Bogor in exchange for a promotion package including installing billboards inside and outside the circuit	Sigit Hardjojudanto (60%); Johnie Hermanto (40%)		Already operational for 4 years
Pacific Petroleum Trading	Along with Perta and Permindo, one of the companies most involved in buying BBM and it's products.	Pertamina 50%; Cendana companies (50%)	Cancelled	
Dharma Satrya Arhsento (Datra)	Natural heat at Ulu Belu Lampung	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	At the MOU stage with PERTAMINA
Golden Spike South Sumatera Ltd.	Production sharing contract JOB onshore at Pasiriaman Sumatera Selatan	PERTAMINA (40%); Golden Spike Energy ind. Ltd.; Yayasan Kobame	This is still an active oil contract according to Petroleum Report 2001, US Embassy, Jakarta. Victim of Pertamina's tightening according to Prospektif source (27.3.00)	30 year constract from 24-02-1998
Artnindo (Sengeti)	Sale and purchase of gas	PT. Daya Tata Matra (Siti Hadiati Hariyadi)		Proyek BPPT:BJ Habibie
Pacific LNG Transport	Transport for export of LNG to fulfill the following contracts: 1994-1998 : MOA, Korea; 1998-1999: Badak VI, Taiwan; 2000-2009: Ext since 1973, Japan	Humpus (75%); Yayasan Dana Pensiun PTA (20%); Yayasan Krida Caraka Bumi (5%) MNN – Holdings – (30%); Nippon Yusen (37,5%); Nissho Iwai Corp. (25%); Mitsui OSK (33,5%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Already operational

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Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
MCGC International (Bahamas Corporation)	Transport of LNG for a contract with MCGC-Jepang.	Nissho Iwai (18,2%); Mitsui OSK (72,7%); Humpuss Inc. (9,1%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Already operational
Humpuss Patra Gas	Technical cooperation contract (TAC) Onshore in East Jawa; Gas and oil exploration at Tuban Bojonegoro and Cepu.	Ampolex (Cepu) PTY Ltd. (49%) (Hutomo Mandala Putra); PT. Nusamba Energy (10%)	Because Humpuss Patra Gas (HPG) was unable to meet it's cash calls, in March 1999 the Minister of Mining and Energy, along with Pertamina, permitted the company to sell all it's shares to Mobil in an effort to settle Humpuss Group debts. HPG officially left the Cepu block in July 2000 and it's operator rights were transferred 100% to Mobil. (Tempo, 7.5.01) HPG got an estimated US$100 million from the deal. Now Pertamina has a 10% stake in the oil field after asking for it from ExxonMobil because they had been forced to give it up to HPG before. (FEER, 30.5.02)	20 year contract from 03-08-1990. Tommy sold his shares in 2000 and the Cepu oil block is now controlled by ExxonMobil. It has been taken over by IBRA in repayment of debts.
Mandala Nusantara	Natural heat total project at Wayang Windu Pangalengan, West Jawa	Hutomo Mandala Putra (20%)	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Joint venture between Magua Power and PT. Okha Hutomo Satya. Under construction
Mandala Manguna Nusantara	Natural heat	Hutomo Mandala Putra		
Kaltim Methanol Industri	Sale and purchase of gas	Head Commissioner: Hutomo Mandala Putra; Head Director: Abdul Wahab	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Humpuss Intermoda Transportasi	Tanker transport service	PT Humpuss (83.55%) (Hutomo Mandala Putra)	Renegotiations of the contract. (Suara Pembaruan 4.9.98) Their marketing will be curtailed (Prospektif, 27.3.00) Victim of Pertamina's tightening according to Prospektif source (27.3.00) One of the 4 contracts with tankers said by Prospektif to be continued by Pertamina. (Prospektif, 7.2.00)	Humpuss Intermoda Transportasi (HIT) has contracts with Pertamina to transport liquified natural gas (LNG) from Indonesia to Japan. (Backman, Asian Eclipse, p.284) HIT has a fleet of 12 tankers chartered to Pertamina. The fleet contributed 70% of the company revenue. (JP 12.5.99) Tommy still has his shares in this company. The company has a long term contract with pertamina until 2009. (Tempo, 13.5.02) The Dwiputra tanker is leased to Pertamina for a charge of US$ 84,931 per day, about $10-15 thousand more than others according to PWC. Now this contract is being renegotiated and the Humpuss ownership of the tanker transferred to Mitsui. HIT has 12 tankers, 8 of which are leased to Pertamina (Prospektif, 27.3.00)
Senawangi freight Forwarder	Freight Forwarder	Hutomo Mandala Putra	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Dwipangga Sakti Prima	Sale and purchase of gas	M. Rizai Cholid; Siti Hutami Endang Adiningsih	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
Triharsa Bima Nusa Tunggal	BBM pipe project from Cilacap to Balongan (not fully completed); Pipe project from Yogya to Semarang	Siti Hardijanti Rukmana	Cancelled due to lack of funds to complete. Pipe line projects cancelled. Couldn't get foreign credit. New tenders will be made (Kompas, 3.11.98)	One of the 9 companies whose corruption case has entered into the police investigation stage at the AGO @ March 2002 no further action taken. The case against this company is for a pipe project in Java. The cost of the project has dropped by US$60 million since it has been retendered. (Bisnis Indonesia 21.8.00)

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Inti Karya Perkasa	Oil refinery	Sigit Harjojudanto		Appointment without tender.
Trans Java Gas P	Gas pipe network	Bambang Trihatmodjo	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	Special facilities: monopoly.
Sumber Cipta Karya Bhakti	Supply of LPG tanks	Yayasan Dakab (60%); Soeroso Soemopawiro (40%)	Cancelled. Should have ran until June 1999 but was cancelled one year early.	Special facilities: monopoly. A report was given to Mentamben Kuntoro in July 1998 from an anti-corruption NGO (KMPK) which alleged that this company received it's contract without an open tender. Kuntoro said he would look into it. They said that Pertamina was buying katup tabung at 3 to 4 times the market price because of the monopoly that this company has. (Bisnis Indonesia, 25.7.98) They have had the monopoly since 1987.
Transwee		Erry PO (relative of Tien Soeharto)		Alleged mark-up and not in accordance with stated specifications. Estimated to loose Pertamina US$ 800 million per day
Permindo Perlak	Enhanced Oil Recovery in Perlak field, North Sumatra.	Bambang Trihatmodjo	According to Petroleum Report 2001, US Embassy, Jakarta, there is still a contract.	Was one of the three trading companies established by Permindo for processing oil products. Registered in the Cook Islands. (Tempo, 18.2.02)
Elnusa Patra Tecknical	Contract to enhance oil refinery	Pertamina (51,5%); PT. Tri Daya Esta (48,5%) (Bambang Trihatmodjo & legislator Indra Bambang Utoyo)	Cancelled	Kuntoro said he would abolish the monopoly given to El Nusa for the maintenance of refineries. El Nusa is involved in oil and gas exploration, telecommunications, refineries etc. but the maintenance of refineries generates most of its revenues at Rp 170 billion annually (JP 11.7.98). Considered a subsidiary of Pertamina because of the share ownership. (Pertamina only has 5 subsidiaries)

Appendix Three Soeharto-Related Contracts at Pertamina

Company Name	Activities	Owner(s)	Status	Additional Details
Pusat Minyak Indonesia Timur	The construction of a refinery in Lombok.	Partly owned by Bob Hasan	The economic crisis put the construction on hold. (JP, 18.7.98) Kontan writes that it doesn't look like this refinery is doing anything, eventhough last year it looked as though this was one of the refineries nearest to completion. (Kontan 20.7.98)	
Medco Energy Corp	Natural heat	Arifin Panigoro	Victim of Pertamina's tightening according to Prospektif source (27.3.00)	
PT Manggala Citra	Container transport	Affiliation with Tantyo A.P. Sudharmono	One of the 4 contracts with tankers said by Prospektif to be continued by Pertamina. (Prospektif, 7.2.00)	
PT Bumi Indonesia Tanker	Container transport	Affiliation with Siti Hutami Endang Adiningsih/Mamiek Soeharto	One of the 4 contracts with tankers said by Prospektif to be continued by Pertamina. (Prospektif, 7.2.00)	

Sources: Suara Karya, 11.7.98; Prospektif 27.3.00; Suara Pembaruan 12.10.98; Media Indonesia 10.10.98; Suara Karya, 10.12.98; Republika, 10.12.98; Prospektif, 7.2.00;Tempo, 6.5.02; Data Consult, 23.11.98; Petroleum Report 2001, US Embassy, Jakarta; Bisnis Indonesia, 24.11.98; Kontan 5.10.98; Tempo, 7.5.01; FEER, 30.5.02; Suara Pembaruan 4.9.98; Kompas, 3.11.98; JP, 18.7.98; Kontan 20.7.98; Warta Ekonomi, 4.8.98; JP, 8.3.01; Info Bisnis, September 1998; Bisnis Indonesia, 13.6.98; JP 18.7.98; Kompas, 10.6.98; Prospek, 15.6.98; Tempo, 6.5.02; Backman, Asian Eclipse, p.284; JP 12.5.99; Tempo, 13.5.02; Prospektif, 27.3.00; Bisnis Indonesia 21.8.00; Bisnis Indonesia, 25.7.98; Tempo, 18.2.02; JP 11.7.98; Data Consult, Indonesian Oil and Gas Industry, 2000, p.239.

Appendix Four The 27 Private Electricity Projects

Project Name	Shareholders	Foreign Partner	Local Partner	Cost (US$ Millions)	Original Rate of Sale (USc/kWh)	New Rate of Sale (Usc/kWh)	Status @ beginning of 2002
PLTU Paiton Swasta I, East Java	1. Mission Energy (40%) 2. Mitsui & Co (32.5%) 3. General Electric (12.5%) 4. PT. Batu Hitam Perkasa (15%: Hashim Djojohadikusumo)	1. MEC Indonesia B.V. 2. Paiton Power Inc. Co. Ltd. 3. Capital Indonesia Power 4. ICV	1. PT Batu Hitam Perkasa (Catur Yasa; Kusumo; Agus Kartasasmita) 2. Tirtamas (Hashim Kusumo) 3. Swabara Bumi	2,500	Year 01 -06: 8.47. Years 07 - 12: 8.27. Years 13 - 30: 5.45.	4.93 plus PLN must cover arrears and the take or pay clause is still in effect. If the arrears payment is taken into consideration, the price per kWh rises to 6.62c.	New contract approved as at April 2002. The length of Paiton I's contract has been extended by another 10 years as part of the new contract. The arrears payments amount to US$4 million per month for 30 years, totaling US$1.44 billion. PLN had to pay Paiton I US$115 million for the period March - December 2000, despite the fact that PLN only used 30-50% of Paiton I's capacity in that year.
PLTU Paiton Swasta II, East Java	1. Siemens AG (50%) 2. Power Gen Overseas Holding Ltd. (35%) 3. PT. Bumi Pertiwi Tatapradipta (15%: Bambang [illegible]	1. Jawa Power Holding 2. Ergon Energy Ltd	PT. Bumi Pertiwi Tatapradipta (15%: Bambang Trihatmodjo)	1,980	Years 01-30: 6.6.	4.68	New contract approved as at April 2002.
PLTGU Pasuruan, East Java	1. Enron (50%) 2. Prince Holding Ltd. (25%) 3. PT Pasuran Power (25%)	1. Enron Jawa Power	1. Prince Holding Ltd. 2. PT Pasuran Power (Bambang T. Atmodjo, Ibrahim Risyad, Johannes Kotjo)	525	Years 01-20: 5.7		Cancelled. PLN is facing a claim similar to that of OPIC for Enron's investment in PLTGU Pasuruan. MIGA, an insurance company, paid $15 million in insurance protection for Enron.
PLTU Tanjung Jati A, Central Java	1. National Power (30%) 2. Tomen Power Corp. (Asia) Ltd (30%) 3. PT Bakrie Power Corp. (20%: Aburizal Bakrie) 4. PT. Maharani Paramita (20%: Titik Prabowo)	1. National Power Co. 2. Tomen Power Co.	1. PT Bakrie Power Corp. (20%: Aburizal Bakrie) 2. Maharani Paramitra (20% Siti Rukmana; Hendro Yardianto)	1,660	5.74		Contract has been cancelled by agreement between both parties. No compensation was paid or demanded. But the develpoers have been given priority if PLN need another project of this type in the next 5 years.
PLTU Tanjung Jati B, Central Java	1. Hopewell Holding (80%) 2. PT. Impa Energy (20%: Djan Faridz; Siti Hardiyanti Rukmana)	1. Tubanan Power Ltd. 2. Tosplant Eng. Indonesia 3. TJ Construction (BVI) Ltd. 4. Indonesia Slip Form	PT. Impa Energy (20%: Djan Faridz; Siti Hardiyanti Rukmana)	1,620	5.73		New contract approved as at April 2002. Tanjung Jati B has been taken over completely by the Japanese giant Sumitomo. They bought out PT HIPower Tuban as the local partner. Construction expected to be completed by 2004.

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Appendix Four	The 27 Private Electricity Projects						
Project Name	**Shareholders**	**Foreign Partner**	**Local Partner**	**Cost (US$ Millions)**	**Original Rate of Sale (USc/kWh)**	**New Rate of Sale (Usc/kWh)**	**Status @ beginning of 2002**
PLTU Cilacap, Central Java	1. Mitsubishi Corp (37.5%) 2. Duke Energy Group (37.5%: Bambang Trihatmodjo) 3. PT. Bimantara Citra (15%) 4. PT. Kanugrahan Kartika Perkasa (10%: TNI	1. Mitsubishi 2. Duke Java Inc	1. PT. Bimantara Citra (Bambang T) 2. PT Kenugrahan Kartika Perkasa (TNI foundation)	677	6.35		Renegotiations
PLTU Cilegon, West Java	1. Ansaldo Energia SpA (45%) 2. Sachen Holding B.V. (45%) 3. PT. Energi Cipta (10%: Salim)	1. Ansaldo Energy 2. Sachen Holding BV	PT Energy Cipta (Salim Group)	584	6.06		Renegotiations
PLTU Sibolga A, North Sumatra	1. PT. Transmega Ekacipta Corp (90%) 2.Putradharma Harmoteknic (5%) 3. Soebiakto Prawira Soebroto (5%)		PT. Transmega Ekacipta Corp (Soebiakto Prawira Soebroto; Putradharma Harmoteknic;brahim Risjad; A Ramli; Subiakti P.S; Made Putra Jandana; Nyoman Oke Dharmayoga)	299	6.55		New contract approved as at April 2002.
PLTA Asahan I, North Sumatra	1. PT. PLN PJB-II (25%) 2. PT. Tridaya Esta (15%) 3. PT. Bajragraha Sentranusa (10%) 4. PT. Duta Graha Indah (50%)		1. PT. PLN PJB-II (25%) 2. PT. Tridaya Esta (Bambang Trihatmodjo:15%) 3. PT. Bajragraha Sentranusa (10%) 4. PT. Duta Graha Indah (50%)	475	Years 01-15: 7.68. Years 16-30: 3.46		
PLTU East Palembang, South Sumatra	1. PT. Astratel (50%) 2. Coastal Power (37.5%) 3. Ny Martini Sulaiman (9.5%) 4. Todung Barita (3%)	Coastal Palembang Power Pte Ltd	1. PT. Astratel 2. Coastal Power 3. Ny Martini Sulaiman 4. Todung Barita	169	Years 01-20: 6.48		New contract approved as at April 2002.

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Appendix Four — The 27 Private Electricity Projects

Project Name	Shareholders	Foreign Partner	Local Partner	Cost (US$ Millions)	Original Rate of Sale (USc/kWh)	New Rate of Sale (Usc/kWh)	Status @ beginning of 2002
PLTU Amurang, North Sulawesi	1. PT. Transmega Ekacipta Corp (90.2%) 2. Soebiakto Prawira Soebroto (5%) 3. Putradharma Harmoteknic (4.8%)		PT. Transmega Ekacipta Corp (Soebiakto Prawira Soebroto; Putradharma Harmoteknic; Ibrahim Risjad; A Ramli; Subiakti P.S; Made Putra Jandana; Nyoman Oke Dharmayoga)	197	6.7		New contract approved as at April 2002.
PLTGU Sengkang, South Sulawesi	1. Energy Equity (47,5%) 2. Elpaso Energy International (47,5%) 3. Triharsa Sarana Jaya Purnama (5%)	Sulawesi Energy Ltd. (consists of Energy Equity, El Paso)	PT. Trihasra Sarana Jaya Purnama (5%: Tutut)	182	Years 0-19: 6.7	4.28 per kWh plus 1.32 per kWh for transmission facilities.	New contract approved as at April 2002. Sengkang has lowered it's electricity tarif on condition that it is able to build another 50MW power facility from 2003-2005. In 1998 El Paso tried to buy Tutut out of the project but she refused.
PLTD Pare Pare, South Sulawesi	1. Black Investment B.V. (95%) (covered to Singapore Power; Tomen; Ashtor) 2. PT Stowindo Power (2%) 3. PT. Putra Dharman Harmoteknik (3%)	Black Investment B.V. (95%) (covered to Singapore Power; Tomen; Ashtor)	PT Stowindo Power	70	6.1		New contract approved as at April 2002.
PLTU Serang, West Java	1. Power Gen Holding B.V. (40%) 2. Morrison Knudsen Corp (5%) 3. Sumitomo Corp (15%) 4. PT. Bukit Sunur Wijaya (40%: Tutut)	1. Power Gen Holding B.V. (40%) 2. Morrison Knudsen Corp (5%) 3. Sumitomo Corp (15%)	PT. Bukit Sunur Wijaya (Sudwikatomo; Kusuma Lingga Wijaya; Tjandra Wijaya; Sukamdani Sahid Gitosarjono, Dharma Wijaya)	670	6.04		
PLTU Tanjung Jati C, Central Java	1. CEPA Indonesia (BVI) Ltd (80%) 2. PT Impa Energy (20%: Tutut; Djan Farid)	Hopewell Holdings	PT Impa Energy (20%: Tutut; Djan Farid)	1.620	5.73		Cancelled ?
Project Name	**Shareholders**	**Foreign Partner**	**Local Partner**	**Cost (US$ Millions)**	**Original Rate of Sale (USc/kWh)**	**New Rate of Sale (Usc/kWh)**	**Status @ beginning of 2002**

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Appendix Four The 27 Private Electricity Projects

PLTP Salak 4,5,6, West Java	1. UNOCAL Geothermal Indonesia 2. PT Nusamba	UNOCAL Geothermal Indonesia	PT Nusamba Geothermal (Bob Hasan)	264	Years 01-14: 8.47. Years 15-30: 4.94. Base Year: 1993.		New contract approved as at April 2002.
PLTP Darajat, West Java	1. PT Derajat Geothermal Indonesia (20%) 2. Chevron (40%) 3. Texaco (40%)	1. Chevron Darajat (40%) 2. Texaco Darajat (40%)	PT. Prasarana Nusantara Jaya	475	Years 01-14: 6.95 for electricity. 4.54 for steam.	4.2 for electricity; 2.72 for steam.	New contract approved as at April 2002.
PLTP Kamojang	Asia Power	1. Asia Power 2. Kamojang BV Hoghland Investment Holding Company	PT. Sumberdaya Ragam Usahatatama	104	6.95		Renegotiations
PLTA Patuha, West Java	1. Mahaka 2. California Energy Company, Inc. (Donald O'Shei)	California Energy	PT. Enerindo Supra Abadi (Fadel Muhammad)	284	Years 01-14: 7.26. Years 15-22: 5.63. Years 23-30: 4.82		This project has been abandoned since 1998. California Energy took PLN to arbitration and won. Their insurance company, OPIC, then paid California energy US$260 million which they are seeking to be repaid by PLN. PLN agreed to pay OPIC this amount but have thus far avoided payment.
PLTP Wayang Windu, West Java	1. Asia Power of Zealand 2. ECNZ 3. Bumi Mandala Nusantara	1. Asia Power 2. Mighty River Power 3. Brierly Investment Ltd.	Bumi Mandala Perkasa (Tommy)	133	Years 01-14: 8.04. Years 15-22: 6.52. Years 23-30: 5.58. Base Year 1999.		Renegotiations
PLTP Sarulla, North Sumatra	1. UNOCAL (90%) 2. PT. Parama Nusamba Geo Power (10%)	UNOCAL	PT. Parama Nusamba Geo Power (Nusamba Group; Bob Hasan)	710	6.47		Renegotiations
PLTGU Cikarang	Cikarang Listrindo	Cikarang Listrindo	PT Cikarang Listrindo (Sudwikatmono)		Years 01-20: 5.04.		Cikarang has supplied power to PLN since 1993. But in July 2000 PLN stopped buying power from them as they had an excess. Renegotiations have been ongoing.
Project Name	**Shareholders**	**Foreign Partner**	**Local Partner**	**Cost (US$ Millions)**	**Original Rate of Sale (USc/kWh)**	**New Rate of Sale (Usc/kWh)**	**Status @ beginning of 2002**

Appendix Four — The 27 Private Electricity Projects

PLTP Karaha, West Java	1. PT. Sumarah Daya Sakti (10%) 2. Caithness Energy (40.5%) 3. Florida Power (40.5%) 4. Tomen (9%)	1. Tomen (9%) 2. Caithness Energy (40.5%) 3. Florida Power (40.5%)	PT. Sumarah Daya Sakti (10%: Muhammad Bawazier/Lodito Purwasih)	380	Years 01-14: 8.46. Years 15-22: 6.58. Years 23-30: 5.64. Base Year: 1999.		As at the beginning of 2002, Karaha's investors filed a lawsuit with the Switzerland-based International Arbitration against Pertamina. Karaha Bodas Company is currently seeking to freeze some of Pertamina's assets in order to receive the US$260 million payment. GOI has said that they would be willing to continue the project with Karaha Bodas Company, but they prefer compensation instead.
PLTP Cibuni, West Java	PT. Yala Teknosa Geothermal		1. PT Yasa Patria 2. PT. Mathabor Indonesia 3. Kop Jasa Keahlian Teknosa (Siti Rukmana; Paula Ayustina; Bambang Prayitno; Kop Karyawan PT YPP; Moh Wahban Naim; Darma Tyanto; Wardoyo Wiyono; Suyadi Harjowiyono)	17	Flat: 6.9. Base Year: 1997		Renegotiations
PLTP Dieng, Central Java	1. California Energy Company, Inc 2. PT Himpurna	California Energy Company, Inc (Donald O'Shei)	Himpurna Enersindo Abadi (Julius Henuhili)	164	Years 01-14: 7.66. Years 15-22: 5.97. Years 23-30: 5.57.		This project has been abandoned since 1998. California Energy took PLN to arbitration and won. Their insurance company, OPIC, then paid California energy US$260 million which they are seeking to be repaid by PLN. PLN agreed to pay OPIC this amount but have thus far avoided payment.
PLTP Bedugul, Bali	1. PT. Pandanwangi Sekartaji Mawartindo 2. Bedugul California Energy Company. Inc	California Energy Company Inc.	PT. Pandanwangi Sekartaji Mawartindo (Sigit Soeharto)	190	Flat: 7.15		Renegotiations
PLTP Sibayak, North Sumatra	1. Ormat 2. PT Dizamitra Powerindo 3. Mitsubishi	1. PT. Dizamatra Powerindo (Djan Faridz)	1. Ormat 2. Mitsubishi	207	Flat: 7.1		

Sources: ICW (Indonesian Corruption Watch) (2002), *Laporan Status Penyelesaian Kasus Listrik Swasta*, Jakarta, ICW; ICW (Indonesian Corruption Watch) (2000c) *Bedah Kasus Listrik Swasta – II*, Jakarta, ICW; ICW (Indonesian Corruption Watch) (2000e) *Daftar Proyek Listrik Swasta*, Jakarta, ICW; *Indonesian Business*, April 2001; Data Consult (2000) *Indonesia Electric Power Industry*, Jakarta, Data Consult; *Indonesian Business*, June 2001; *Indonesian Business*, May 2001; *Indonesian Business*, September 2001; *Indonesian Business*, October 2000; *Jakarta Post*, 24.7.02; *Jakarta Post*, 12.7.02; *Jakarta Post*, 4.1.02; *Warta Ekonomi*, 12.8.99; *Gamma*, 24.10.99; *Indonesian Commercial Newsletter*, 19.12.00; *Prospek*, 13.7.98; *Prospek*, 18.5.98; *Gamma*, 2.1.02.

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Appendix 5

Appendix Five	**Natural Resource Revenue Sharing Scheme**				
Resource	**Central Government**	**Provincial Government**	**Resource-Producing Districts**	**Other Districts in the Same Province**	**All Local Governments in Indonesia (Equal Share)**
Oil	85%	3%	6%	6%	
LNG	70%	6%	12%	6%	
Mining					
Land Rent	20%	16%	64%	0%	
Royalty	20%	16%	32%	32%	
Forestry					
Land Rent	20%	16%	64%	0%	
Resources Provision	20%	16%	32%	32%	
Fisheries	20%				80%

Source: The Basic Law on Financial Balance Between Central and Regional Government (No. 25/1999) in Brodjonegoro (2003), p.289.

Appendix Six Hierarchy of Indonesian Laws and Regulations

Type of Law/Regulation	Details
Constitution *(Undang-Undang Dasar)*	The constitution is the highest legal authority in Indonesia. It may be implemented by a Decree of the People's Consultative Assembly *(Ketetapan MPR)*, by statute *(undang-undang)* or by Presidential Decree *(Keputusan Presiden)*.
Decrees of the People's Consultative Assembly (MPR)	Decrees issued by the MPR define the broad outline of national policy for the legislative and executive branches of government. Decrees directed to the legislature are to be implemented by statute. Decrees directed to the executive are to be implemented by Presidential Decree.
Statutes *(Undang-Undang)*	Statutes are enacted by the House of Representatives (DPR) and ratified by the President. Statutes implement either the constitution or a Decree of the MPR. The President has emergency power to promulgate 'regulations in lieu of statutes' *(Peraturan Pengganti Undang-Undang)*. Such regulations are equal to statutes in rank but are required to be withdrawn unless approved by the House during the next session.
Government Regulations *(Peraturan Pemerintah)*	Government regulations are promulgated by the President to implement statutes.
Presidential Decrees *(Keputusan Presiden)*	Presidential Decrees (Keppres) are promulgated by the President to implement the constitution, a Decree of the MPR directed to the executive branch, or a Government Regulation.
Presidential Instruction *(Instruksi Presiden)*	Presidential Instructions (Inpres) are promulgated by the President to implement a Presidential Decree.
Other Implementing Regulations	Decrees and instructions may be promulgated by Ministers to implement higher ranking regulations. These include: Minister's Letters *(Surat Keputusan Menteri)* (Kepmen), Minister's Regulations *(Pertauran Menteri)*, Minister's Instructions *(Instruksi Menteri)*. Circular letters are completely internal regulations which can issued by heads of department. The difference between the various decrees and instructions is not explained in the Constitution or other authoritative legal sources.
Regional Regulations *(Peraturan Daerah)*	Regional Regulations are made by the three levels of DPR in the Regions and the Governor or *Bupati*.

Sources: Ketetapan MPR No.IV/MPR/2000; Thoolen, H. (ed.) (1987) *Indonesia and the Rule of Law: Twenty Years of New Order Government*, London, Frances Pinter; Office of the Co-ordinating Minister for the Economy, Finance and Development Supervision (1996) *An Overview of the Indonesian Procurement System.*

Appendix Seven	Key Economic Positions in Cabinets (1998-2003)				
	Habibie (May 1998 - October 1999)	**Wahid (October 1999)**	**Wahid (August 2000)**	**Wahid (June 2001)**	**Megawati (August 2001)**
Coordinating Minister for Economic Affairs	Ginandjar Kartasasmita	Kwik Kian Gie	Rizal Ramli	Burhanuddin Abdullah	Dorodjatun Kuntjoro-Jakti
Minister of Finance	Bambang Subianto	Bambang Sudibyo	Prijadi Praptosuhardjo	Rizal Ramli	Boediono
Minister of Trade and Industry	Rahardi Ramelan	Luhut Binsar Pandjaitan	Luhut Binsar Pandjaitan	Luhut Binsar Pandjaitan	Rini M.S. Soewandi
Minister of Energy	Kuntoro Mangkusubroto	Susilo Bambang Yudhoyono	Purnomo Yusgiantoro	Purnomo Yusgiantoro	Purnomo Yusgiantoro
Minister of Agriculture	Soleh Solahuddin	M. Prakosa	Bungaran Saragih	Bungaran Saragih	Bungaran Saragih
Minister of Forestry	Muslimin Nasution	Nur Mahmudi Isma'il	Marzuki Usman (March 2001)	Marzuki Usman	M. Prakosa
Minister for Cooperatives and SMEs	Adi Sasono	Zarkasih Nur	Zarkasih Nur	Zarkasih Nur	Alimarwan Hanan
Minister of Manpower and Transmigration	Fahmi Idris	Bomer Pasaribu	Alhilal Hamdi	Alhilal Hamdi	Jacob Nuwa Wea
Minister of SOE		Rozy Munir			

Appendix 8

Appendix Eight	Stages of IBRA's Debt Restructuring Process	
Stage	**Description**	**Details**
1	Initial negotiations	• Initial negotiation. • Preliminary discussion & assessment of debtors. • Inter creditor meeting to discuss on mutual agreement. • Determining debtor category. • Classifying debtor category & signing Letter of Commitment (LoC) by debtor.
2	Stand Still Creditor's Agreement	The debtor and IBRA agree to implement restructuring process according to the agreed time-schedule, while at the same time preparing all relevant documentation. In the agreed period, debtor should have indicated their goodwill in settling the obligation.
3	Advisory Assignment	Assigning financial advisor, auditor and legal advisor.
4	Due Diligence	Sourcing data, information and carrying out initial due diligence.
5	Restructuring Negotiations	Main activities: • Commence restructurization negotiation. • Debtor to develop proposal & preliminary scenario. • Refine creditor's scenario. • Check action needed to safeguard and maintain continuity of operation. • Develop alternative scenarios.
6	Restructuring Proposal	This stage consists of several technical aspects such as: • Finalize restructuring proposal (MOU / indicative term sheet). • Discuss with creditors. • Finalize debtor's proposal (final term sheet).
7	Implementation Restructuring Proposal	Approval on Business Plan, and implementing restructuring.
8	Fully Paid	@March 2002: Rp3,957 billion for 21 largest obligors (IBRA Monthly Report, March 2002)
9	Disposal	@March 2002: Rp6,336 billion for 21 largest obligors
10	In Legal process – Initiated and Document preparation	
11	In Legal process – Appropriate legal action in process	
Source: IBRA (1999) *Annual Report*, p.116.		