CHINESE BIG BUSINESS IN INDONESIA

THE STATE OF CAPITAL

CHRISTIAN CHUA

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THE STATE OF CAPITAL

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SUMMARY

The disintegration of Indonesia's New Order regime in 1998 put an end to the crude forms of centralised authoritarianism and economic protectionism that were essential for the emergence and rise of large Chinese conglomerates, which have dominated the country's private sector. What were the consequences of the democratic transition for Chinese big business? How do business groups adapt to changes in the political environment? Despite massive problems and contrary to expectations, most of the major capitalist groups have in fact succeeded in getting through the economic and political crisis that brought down Soeharto, and are now presiding over refashioned but still thriving corporations. This study identifies the strategies the tycoons employed to survive in an unfamiliar, initially threatening post-authoritarian regime, thereby revealing the dynamics of power and the particular structural position of big business in the post-Soeharto Indonesian political economy.

I argue that it is important to take the ethnicity of private capital in Indonesia into consideration, which – since colonial times – has been 'Chinese'. Discriminatory policies marginalised this ethnic minority both socially and politically, confining it to distinctively economic functions. A small group of Sino-Indonesian capitalists was thus ideally suited to be co-opted as business clients of the New Order powerholders from 1966 onwards. Without direct access to political power, these 'limited capitalists' could not pose a threat to the state managers and were therefore nurtured to grow into huge business groups. The combination of economic strength and political weakness allowed them to become an integral part of the New Order ruling oligarchy, in which the politico-bureaucrats prevailed.

The financial crisis of 1997/1998, eventually, rendered this accommodation no longer feasible. It caused significant damage to the business groups, brought them close to collapsing, and unravelled the regime that had provided protection. The democratisation, decentralisation, and deregulation push of the post-Soeharto *reformasi* governments appeared on the surface to be detrimental to the continuing existence and business success of most New Order era conglomerates. However, this study shows that the Chinese tycoons have in fact benefited tremen-

dously from the changed political conditions. The new regime could not ignore their capital due to its indispensability to an Indonesian economy re-emerging from deep crisis. Continuities in Indonesia's predatory form of capitalism as well as the discontinuation of overtly anti-Chinese policies allowed the major business groups to survive, recoup their losses, and even placed them in a position to help determine future economic and political directions. Traditional modes of conducting political business, along with the significant rise of money politics, enhanced the Chinese capitalists' bargaining power and provided the setting for the emancipation of the businessmen from their former bureaucratic patrons.

I suggest that *reformasi* did not, as widely expected, terminate the rule of the old politico–business oligarchy, but prompted a change of power relations between the two contending fractions in favour of capital. In-depth observations and a thorough analysis of the Indonesian political economy after the demise of Soeharto will substantiate that the former bureaucracy-controlled alliance has now given way to one that has more plutocratic characteristics – where a relatively autonomous business class rose to an increasingly dominant position within the prevailing constellation of power. This study thus highlights an important case of big business response to new political conditions and contributes to our understanding of the exercise of capital's power in and over the state.

'Money politics will be less and less in our open, more democratic economy. […] We are heading towards an improved capitalism.'
(Former President Abdurrahman Wahid)[1]

'It is part of my responsibility to help the country to democratize. […] We are built to become the main engine of democracy in Indonesia.'
(Artha Graha Group boss Tomy Winata)[2]

1 INTRODUCTION: CAPITAL AND THE STATE

Plutocracy, literally, means the rule of wealth. This study analyses the transformations in Indonesia from a bureaucratic regime to one which is plutocratic. It will demonstrate how the hierarchy inside the state–business oligarchy shifted in favour of capital.

One may argue that all societies are ruled by the wealthy (e.g. Miliband 1969: 23). However, this assertion is too general, as state power may also be held by groups that establish their power and authority on sources other than capital. Indonesia during the rule of the so-called New Order (1966–98) was one such case. This regime was by and large dominated by bureaucrats, while the predominantly Chinese capitalists were politically restricted. The more distinct characteristics of plutocracy in post-authoritarian Indonesia thus need to be defined in contrast to the previous regime that was in power until the financial crisis in 1997/1998, in which politico-bureaucrats were a dominant part of the ruling alliance that prevailed.

To suggest the emergence of a plutocratic regime is not in line with commonly purported assessments of the post-crisis development of Indonesia. Mackie's evaluation represents the widespread expectation of the end of Chinese big business, common especially during the immediate post-Soeharto years:

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[1] Interview 17 September 2004.
[2] Interview 27 September 2004.

> Soeharto […] and his major cukong (Chinese financial backers; cronies) have crashed into the dustbin of history. (Most of the top 20 or 30 are either bankrupt, or nearly so, in any case, and no doubt many hundreds or even thousands more.)
>
> (Mackie 1999: 189)

One of the major spokespersons of Chinese Indonesian businessmen[3], Sofjan Wanandi (interview 1 July 2003), concurred with this appraisal and commented on my research project: 'Chinese big business? Don't waste your time. They are all bankrupt!'

Indeed, the events during the upheavals in 1998 painted a fairly desperate picture for these capitalists. Demonstrators held the conglomerates responsible for the economic crisis, politicians used them as scapegoats, and rioters destroyed corporate and private property of the big tycoons. With the fall of long-time dictator Soeharto in May 1998, the regime that established, promoted, and protected them came to an end. The new political environment was perceived as being full of unpredictable threats to the interests of big businesses. The sudden dissipation of the authoritarian, centralised, and protectionist features of the New Order made Chinese capitalists not only vulnerable to bankruptcy or, at least, to an enforced partial settlement of their gargantuan debts, but also to a general reorganisation of the Indonesian economy without them. The immense amount of capital that left Indonesia during the crisis – estimated to range up to US$165 billion (*Merdeka* 6 June 1998) – as well as the exodus of most major tycoons who sought shelter in Singapore, Australia, or elsewhere, testified to their pessimistic perception of the situation in 1998. The end of the New Order was thus widely regarded as possibly heralding the end of Chinese big business.

However, a few years after the crisis, the boss of Indonesia's largest conglomerate, Anthony Salim (interview 13 April 2005), claimed that his companies were 'in fact not only not affected but thriving because of the new conditions'. Reports on other conglomerates and es-

[3] As a matter of fact, there is no single woman in the upper echelons of Indonesian big business (and rarely outside). Hence I use 'business*men*' interchangeably with capitalists.

timations by most of my respondents presented the same judgement on the state of Chinese big business. *Reformasi*, as the post-Soeharto period is called (maybe too euphemistically), obviously failed to disrupt many of the structural foundations of the New Order regime and disempower the oligarchy that presided over it.

The main question is thus how the capitalists proceeded to recover, regain economic strength, and reinvent themselves in a post-authoritarian political environment. How has big business adapted to the monumental political changes in Indonesia? How does the re-emergence of capital affect the state, particularly its managers? Understanding the political economy of Chinese big business in Indonesia and its development after 1998 will help us to better comprehend the current nature of relations between capital and the state.

1.1 Focus and definitions

A study on 'Chinese big business' and the state requires careful definitions of its objects and scope of research. Three analytical dimensions have to be clarified, before I elaborate on my central argument: first, the 'Chinese' ethnicity of the capitalists in Indonesia, second, the type of 'big business' that is of concern here, and third, how I conceive concepts such as state, regime, and government. I will differentiate this study from other approaches to the Chinese minority and explain its specific focus on the largest of these conglomerates.

The Chineseness of capital

When speaking of 'Chinese', I refer to Indonesians who define themselves as '*orang Tionghoa*'/Chinese Indonesians and are seen by others as 'Chinese'.[4] Ethnic Chinese have been liv-

[4] As it is only a constructed identity, 'Chinese' should ideally always have quotation marks. However, for readability reasons, this will not be done here.

ing in Indonesia for generations, if not centuries. It is often impossible to find differences between them and the Indonesians regarded as indigenous, the so-called *pribumi*. Most of the Sino-Indonesians have Indonesian names, use the Indonesian language, are Indonesian citizens, and have never been outside Indonesia. However, until 1998 they constituted the '*non-pribumi*', the counterpart of the *pribumi*-majority. This '*non-asli'* ('not original') attribute not only legally marked the Chinese as outsiders of the nation, but constituted the dominant social reality in Indonesia. In many ways, be it in the institutional enactment of discriminatory laws and unfair practices or publicly in riots, the exclusion of the Chinese took place (Chua 2002).

As I will point out in Chapter 3, the 'Chinese problem' – manifest in state-sanctioned discrimination – seriously affected the social position of Indonesia's major capitalists in the New Order. Similarly decisive for capital was the relative but general de-marginalisation of Sino-Indonesians from 1998 onwards. It is for that reason that I apply the commonly used label 'Chinese' to refer to big business and to entrepreneurs whose ancestors migrated from China, even though I explicitly seek to analytically de-link the Chinese tycoons from the Chinese minority, with whom they do not share more than the same ethnic ascription. To treat them as one group would mean to neglect their material heterogeneity and eventually reproduce the effective construction of ethnicity by the New Order.

The pervasiveness of the latter was highlighted by the widespread equation of 'ordinary' Chinese Indonesians with the big businessmen. The common assertion that 'the Chinese constitute only 3.5 percent of the population but control 70 percent of Indonesia's economy' (*Far Eastern Economic Review* 28 May 1998: 21) was constantly repeated by politicians (e.g. Habibie, cited in Suryadinata 1999: 11) and appeared in popular literature and imagination as well as in academic works (e.g. Huntington 1996: 170). Backman's description of the economic domination of ethnic Chinese is worth being quoted at length, as it gives a good example of how the whole Chinese minority is represented by the wealth of a few tycoons.

> Apart from Japan and South Korea, business in Asia largely consists of ethnic Chinese businesses. In South-East Asia, they absolutely dominate business and yet, form only a small minor-

> ity of the population. Approximately 6% of the combined population of the five main South-East Asian economies (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) is ethnically Chinese, but this 6% controls perhaps as much as 70% of the region's private corporate wealth. This tiny minority also accounts for all but one of the 18 South-East Asia billionaires identified by Forbes magazine in 2000. The dominance of the Chinese is perhaps at its greatest in Indonesia. In fact, of Indonesia's top 300 conglomerates just prior to the 1997-98 economic crisis, 217 (72%) were either wholly or mostly owned by Indonesian-Chinese – not a bad result for an ethnic group that comprises just 3.5% of the country's population.
>
> (Backman 2001: 193-4)

The powerful position of the Chinese billionaires is without question; what is problematic was that the remaining 6 million[5] Sino-Indonesians were considered to be as powerful, wealthy, and exploitative. As I pointed out elsewhere (Chua 2004b), this prejudice provided the politico-bureaucratic powerholders of the New Order with the possibility to depict the constantly intensifying economic conflict in Indonesia as an ethnic one between the 'indigenous' and the Chinese, using the latter as a buffer to deflect criticism of the regime. To instrumentalise Chinese ethnicity, 'Chineseness' therefore had to be constantly constructed and negatively stigmatised.

Every study – as well as every newspaper report or magazine article – on Chinese capital in Indonesia bears the risk of fostering anti-Chinese stereotypes. Although I only use the ethnic marker in a descriptive way that does not refer to any innate ethnic characteristics, nor implicate a primordial belonging of the capitalists to a certain ethnic group, I would have preferred to omit the adjective 'Chinese' totally. However, the 'Chineseness' of big business in

[5] This figure is based on the 1930 census that saw the ratio of ethnic Chinese at 2 to 3 per cent. According to Suryadinata's and Ananta's interpretation of the 2000 population census, this ratio decreased to only 1.5 per cent (i.e. 3 million) (Suryadinata *et al.* 2003: 73-101). Their estimation, however, is most likely too low as it only includes the ones who defined themselves as Chinese and who admitted this – after decades of having to keep quiet about ethnicity – in a census. The accurate number will be higher, probably somewhere in the order of 5 to 6 million (Mackie 2005: 101). Nonetheless, the conventional definition of 'ethnic Chinese' needs to be reconsidered, as ethnic boundaries (see Barth 1969) are constantly shifting.

Indonesia is a social fact and of utmost relevance for this research inasmuch it explains the politically weak position of the capitalists during the New Order and the changes due to the reforms after the crisis. The inclusion of the ethnic dimension (see Chapter 2) thus makes it inevitable to speak of and focus on '*Chinese* big business'.

Chinese 'big business'

Braudel (2002: 23-5) distinguished between the subsistence, market, and capitalist sectors of the economy. Only in the latter has capital appropriated the means of production; their owners are the capitalists, who command huge amounts of capital and participate in complex operations to accumulate profits and substantiate their wealth. This is the group of people whose power this thesis seeks to assess, thereby regarding the main vehicles of capital in Indonesia, the conglomerates, not as a power in themselves, but as 'a particular way in which capitalists organize their wealth' (Greenfield, cited in Wood 2003: 12-13). I refer to them as 'Chinese big business'.

Although 'big business' might be considered too vague a term, it has the advantage in that it addresses the largest corporations of any particular space and time. Significant Chinese businesses have been existent since colonial times. However, only from 1966 onwards did they assume the form of large business groups, or 'conglomerates'. In fact, 23 of the 30 biggest groups in 1996 were established during the New Order (Sato 2004: 25; see also Appendices, Table 1).[6] According to Sato's (1994: 112) definition, a business group can be regarded as a conglomerate if more than five companies are owned by the same or related persons. The founder, or his successor, and his family are the centre of the highly diversified group, with many – not necessarily related – ventures clustered around one or several core business fields.

[6] Most conglomerates, however, were founded upon single companies that already existed before.

Another term for the owners of conglomerates is ‘tycoon’ – ‘businessmen of extraordinary wealth and power’ (Mackie 1991: 83).

For this study, the 20 to 30 largest conglomerates in the last years of the New Order – in terms of their annual turnover rates – are at the centre of attention (see Appendices, Table 1). This range is somewhat arbitrary, but there are valid reasons for narrowing down the scope: First, the annual sales of the top 30 groups were significantly higher than those of lower ranking business groups. Second, there was a consensus between interviewed experts and businessmen on the frontiers of ‘big business’. Their notion of conglomerates belonging to that category broadly coincided with Sato’s (1994: 121) list of ‘top groups’ *vis-à-vis* the ‘secondary top groups’ on ranks 20 to 47 of her table. However, it is not relevant – and not possible, for that matter (see Chapter 1.3) – to have exact criteria to clearly demarcate the largest conglomerates. ‘Big’ are the groups that are considered to be the biggest in comparison to other businesses of the country.

In 1996, there were, besides Chinese conglomerates, three other types of private domestic business groups that were listed in the top 30: two conglomerates (Bimantara and Humpuss) mainly owned by the Soeharto family (the so-called Cendana Group[7]), one by an ethnic Indian (Texmaco), and one by a *pribumi* businessman (Bakrie). These groups emerged under different conditions than Chinese businesses. They were not subject to the same constraints and policies that determined the role of the Chinese. Especially the capitalists from the president’s family, who effectively depicted themselves as *pribumi* entrepreneurs, founded their rise upon immediate proximity to the bureaucratic state apparatus and Soeharto’s central position within it. They were first and foremost bureaucrats or families of bureaucrats, who transformed themselves into capitalists. This study will not deal with them particularly.

[7] Soeharto’s family’s enterprises were named after the street where the president’s house was located (i.e. Jalan Cendana in Menteng, Jakarta).

Even though Soeharto family business interests were to be particularly ubiquitous by the 1990s in most major business deals, 'indigenous capital' was indeed rather negligible in terms of quantity and significance. In contrast, Chinese owned corporations – including business giants such as the Salim Group, Astra International, and Sinar Mas – constituted by far the largest ones and the absolute majority of the top enterprises. In 1996, 26 conglomerates of the top 30 could be categorised as 'Chinese big business'. Together, their sales added up to about 30 per cent of the Indonesian GDP (Rachbini 1999: 32). Hence, it is not just the immense importance of Chinese private capital for Indonesia's economy, but also the specific perspective of this study on the political economy of 'ethnic business' (Jomo & Folk 2003) that justifies an exclusive focus on the largest Chinese corporations.

States and regimes

The modern capitalist state, I suggest, is structurally determined by the specific requirements of the capitalist mode of production that, in turn, imposes particular functions upon the state. Its main objective is the provision of favourable conditions for the private accumulation of capital, through which it ensures its own financial subsistence and indispensability. Therefore, the state might impose impediments for individual capitalists or against the short-term interests of capital in general; it might also make concessions to non-capitalist classes and implement or strengthen workers' rights; however, these essential mediations between propertied and unpropertied classes merely safeguard the long-term interests of capital in general that many particular capitalists do not even pursue (Altvater 1972). Essential for this system is the state's authority and legitimacy through coercion and ideological hegemony, which Gramsci (1971: 244) defines as 'the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance but manages to win the active consent of those over whom it rules'. Because 'the ruling ideas of any age are the ideas of the ruling class'[8] (Marx & Engels 1969: 47), citizens of all classes subscribe, or are forced to subscribe, to the capitalist logic of permanent capital accumulation, regarding – and experiencing through income, jobs, and stability – that everything that is good for the economy is also good for the individual.

The state and its managers, the bureaucrats, are thus crucial for capital. The specific characteristics of states are manifestations of the relative positions of the bureaucracy and capital. The bureaucrats represent the state apparatus and form its government, the 'legislative and executive branch of the state apparatus and those officials, parties and individuals who occupy its offices' (Robison & Hadiz 2004: 17). But ultimately, power in the modern capitalist state resides with the capitalists. Their major advantage is that they possess the means of capital accumulation. They are thus the keepers of structural power. Similar to a 'board of commissioners', the supervisory board of Indonesian companies, they usually do not interfere in day-to-day affairs, but they ensure that the long-term vision and interests of the corporation are abided and, in the event they see significant deviations from corporate values and interests, they can veto the course chosen by the board of directors. In certain ventures, the commissioners might be more powerful than the main executives, intervening directly or taking over the directors' board or at least their decisions. In others, the supervisory board is muted, or co-opted in ways it loses its critical distance and potential to interfere. This is similar to capitalist states, where the exact form of political influence of capital is highly variable and contingent on the political regime. During the New Order, for instance, capital had to accept its limited and subordinate position. However, I argue that the capitalist class in post-Soeharto Indonesia achieved a more powerful position in relation to the officials of the state than it had during the New Order.

[8] Original (written 1845/46): 'Die Gedanken der herrschenden Klasse sind in jeder Epoche die herrschenden Gedanken'.

In most cases, despite all inter-fractional power struggles, capital and bureaucrats form an alliance of varying hierarchy, dependency, and proximity. This can develop into a relative cohesive state–business oligarchy, as it was the case in New Order Indonesia. A complete removal of this oligarchy from power would require a new system, which, however, can only be realised if the general hierarchies of power are turned upside down, as it only happens through revolutions. As long as the material conditions of capitalist systems remain widely unaffected, power structures as outlined above will continue to prevail.

Regime changes will effectuate not more than a rearrangement of the internal hierarchy inside the oligarchy. Hence, a new regime comprises nothing but a modified institutional framework to organise the power of the state. It constitutes only a change in the personnel of the state and its style, or, as Marx & Engels (1961: 8) termed it, the 'legal and political superstructure' that arises 'on the economic structure of society, the real foundation'[9]. The New Order was therefore one regime, and *reformasi* Indonesia produced another one. As I will demonstrate, the reforms failed to change the underlying class structures of capitalism that enabled the rule of the oligarchy. Instead, they made it stronger and thus increased capital's resilience in yet another regime.

[9] Marx & Engels (1961: 9) further emphasised that 'in studying such transformations it is always necessary to distinguish between the material transformation of the economic conditions of production, which can be determined with the precision of natural science, and the legal, political, religious, artistic or philosophic – in short, ideological forms in which men become conscious of this conflict and fight it out.'
Original (published 1859): 'Die Gesamtheit dieser Produktionsverhältnisse bildet die ökonomische Struktur der Gesellschaft, die reale Basis, worauf sich ein juristischer und politischer Überbau erhebt und welcher bestimmte gesellschaftliche Bewußtseinsformen entsprechen. […] In der Betrachtung solcher Umwälzungen muß man stets unterscheiden zwischen der materiellen, naturwissenschaftlich treu zu konstatierenden Umwälzung in den ökonomischen Produktionsbedingungen und den juristischen, politischen, religiösen, künstlerischen oder philosophischen, kurz, ideologischen Formen, worin sich die Menschen dieses Konflikts bewußt werden und ihn ausfechten.

1.2 Central argument: The emergence of plutocracy

What are the consequences of the regime change in 1998 for Chinese big business? Why – and how – were the conglomerates able to survive in a dramatically changed environment? I argue that the new democratised *reformasi* regime facilitated the emergence of plutocracy in Indonesia. It did not, as widely expected, terminate the rule of the power bloc consisting of politico-bureaucrats and Chinese capitalists, but it prompted a change of power relations between the two fractions in favour of capital. The oligarchy in which politico-bureaucrats and their families tended to dominate has now given way to one that is composed in a more plutocratic fashion – where big business will tend to run the show more unabashedly.

In the New Order, the politico-bureaucrats held instrumental power over the state, successfully maintaining their dominance through a sophisticated regime of authoritarianism, centralism, and collusion. One integral component of their largely unchallenged rule was the subjugation of the capitalists, who were effectively limited by being labelled 'Chinese' – a stigma that linked them with a socially marginalised ethnic minority and prevented their access to direct power. The Chinese tycoons were thus appropriate partners to be raised and co-opted as compliant partners in a bureaucracy dominated oligarchy. This was, after all, a price they were willing to pay to maintain a stake in a predatory, extremely profitable symbiosis with the state, whose managers allowed and supported them to establish enormous conglomerates that dominated the country's private sector. The crisis, however, forced an end to this accommodation.

I further argue that the Chinese tycoons benefited most from the democratisation, decentralisation, and deregulation efforts of the *reformasi* period. While the disintegration of the New Order seriously disrupted the oligarchy's bases of authority – and with it the power configurations thought to be essential for Chinese business success – the new regime could not do without the Chinese capitalists due to their economic indispensability to an Indonesian economy re-emerging from deep crisis. The resulting continuities allowed the major business groups to survive, recoup their losses, and even help determine the course of post-Soeharto

Indonesia, enabling them to steadily distance themselves from bureaucratic patrons, extend their autonomy, and perhaps to rise to a more overtly dominant position within the ruling alliance.

By showing how the conglomerates dealt with the unravelling of the New Order and its centralised network of patronage, this thesis will demonstrate that the Chinese tycoons managed to reorganise in post-Soeharto Indonesia, and that their interests and actions have paved the way for a more plutocratic regime. The study will thus highlight an important case in which big business adjusts to new political conditions, as has happened before in other post-authoritarian environments.

1.3 Methodology

This study provides a sociological analysis of the relations between the state and capital in post-Soeharto Indonesia, focussing on the intangible, unquantifiable question of power. More specifically, this study scrutinises the political economy of those who hold power in Indonesia. This is *per se* a tricky task, as research on the rich and powerful in general has to deal with the problem of inaccessibility. In most cases, these people form an exclusive club that makes participant observation or other in-depth scrutiny rather difficult, if the researcher her-/himself does not belong to this class.

In the specific context of Indonesia, there are additional problems in studying capital because of the Chinese predominance in the capitalist sector. As in the case of most societies where entrepreneurial activities are undertaken as a family business, there is a tendency for ethnic Chinese in business to function like a closed society, making it difficult to have access to them for research purposes, as Diao & Tan (2001: 141) observed. Another, probably more important reason for this reluctance may be found in the particular political conditions for Chinese capital during the New Order, where it was generally forbidden to talk about race, religion, ethnic groups, and class (the so-called SARA-taboo; see van Dijk 1994). To address

Chineseness was even more sensitive, as anti-Sinicism and anti-government feelings increasingly overlapped during the evolution of the New Order, turning criticism against the conglomerates into a powerful political tool against the state elite. Therefore only a little, filtered information on Chinese businesses reached the public, while at the same time most of the Chinese tycoons kept a very low profile. Public relations efforts were unknown, and indeed not needed. The authoritarian, protectionist regime made it possible to do without them. Another reason for the shortage of facts and figures is the rather late development of private corporations in Indonesia, which only became significant through the economic policies at the outset of the New Order in the late 1960s. Hence, the establishment of a stock exchange, usually the major source of information of this kind, came in late as well. Useful data on this basis is only available for the last decade of the New Order. As Sato (1994: 102) pointed out, this led to a scarcity of research interest in private capital in Indonesia.

The new political situation has not brought significant changes in this regard. Most Chinese businessmen still shy away from publicity, if not because of state policies or political sensitivity, then because of a general aversion to reveal strategies to others. The struggle for survival and the settlement of their debts with the Indonesian Banking Restructuring Agency (IBRA) constituted a further reason not to disclose the actual property situation and the modified structure of a business group. The end of authoritarianism has put the conglomerates at the centre of attention of journalists and politicians alike, which increased the secretiveness of the actors.[10] On the other hand, the relative openness of post-Soeharto Indonesia provided new sources of information that balanced the lack of data for the New Order. These could be

[10] No ranking has been published since 1997. My own attempts to compile data for an updated list failed, due to a situation still very much in flux, the lack of suitable sources, and endeavours of business groups to hide their actual size and constitution. With this I share the same experience as economists (e.g. M. Chatib Basri, Universitas Indonesia, interview 12 May 2004), journalists (e.g. Eddy Suprapto, *Kontan/Aliansi Jurnalis Independen*, interview 8 September 2004), or even specifically appointed government watchdogs (e.g. Raden Pardede, Vice President Director of State-owned Asset Management Company PPA, interview 20 October 2004), who sought to, but were not yet able to provide a detailed overview of the situation of big business during the post-Soeharto time.

used to supplement the insights of the few seminal works on capital before 1998, most importantly Robison's (1986) and Shin's (1989) studies on 'the rise of capital' and 'capitalists-in-formation' respectively. Established business magazines such as *SWA, Eksekutif, Warta Ekonomi,* or *Kontan*, and the political magazines *Tempo* or *Gatra*, as well as the international press (e.g. *Far Eastern Economic Review*) re-opened several closed cases of the past and focussed – together with the many Indonesian newspapers (such as *Jakarta Post, Bisnis Indonesia,* or *Kompas*) – their gaze on Chinese big business of the present. In addition to this, information found in compilations of Data Consult (1998) or in business reports, company files, annual reports, and statistics provided further material to consider, although such data was subject to the same constraints and biases as mentioned before and, more often than not, lacked explanatory power as well as sufficient reliability.

These sources had to be verified through direct observation as well as through that of others, which were best disclosed in talks with (ordinary) Indonesians, in commentaries, speeches, articles, and statements of activists, critics, journalists, politicians, and experts. I conducted interviews with seven politicians (among them former President Abdurrahman Wahid and former Minister of Finance Bambang Subiyanto), seven journalists, and 21 economists or other academics (see Appendices). In order to concretise the abstract concept of 'capital', I further sought to meet the persons who represent capital, i.e. the capitalists. Due to greater accessibility, I first focussed on the ones who work for Chinese big business at the highest managerial level. I interviewed 12 business persons, of whom nine were high ranking executives or board members of the conglomerates or one of their companies, among them the President Directors of Indomobil and Lippo Investments, the Managing Director of Sampoerna, President Commisioners of Bank Central Asia and Bank Artha Graha, and Commissioners of Lippo Group, Lippo Bank, Bank Internasional Indonesia, and Bank Artha Graha.

In addition, I intended to meet the bosses of the top groups in Indonesia, even though access was a serious problem.[11] The interviews that I eventually conducted with some of the most important capitalists in Indonesia today – Anthony Salim (Salim Group), Tomy Winata (Artha Graha Group), Eddie Lembong (Pharos Group, also Chair of the Chinese Indonesian Association INTI), and Sofjan Wanandi (Gemala Group, also Chair of the Indonesian Employers Association APINDO) – delivered a wealth of information that I would not have found elsewhere and helped to verify or repudiate hypotheses and substantiate my interpretations.

Altogether, I conducted 62 semi-structured interviews with 51 persons. However, the challenge was to put this kind of information together with the other bits and pieces, to evaluate and analyse them and combine my own assessments with the reflections and judgements of these and other observers.

1.4 Outline

Chapter 1 has briefly outlined the major questions, the focus, the central argument, and the methodology of this study. The following chapters will provide theoretical, historical, and empirical analyses to explain the course of capital before, in, and after the crisis.

[11] It was immensely difficult to finally get in contact with the manager-owners of the conglomerates. As a general rule, it was essential to know somebody who referred you to someone else who was a friend of a friend of the respective businessmen. Thereafter, I had to send in letters, emails, or faxes, find out the number of the personal secretary, call her, submit another fax, call the office again, wait for a return call, call again, send in a third fax that – in case I was lucky – got through to the boss, who then decided if he had some time to spare with a young and unimportant researcher. (It helped that the businessmen regarded me as ‘one of them’ in terms of Chinese Indonesian ethnicity, that I am German, that I studied in Singapore, or that I was attached to the Centre for Strategic and International Studies – or a combination thereof. This, presumably, made me more trustworthy in their eyes.) Usually, I first had to talk to a proxy. One of them obviously recommended to his boss not to talk to me, even though the interview was already scheduled. For another conversation, I flew back to Jakarta twice, only to be told – while already waiting for the respondent in his office – that he was too tired to be interviewed by me, or, the following time, that he was in Singapore (where I just came from) and thus could not meet me. A further interviewee wanted me to submit the transcription of the talk and censored it significantly.

Chapter 2 discusses theoretical perspectives on capital and the state, including culturalist and structuralist models. It presents an approach appropriate to scrutinising the special power relations between Chinese capitalists and the bureaucratic elite.

Chapter 3 contains the historical background with an emphasis on the New Order accommodation. It depicts the Chinese businessmen as ‘limited capitalists’, who became part of the bureaucratic oligarchy but lacked appropriate political power.

Chapter 4 seeks to understand the conglomerates during the crisis. Without the authoritarian, centralised, and protectionist New Order regime they had to face serious constraints that endangered their existence in *reformasi* Indonesia.

Chapter 5 scrutinises the reactions of capital to the reforms. The crisis turned out to be not too detrimental; on the contrary, most conglomerates not only managed to survive and consolidate, but also moulded the new post-Soeharto regime significantly.

Chapter 6 analyses the changing role of Chinese big business in a more democratic, decentralised, and deregulated political and economic environment. It points out that capital found new formats of representation and successfully dominated the post-crisis modes of political business.

Chapter 7 summarises the findings and relates the empirical observations of Chapters 4 to 6 to the historical background as well as to the theoretical framework. It further outlines future prospects for Chinese big business in Indonesia.

2
THEORETICAL FRAMEWORK: POWER CONFIGURATIONS OF STATE AND CAPITAL

The state, according to Brown (1994: xii-xix), determines the boundaries, content, and character of ethnicity by translating 'sometimes minor linguistic graduations or physical variations into cultural boundary markers which are believed to be intrinsically significant and clearly demarcated'. In the case of Indonesia, the constructed *pribumi* nation and the assumed solidarity of a 'kinship community' became the 'psychological and political ideology' against the Chinese as internal enemy (Brown 1994: xviii-xix). Ethnic policies as tools of state power limited the capitalists in Indonesia significantly. Hence, it is imperative to ask who implemented these policies and who benefited from them, or, in a more general sense, who holds control over the state. Traditional class-based accounts have difficulties in attributing power to any non-capitalist class and should therefore be modified to appropriately evaluate the New Order with its weak Chinese business element. To expand definitions of the 'ruling class' will thus help in assessing the role of Chinese capitalists *vis-à-vis* state bureaucracy.

To lay out an appropriate theoretical framework, it is first necessary to discuss the existing literature on Chinese Indonesian capitalists. I shall argue that both culturalist and structuralist perspectives provide useful foci that only in combination deliver a fuller picture. While my study employs a political economy approach, it does not disregard the question of ethnicity.

The main objective of this chapter is to provide the analytical tools to assess the power configurations during the New Order and understand the changes brought about by *reformasi*. For this, the ruling class has to be identified. Generally, as a review of state theories will show, capitalists are considered to be the ruling class in capitalist societies. In New Order Indonesia, however, this proposition was questionable, as political authority lay exclusively with the state politico-bureaucrats, while capital, predominantly Chinese, was confined to act inside strictly demarcated boundaries.

I suggest that the rulers of New Order Indonesia can be regarded as a complex power bloc consisting of powerful politico-bureaucrats and politically restricted Chinese capitalists that together formed an oligarchy under the hegemony of the bureaucracy. This oligarchy, however, was prone to change, especially after the state managers were considerably weakened through new dynamics induced by the economic crisis of 1997/1998. Capital, no doubt, was also badly wounded, but salient elements have been able to rebound with the help of new strategies. By means of a typology of capitalist systems I will spell out the characteristics of state–business relations during the New Order and outline potential models towards which the post-Soeharto Indonesian state is developing.

2.1 Approaches to Chinese Indonesian capitalists

Very often Chinese businesses were identified as the main engine of growth during the astonishing boom of the Southeast Asian economies until 1997. However, what facilitated their business success? Was it due to their ethnicity and its manifestations in values and behaviour patterns, or were the deep-seated structures of capitalism and the role of capitalists (that happened to be Chinese) within them more important? The answers given came from a broad range of disciplines, most notably from scholars working in the frameworks of cultural studies, business administration, economics, and political economy. They can be differentiated into culturalist perspectives on Chinese businessmen as part of the Chinese minority and structuralist perspectives on Chinese capital as part of the capitalist class.

Culturalist perspectives

Most experts on the Chinese minority in Indonesia tend to disregard class considerations and focus mainly on the culture and behaviour of the Sino-Indonesians. The first comprehensive monograph on this topic was Purcell's (1951) study on 'The Chinese in Southeast Asia'. With this early work he carved out the framework for succeeding scholars such as Tan (1963), Heidhues (1974), Mackie (1976), Coppel (1983), and Suryadinata (1986), who gave insightful, albeit now outdated, analyses on the socio-cultural background of the ethnic Chinese in Indonesia, tackling a wide spectrum of aspects that ranged from a broad comparative perspective including other Southeast Asian Chinese communities to more specific research on relationships with the *pribumi* population, minority politics, and anti-Chinese discrimination.[12]

More recent studies involved further empirical research on, for instance, identities of young Chinese (Thung 1998), on anti-Chinese violence (Purdey 2002), on ethnic Chinese in the 'outer' islands (Heidhues 2003) and on the ethnic biases of the legal system (Lindsey 2005). However, most of these works share a similar disposition: They tended to take the ethnicity of Chinese Indonesians at least implicitly for granted and treated it as a given fact, coherent and largely unproblematic. The primordiality of 'Chineseness', though questionable, was considered to be a useful, independent variable to explain the behaviour and treatment of the people defined as 'Chinese'. Ethnicity, from this perspective, was thus regarded as the natural and most eminent boundary marker.[13]

There is little to say against the latter proposition as ethnic segregation constitutes part of social reality in Indonesia. However, culturalist reasoning fails to realise that Chinese ethnicity is *constructed* to be so relevant. Hence it often led to disputable frameworks that overemphasised the vertical division of society by, for instance, combining owners of small shops with big businessmen into one minority labelled 'Chinese'. To give one example: Suryadinata accurately stated that 'the Chinese in Indonesia are not a homogenous cultural group', continuing that

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[12] The writings mentioned here are only the most important publications of scholars who actively shaped the academic debate on the Chinese minority.

[13] To date, only few studies on Chinese ethnicity deviate from the prevailing paradigm. Most notable here is the inspiring work of Heryanto (1998; 1999), who convincingly challenged the behaviouralist orthodoxy by pointing out how ethnic identities were constructed.

> there are two groups: the peranakan Chinese […] and the totok Chinese, who are less Indonesianized. […] Despite the peranakanization and Indonesianization process, at this stage, it is still useful to talk about the totok and peranakan communities, especially when we refer to the elite level.
>
> (Suryadinata 1997: 9-10)

He emphasised a distinction which has become relatively irrelevant for most Indonesians of Chinese origin. Many cannot even classify themselves as either *totok* (culturally Chinese) or *peranakan* (culturally Indonesian), as these communities have no impact on their daily lives. The emphasis on the 'elite level' discloses that being 'Chinese' was regarded as being more significant than horizontal class partitions. This perspective bears the risk of only reiterating government policies that need to be questioned, thereby reproducing the construction of the category 'Chinese' in Indonesia in an essentialist fashion. It is thus an inherent weakness of culturalist approaches to not take more objective stratification criteria, like material conditions, into account. For that reason, most of these studies neglect the economic dimension, merely discussing Chinese big business – if at all – in a few paragraphs, and always as part of the broader Chinese minority 'problem'.[14] Characteristically, Suryadinata (1997: 25-74) included a chapter on 'Chinese economic elites in Indonesia' in a book titled 'The culture of the Chinese minority in Indonesia'.

Only few of the scholars who specialised on the Indonesian Chinese minority attempted to exclusively focus on the capitalists. Mackie (1988; 2003), for instance, compared the role of Chinese businessmen in Indonesia with that in other countries. Trying to find analogies with Weber's 'protestant ethic' (2004), economic success was attributed to cultural traits, 'Asian values', and the 'Confucian' spirit of capitalism, which also reflected Weber's (1991: 208) assumption that 'the Chinese would be, it is expected, as much capable, supposedly even more

[14] In my master thesis on minority policies and the Indonesian state (Chua 2002) I proceeded in similar ways.

capable than the Japanese, to adopt the capitalism brought to technically and economically complete development in the culturally modern world'.[15] Chineseness or Confucianism – though not necessarily coterminous, nor homogeneous – were regarded as the same modernising force that Protestantism once had been for European capitalism and were interpreted to have similar views on this-worldliness, education, obedience, materialistic values, etc. The emphasis was thus placed on non-economic factors that were seen to play a crucial role for business in a world that was not only determined by capitalism, but by many other factors as well. Power depended on a variety of sources, which included primordial characteristics. Significantly, Mackie (1989: 99) claimed that no other people, 'for reasons which are deeply rooted in the values and cultural systems', seem to have 'the same battery of incentives and capacities for commercial success as have the Chinese'. He cited their 'strong motivation to succeed', or even 'the widespread Chinese propensity towards gambling' as assets that facilitated the rise of Chinese capitalists.

In contrast to these more anthropological accounts, there has been a range of studies that did not primarily focus on values and ethnicity as causes, but on that which was seen by the culturalists as the very effect of them: the business behaviour of the Chinese. However, these approaches dealing in the framework of business administration agreed on the same basic assertion that saw the reasons for entrepreneurial success in 'uniquely Chinese' characteristics (e.g. Redding 1990). Of key concern was the position of Chinese firms in the market. The individual group leaders and the impact of their decisions were the major focal point. By examining the corporations and their strategies, research attempted to extrapolate the entrepreneurial aspects of 'Chinese capitalism' (Yeung 2004) relevant for efficient management. The political setting, however, was only regarded as important if it impinged on market performance. One such example is R. Brown's (2000) study on 'Chinese big business and the wealth of

[15] Original: 'Der Chinese würde, aller Voraussicht nach, ebenso fähig, vermutlich noch fähiger sein als der Japaner, sich den technisch und ökonomisch im neuzeitlichen Kulturgebiet zur Vollentwicklung gelangten Kapitalismus *anzueignen*.'

Asian nations', in which she emphasised institutions that were, however, related to an *a priori* culture. Hence, she identified 'the heavy reliance on the family' and the 'Chinese attitude to finance' (R. Brown 2000: 5) as the reason for the crisis, thus remaining in the ethnic perspective. Yoshihara (1988) as well attributed the success of the rent-seeking Chinese 'ersatz capitalists' to culture. Elsewhere he claimed:

> One can easily hypothesize that one basic reason [for the poor economic performance of some countries in the ASEAN region (e.g. Indonesia)] is that their culture lacks a strong work ethic. If this is true, the dominance of the ethnic Chinese in the capitalist sector of the economy (or the private sector as a whole) can be a result of it, instead of its cause.
>
> (Yoshihara 1995: 66)

The literature on Chinese business networks is usually founded upon the same culturalist premises. Most accounts confine themselves to pointing out how relationships of *xin yong* (trust), based on ethnocentric Confucian ethics, have helped the Chinese to span Southeast Asia with their closely-knotted international business networks (e.g. see Tan 2000). A few studies relate their observations to the underlying structural conditions that bear such networks (as, for instance, Menkhoff & Gerke 2002), but typically they take *guanxi* (connections) as just another characteristic trait of ethnic Chinese (e.g. Wu 2000; Backman 2001), thereby implying the *homo economicus* character of the whole Chinese minority and failing to analyse how the state appropriated their 'political ethnicity' for its interests.

'Culture' is often shifting and constantly moulded. To regard it as primordial and essential is thus highly problematic. Due to such propositions and an analytical horizon that encumbers the necessary conceptualisation of the Chinese capitalists as a class, culturalist approaches do not provide a suitable framework to be used for a study on Chinese capital. However, there is much to learn from these scholars and their works. A description of the values, traditions, and behaviour patterns of the Chinese is valuable as grounding and essential in order to move on from the present state of knowledge to further questions that yet remained irrelevant for the culturalist perspective. Inevitably, this thesis will draw heavily upon findings by the authors mentioned above.

Structuralist perspectives

In the 1970s, Anderson promoted an alternative to the culturalist approaches employed by 'anthropologists, sociologists and displaced Sinologists' (Anderson 1982: 79), as he polemically remarked. He rejected behaviouralist explanations that regarded the Chinese 'primarily as a *racial minority* rather than as a *commercial bourgeoisie*':

> In all kinds of ways, the Chinese commercial bourgeoisie were made a 'given' of Indonesian society, and then used as a criterion of its satisfactory, or more usually unsatisfactory, progress. Treated as a racial group, they were a measure of its constitutionalism and humanity; as a business interest group, they were a measure of its differentiation and modernity. Nowhere were they treated […] as classes, whose conflicts and alliances with other classes determine the destinies of civilizations.
>
> (Anderson 1982: 79)

This was indeed a valid objection to the culturalist school. Nevertheless, by stressing the class characteristics of the *whole* Chinese minority, Anderson made some unavoidable generalisations, implicitly depicting every Sino-Indonesian as capitalist, thereby ignoring the huge heterogeneity even amongst the businessmen (Coppel 2002). He, however, paved the way for a group of economists and sociologists whose research deviated significantly from the ethnic paradigm, giving attention to the underlying economic structures and the position of Chinese capitalists within.

While studies on the macro economy (such as Booth 1998; Hill 2000) contributed immensely to our understanding of the economic setting but rarely discussed Chinese conglomerates in particular, micro economic studies, on the other hand, have produced several remarkable works, most important of which is the research of Sato (e.g. 1994; 2004). In her view, scholars should pay attention to 'endogenous forces of private capitalists themselves', such as ‘corporate strategies to cope with the given external conditions, ranging from the fields in which to invest, and how to accumulate business resources, to how to organize the corporation on the strategic level’ (Sato 1994: 103). While she did not disregard political factors, her approach remains largely empirical and not particularly theoretically informed, and displays the same technocratic inclinations that characterise the works of neoclassical and neo-institutionalist economists.

The latter consider economic policies as an instrument to find the best solution for problems that are essentially technical in nature (e.g. Hill 1999; Thee 2003). Good governance – ‘widely identified with the following four attributes: transparency, accountability, efficiency and fairness’ (Soesastro 2000: 125) – is seen as a precondition for efficient institutions and vice versa, resulting in economic growth and prosperity. Development can only be obstructed by bad economic policies and interfering politicians. It is thus an approach that disregards the vested interests of the actors as well as the systemic impediments to reform. The inherent shortcoming of such perspectives is that power is not an issue dealt with when the question of Chinese capital arises.

The second major stream of interpretations based on the structural underpinnings of the political-economic system emerged in direct opposition to the culturalist approaches and was concerned with social conflict. One of its key proponents, Robison (1982: 131), rebutted the mainstream propositions of Indonesianists as ‘inadequate in two respects: they fail to comprehend the dynamics of politics; and, more importantly in terms of New Order Indonesia, they fail to provide a means for explaining why power and conflict exist there in their present form’. Instead, he offered a class analysis based on the assumption that modern societies were characterised by class divisions, and capitalism was their main driving force (Robison 1986). Without the crude simplification of Anderson’s proposal, he as well as other political economists such as Evers & Schiel (1988), Shin (1989), MacIntyre (1990), Winters (1996), and Rosser (2002), firmly abandoned cultural explanations for Chinese business success in favour of structural interpretations. By eliminating the ethnic variable, they were able to focus on state–business relations, political partnerships, and the composition of certain conglomerates, providing a wealth of information that obviously bore no significance to culturalist accounts. However, the main advantage of this perspective was also its major limitation. By discussing Chinese businessmen as part of the capitalist class and not as members of an ethnic group, class-based approaches merely addressed ethnicity coincidentally. *Chinese* capital was only worth being dealt with insofar as it was part of a larger bourgeoisie. In fact, ethnicity was implicitly regarded as false consciousness; its deep and comprehensive political impact was therefore negligently overlooked.

For that reason, the contradiction of Chinese big business' economic strength and political weakness is difficult to explain from a purely class-based perspective. Consequently, most accounts simply played down or ignored this issue. Robison (1982: 134), for instance, could only offer the weak explanation that Chinese capital's inability to translate economic power into political authority was voluntary. Banking on their structural veto power, the Chinese capitalists preferred, as he put it, to take a low profile and rely on personal links with the politico-bureaucrats with whom they coincidently shared the same interests, instead of becoming actively and publicly involved in politics – a role that perfectly fulfilled the expectations and aspirations of the powerholders. Shin (1989: 40), even less interested in ethnicity, regarded 'their racial attribute as relatively insignificant to the common interest and characteristics the emerging new capitalists share', thereby massively understating the relevance of being Chinese especially during the New Order. Like MacIntyre (1990: 256), he emphasised the inter-ethnic composition of the business class, criticising Robison who – until the mid-1980s – still differentiated between Chinese and indigenous capitalists and considered the 'deep political and social divisions' between them as 'the factor which has proven most fundamental in the development of the Indonesian capitalist class' (Robison 1986: 271). The latter's stance on Chinese capitalists, however, shifted with time. He suggested that they surmounted their role as client bourgeoisie: 'They are now capitalists whose position and power is based to a significant degree on the ownership of capital' (Robison 1986: 318). In subsequent works, Robison (e.g. 1993) also regarded the ethnic partition of capital to be secondary. Together with Hadiz, he combined 'powerful bureaucratic and corporate families' (Hadiz 2001b: 120) in one group that they termed 'capitalist oligarchy' (Robison & Hadiz 2002; 2004). Although they frequently referred to internal conflicts, their main focus was on the ascendance of the capitalist oligarchy rather than on the friction between the components within it. Thus, it was of no major concern for this perspective to explore why the capitalists were predominantly Chinese and how they were instrumentalised.

In the course of this study, I will demonstrate that it is indeed very rewarding to focus on such questions. Notwithstanding the inherent incapability of class-based approaches to take ethnicity into consideration, they, however, offer a more appropriate, albeit incomplete framework for analysing Chinese capital. Logically, *Chinese* big business has not yet been the main focus of a structural analysis of Indonesia. This study attempts to fill the existing void identified here.

An analysis of Chinese capital's ethnic and material conditions

Although the two frameworks seem to oppose each other paradigmatically, culturalist and structuralist considerations are not as mutually exclusive as it may appear. Indeed, a judicious and simultaneous application of both is not only useful but also very necessary in order to analyse Chinese capital in its entirety. Reid's (1961) mediation between the two Australian schools of Indonesian studies, that 'neither approach is more legitimate or objective than the other, that both have been and will be productive of fine scholarship, and that the tension between the two is likely to be particularly creative', is as much valid for analyses on Chinese big business in Indonesia.

There were a few culturalist studies that tried to combine class and ethnicity. In particular, Mackie (e.g. 1998; 2000; 2003), who frequently published on ethnic Chinese businesses, attempted to expand the scope of socio-cultural accounts. However, he still put more weight on ethnic factors, making clear himself that 'it is appropriate […] to take the vertical divisions as the primary point of reference' (Mackie 1988: 218):

> To try to account for their economic, social or political actions solely in class terms, as if they had a stronger sense of class solidarity with other wealthy capitalists in the Indonesian bourgeoisie, and to disregard their status as members of an ethnic minority also, would require us to leave out a large part of the story, in many cases the more important part. One of the striking features of all overseas Chinese communities has been the way their strong sense of ethnic solidarity has overridden the wide social differences between towkays and coolies …
>
> (Mackie 1988: 234)

The latter proposition reveals that it remains inadequate to merely add some elements of the structural approach while basically upholding the ethnicity-centred perspective. As long as more weight is given to the 'strong sense of ethnic solidarity' between 'towkays and coolies' – an assumption that lacks empirical proof[16] – it is not possible to analytically isolate the capitalists to discuss them in regards to their class position.

Management perspectives do not provide an apposite platform either. The study undertaken here is concerned about the political-economic position of Chinese capitalists and can thus largely disregard entrepreneurial decisions. Corporate strategies *per se* are not of interest; they only come into the picture if state policies impinge on them or vice versa. Moreover, it is hardly suitable here to use an approach that explains patterns as deriving from values. More helpful in dealing with capital are studies in the field of economics, although they usually lack the political-sociological dimension and ignore the aspect of embedded vested interests. However, contrary to many of the quantitative methods applied by economists, precise figures

[16] I could neither observe an innate solidarity between 'ordinary' ethnic Chinese and the major Chinese capitalists, nor has it been expressed by any of my 'towkay' interviewees and middle/lower class Sino-Indonesian conversation partners. One of my respondents, tycoon Tomy Winata (interview 17 September 2004), even explicitly rejected this assumption. To my question if he feels a sense of ethnic solidarity towards members of his ethnic group, he asked me if I do. After I negated this, he said: 'See, so why should I?'

(on assets, investments, etc.) are not of the utmost importance to this study. Unquestionably, they can be very illustratative of certain points and trends, but without being interpreted in relation to the broader political economy, such data alone make little sense. The institutionalist, often functionalist viewpoints of economists additionally obstruct a discussion of issues of power.

Hence, for an analysis of the power of Chinese Indonesian *capitalists* (and not the values of capitalistic Indonesian Chinese), a perspective, based on the economic divisions of society, has to be adopted, which takes into account the material conditions as well as the interests of the various factions who compete with each other for power, resources, and non-material gains. To categorise the Chinese tycoons as the main element of the capitalist class, therefore, brings us closer to a more accurate and objective analysis than one that is based on their ascribed affiliation to an ethnic minority. However, ethnicity as a vertical pillar of society and a powerful political instrument must not be neglected as it justifies class divisions. Hence, a class analysis should also include Mackie's (1988: 234) valid objection that the capitalists 'are subject to a constant tension between the imperatives of their status as members of that class and the imperatives of their ethnicity, since they cannot cease to be members of a highly vulnerable and politically suspect minority group'.

This study takes up the position that there are no ethno-cultural reasons for big business in Indonesia to be predominantly 'Chinese'; nor is it a coincidence. It is a question of power and the related usage of ethnicity. Thus, analysing the structure of Indonesia's political economy will give an insight into state–capital power relations. Starting from this viewpoint, a structural approach to Chinese big business can be developed as an analytical framework that helps to explain the Chineseness of capital in Indonesia and leads towards a more holistic exploration of the contingent power of Chinese capital.

2.2 Identifying the 'ruling class': Capital and the state

If the Chineseness of Indonesia's capitalists is to be seen as a socially constructed and politically instrumentalised variable and not as a primordial given, we need to shift the focus away from ethnicity to more explanatory categories such as the state, the bureaucracy, and capital, to assess the power configurations in Indonesia. Who has power over the state? In what ways do capitalists exert authority over the state apparatus? How does the state represent and realise the interests of capital? This section will discuss the specific Indonesian conditions during the New Order.

As Jessop (1990: 44) rightly claimed, it is 'debatable whether it is possible to develop a theory of the capitalist state in general. For, since capitalism exists neither in pure form nor in isolation, states in capitalist societies will necessarily differ from one another.' Moreover, there are not only variations from state to state; one state at a particular point in time hardly resembles the same state in another period. Therefore, different states at different times require a different set of theories to explain them. For the Indonesian case, I will outline the most applicable interpretations of the New Order and potential configurations of future regimes, despite their inconclusiveness for other states as well as for other time spans than that which is specified.

I argue that traditional Marxist theories of the state remain unable to grasp the complex power relationships between the state managers and capital during the New Order. Instead, I suggest describing the New Order as bureaucratic capitalism in which the state elite managed to preserve its autonomous appropriation of the state apparatus and its hegemony over the capitalist class. As a discussion of various forms of capitalism will illustrate, the post-Soeharto Indonesian state is moving towards a plutocratic capitalist regime, where capital finally has the best opportunity to exercise structural and even instrumental control over the state.

Theories of the capitalist state

The most well-known understanding of the state goes back to Weber (1926: 8-9), who attributed three major characteristics to the state: territoriality, monopoly of coercion, and legitimacy. However, this formal definition mainly refers to the institutional dimension and lacks any evaluation of power relations. It comprehensively describes the state apparatus, but it does not seek to find out who controls it.

Thus it is necessary to turn to class-based approaches to the state. Classical Marxist analyses share the basic assumption that capitalist states in general serve the interests of the capitalist class, i.e. a continuous reproduction and accumulation of its capital. Of main concern are the motives, modes, and the extent of class domination. In that respect, the answers given vary significantly. Most accounts can be broadly distinguished into two perspectives that emphasise either the instrumental grip of the ruling class on the state or the structural contradictions and constraints of the capitalist system mediated by a relatively autonomous state.

The former, instrumentalist approach presupposes that 'the executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie'[17] (Marx & Engels 1993: 21). The instrumental seizure of state institutions through individuals enables the capitalists to implement policies serving their interests. Miliband (1969: 23) accordingly maintained that 'the "ruling class" of capitalist society is that class which owns and controls the means of production and which is able, by virtue of the economic power thus conferred upon it, to use the state as its instrument for the domination of society'. Through the method of power structure research (e.g. Mills 1956) instrumentalists seek to reveal the existence and composition of the capitalist class and its links to the state managers and intermediary institutions, thereby proving capital's instrumental domination over the state apparatus. Originally, this approach was intended to confront advocates of the pluralist school that regarded the state

[17] Original (1848): 'Die moderne Staatsgewalt ist nur ein Ausschuß, der die gemeinschaftlichen Geschäfte der ganzen Bourgeoisklasse verwaltet.'

as inherently neutral and focussed on individuals and groups and their decisions. However, although instrumentalists indeed questioned the neutrality of the state, proponents of the opposing structuralist school argue that most such studies remained largely in the same pluralist framework, totally leaving out the structural context.

Referring to Marx' (1962: 16) dictum that 'individuals are dealt with only in so far as they are the personifications of economic categories, embodiments of particular class-relations and class-interests'[18], these critics of the instrumentalists reject the latter's scope and maintain that 'the *direct* participation of members of the capitalist class in the state apparatus and in the government, even where it exists, is not the important side of the matter' (Poulantzas 1969: 245). Instead, they identify the state as a relatively autonomous actor not directly under the control of a ruling class, but nevertheless reconciling the major contradictions of capitalism and thus implicitly accomplishing the long-term interests of the capitalists.

Although instrumentalists and structuralists argue about the nature of power and the respective conceptualisation of the state, both approaches define capitalists as the ruling class. Kautsky's (1902: 13) seemingly paradoxical statement that 'the capitalist class rules but does not govern. It is satisfied, however, to rule the government', referred to the variety of ways in which capitalist interests could be represented. Therborn elaborated on the question 'what then does the ruling class do when it rules?':

> Essentially, it reproduces the economic, political and ideological relations of its domination. This rule is exercised through state power, that is to say, through the interventions or policies of the state and their effects upon the positions of the ruling class within the relations of production, the state apparatus and the ideological system.
>
> (Therborn 1978: 161)

[18] Original (published 1867): 'Aber es handelt sich hier um die Personen nur, soweit sie die Personifikation ökonomischer Kategorien sind, Träger von bestimmten Klassenverhältnissen und Interessen.'

Whether a state was ruled directly or structurally by capital could have perhaps been better depicted as an empirical question rather than a matter of theoretical proposition. The consensus was, however, to regard the capitalist state as generally conducive to the advancement of capital.

A study on big business cannot do without the insights of these basic theories. It is inadequate, however, to rely solely on structural or instrumental explanations. Certainly, no state is totally under control of the capitalists, or structurally completely autonomous. The previously mentioned models describe ideal types to which any existing state is nothing more than an approximation. State–business relations are contingent on time and place and require thorough empirical as well as theoretical research to determine whether the bourgeoisie has predominantly instrumental or structural power over the state. In the case of Indonesia, the given characterisation of the capitalists as ruling class further calls for an amended, more differentiated analysis. In the following, I will show that – especially for the New Order – classical Marxism does not provide an adequate framework to explain the power relations of Chinese big business and the state.

The New Order state

From the point of view of classical class-based interpretations, the New Order in Indonesia constituted nothing less than an abnormality. As I will show in Chapter 3, the predominantly Chinese capitalist class could hardly be considered as a ruling class, while the governing politico-bureaucrats were primarily self-interested, relatively independent managers of the state and only additionally owners of capital. I will thus outline an alternative perspective to describe the power structure in Indonesia until 1998. For this, it is necessary to briefly discuss the roles and characteristics of bureaucrats and capitalists during the Soeharto regime.

According to Therborn (1978: 181), 'the ruling class exercises its ruling power over other classes and strata through the state – through holding state power.' Therefore, I suggest that the state managers of the New Order were not mere functionaries, but constituted the ruling class in Indonesia, or at least its predominant part. They succeeded in limiting the power of capitalists by marginalising them through the exercise of ethnic politics on the one hand, while at the same time building up their own capital base on the other. Although some powerful families – especially the Soehartos – managed to transform themselves into capitalists, their capital was highly related to and dependent on their position inside the state apparatus. Therefore, I regard them – following Robison (1986: xxiv) – as politico-bureaucrats, who merged political and bureaucratic authority, rather than as capitalists-proper. In the years of their rule they appropriated state power so absolutely that the state lost its autonomy and became their instrument (see Robison & Hadiz 2004: 69-144).

The capitalist class in New Order Indonesia, in contrast, was severely restricted through its ascribed ethnicity. While, in Marxist schemes, capitalists have at least a structural veto even in the absence of direct political power due to the investment imperatives of the capitalist state that can only be met by them, big business in Indonesia could not count on this source of authority. Unquestionably, the Chinese capitalists were, especially in the latter half of the New Order, increasingly vital for the successful continuation of the state, but their political influence remained widely clientelistic in nature (MacIntyre 1994: 253). Links to state officials as patrons were critical for the emergence of business groups and crucial for further capital accumulation. Riggs (1966) thus termed such businessmen 'pariah capitalists', which is indeed a very accurate description (that is also adopted here in this study), although he, as well as most other patron–client-approaches, depicted the capitalists as mere compradors, who were totally dependent upon the bureaucrats.[19] In New Order Indonesia, Chinese big business was indeed restricted, but they were more than the 'ersatz' capitalists portrayed by

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[19] To prevent a misunderstanding of the term 'patronage', Robison (1982: 136) emphasised 'that patron–client political forms do not indicate an absence of classes, but constitute one form in which classes work out relationships and seek political and economic accommodation.'

Yoshihara (1988) and more than just the financiers of the state elite. They were real capitalists, and as such part of the oligarchy presiding over the state.

However, their exact position inside this coalition is debatable. Robison & Hadiz (2004) fused both bureaucrats and businessmen into a single entity they called 'capitalist oligarchy', perceiving potentially antagonistic political and economic concerns as secondary. Indeed, the two parties' long-term interests always coincided and it never came to a serious clash throughout the whole Soeharto era. Nevertheless, as I will demonstrate later, the state managers were ultimately in the driver's seat, because there were severe limitations in the capacity of Chinese capital – even big Chinese capital – to confront and challenge state bureaucrats when it suited their interests.

It is therefore more helpful to talk about a 'division of labour between those who accumulate capital and those who manage the state apparatus' (Block 1987: 54) and view the oligarchy as a 'power bloc', into which the highly fractioned bourgeoisie has organised itself (Poulantzas 1969). The ruling class could thus be regarded as a political alliance between a hegemonic bureaucracy totally embedded in the state and a politically circumscribed business class lacking the means of direct political action. This was by far no static ensemble, but a coalition whose internal dynamics were permanently negotiated. Chinese capitalists in the early 1970s were undoubtedly more clientelistic than the ones in the 1990s, and the bureaucratic authority over capital certainly decreased towards the end of the New Order regime. Nevertheless, it still gives us analytical clarity to regard the politico-bureaucrats as personification of the state, because the political institutions remained under their complete control until 1998. Therefore, investigating the characteristics of the relations between Chinese businessmen and the state elite helps to reveal the general conditions of the state's power structures.

Hence, to explain the New Order, I propose a perspective that addresses the state as an autonomous actor, thereby integrating important insights of both instrumental and structural approaches, but further expanding on the latter. On the one hand, I concur with the instrumentalist assumption that the state can be used as a tool. However, in the case of the Soeharto regime it was not the instrument of the capitalist class, but of the politico-bureaucrats. On the other hand, the bureaucrats' policies were confined to favouring capital accumulation, thereby fulfilling the needs of the Chinese capitalists. The important deviation from conventional class-based approaches, however, was that the state managers' support of capital was neither an end in itself nor forced upon the state by the capitalists, but a means to an end for the bureaucrats, which was to stay in power and to enrich themselves. Block (1987: 84) suggested that 'state managers collectively are self-interested maximizers, interested in maximizing their power, prestige and wealth'. This view corresponded with Skocpol's (1979) historical-institutionalist approach, in which she emphasised the disjunctures between state and capital. States – with their 'administrative and coercive organizations' as 'the basis of state power as such' (Skocpol 1979: 29) – should not be seen as 'mere analytic aspects of abstractly conceived modes of production, or even political aspects of concrete class relations and struggles', but 'actual organizations controlling (or attempting to control) territories and people' (Skocpol 1979: 31). In order to focus on the class character of state power, it then makes sense to define the bureaucratic authority over the state apparatus as a 'means of production', as Budiman (1988: 124) suggested. It was the politico-bureaucrats who controlled the most relevant source of power to satiate and further their own interests. Only incidentally did they look after the interests of the capitalists. As Anderson (1983: 478) maintained, 'the policy outcomes of the "New Order" […] are best understood as maximal expressions of state interests'. The strong state of the New Order, therefore, was a rather autonomous actor in its own right, independently managed by the politico-bureaucrats, and relatively sovereign *vis-à-vis* capitalist power.

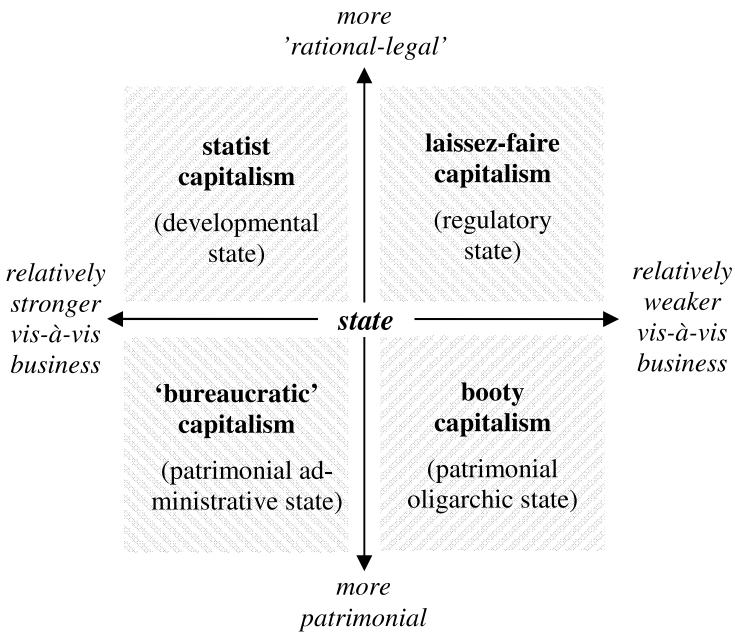
The New Order should thus be regarded as a bureaucratic capitalist state (Budimann 1988) – 'bureaucratic', because the state managers appropriated the state apparatus and were the dominant part of the ruling class; 'capitalist', because the state subscribed itself to relatively unlimited capital accumulation. The role of the Chinese capitalists inside such a state was ambivalent: They benefited from the capitalist system, but were harnessed by the all-encompassing politicians. As long as the New Order regime fared well, there was no reason – and no practical possibility – for big business to change the internal hierarchy of the oligarchy, for their interests coincided with those of the rulers. But the moment the system got into a crisis – as it happened at the end of the 1990s – the stakes had to be renegotiated. The typology that I will develop in the following section will classify the New Order and outline possible future constellations of the Indonesian state.

Forms of capitalism

As pointed out before, for an analysis of the New Order it is necessary to expand the concept of the ruling class by not only including the top personnel of the bureaucracy, but also attributing a hegemonic position to it. It is thus constructive to factor the state managers into the equation.

In this vein, Hutchcroft (1998) introduced a useful 'heuristic typology of capitalist systems' (see Figure 1). For this, he applied Weber's ideal types of rational-legalism and patrimonialism very insightfully to categorise different capitalist states, further differentiating between relatively stronger and relatively weaker state apparatuses *vis-à-vis* business interests. He classified most western states as more rational-legal and thus either as developmental or regulatory states, and the more patrimonial Southeast Asian states as either 'patrimonial administrative' or 'patrimonial oligarchic', referring to Weber's (1978: 1041) definition of patrimonialism: 'Practically everything depends explicitly upon the personal considerations: upon the attitude toward the concrete applicant and his concrete request and upon purely personal connections, favors, promises, and privileges'.

Figure 1: Typology of capitalist systems



(Adapted from Hutchcroft 1994: 221)[20]

As the character of state power represents the ruling class as well as the relevant mode of production, Hutchcroft further typified the systems of capitalisms determined by the respective states. More patrimonial states with relatively weak state managers enabled a system of capitalism he termed 'booty capitalism', while relatively strong states facilitated a 'bureaucratic' form of capitalism.

Hutchcroft (1994: 220) considered Indonesia to belong to the latter category, as 'rents are most commonly grabbed by a bureaucratic elite based *inside* the state'. The politico-bureaucrats thus benefited disproportionately from the patrimonial administrative state, unhindered by an initially limited and marginalised capitalist class. In the Philippines, on the contrary, 'a powerful oligarchic business class extracts privilege from a largely incoherent bu-

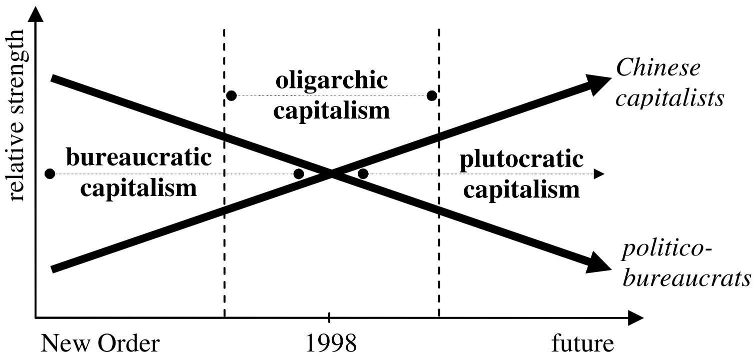
[20] To depict both axes of the typology as continua – as Hutchcroft (1998: 20) explicitly emphasised in a footnote – I modified his too rigid matrix.

reaucracy' (Hutchcroft 1994: 230). It is thus the principal direction of rent extraction that determines the nature of capitalism.

This typology is indeed very helpful to describe state–business relations due to its two-dimensionality that incorporates the relative strengths and the nature of states, although it fails to consider the possibility and direction of change. Instead, it relies on a Weberian approach that widely neglects the structural dimension. However, the characterisation of the state as patrimonial – taken as a *symptom* deriving from specific power structures – illustrates the antipodal resilience of oligarchic interests *vis-à-vis* 'rational-legal' reforms very well. While it was widely expected that post-New Order Indonesia would change from a strong patrimonial bureaucratic state into an either developmental or regulatory state, capital obviously found a more conducive shell to achieve a more efficient representation of its interests. The reforms weakened the bureaucrats in relation to business interests, but did not endanger the whole static of the ruling oligarchy. Therefore, even in a more democratic regime, patrimonialism prevailed and enabled the politico–business oligarchy to remain in power. However, inside the ruling class, the hierarchy had changed. The politico-bureaucrats lost in strength, while the capitalists – as I will empirically substantiate later – had become more assertive towards the state.

The new regime will be based on a plutocratic state where power is mainly derived from capital. During the New Order that can be rightfully termed as 'bureaucratic capitalism', the state was dominated by its managers who, however, had to face an increasingly independent capitalist class. Both factions joined hands in a predatory oligarchy controlled by the politico-bureaucrats. In the years after the crisis there might still be an equivalence of power inside the oligarchy that was forced to reorganise itself in 1998. The trend, however, is moving in favour of the Chinese capitalist class which decreasingly needs the politicians at the levers of formal power. What we observe in Indonesia is therefore an assimilation of the state to the Thai and Philippine types. Figure 2 illustrates this development very schematically – and with it the major hypothesis of this study.

Figure 2: Development of capitalism in Indonesia



2.3 From bureaucratic to plutocratic capitalism

This chapter positioned this study within the broad range of research on the Chinese minority as well as on capital in Indonesia and developed an analytical framework to be used for the subsequent historical and empirical chapters. Because, 'as always, neither economics nor culture can explain everything' (Reid 1997: 37), I made clear that I regard ethnicity as an important variable that, however, has to be embedded in a structural discussion based on the material politico-economic conditions. Only then is it possible to adequately inquire about the power of the bureaucrats and the role of capital during the New Order and outline potential developments for the post-Soeharto time.

In general, the study is in agreement with classical social conflict theories of the capitalist state that regard capital as the ruling class, with either instrumental or structural power over the state apparatus. In fact, I argue that after 1998, the capitalists have increasingly been able to loosen the reins that used to hold them down, while the politico-bureaucrats have much less of an uncontested, instrumental grip on the state and its apparatus.

For the New Order, however, we have to reconsider the position of the Chinese capitalists. Given their ethnic ascription, they can hardly be seen as the ruling class. Instead, it makes more sense to define the state managers as the dominant part of a politico–business power bloc in charge of and in complete instrumental control over the state. The reason they were quasi autonomous from capitalist power lay in the effective limitations they put in place against the (Chinese) capitalists through (1) the marginalisation of Chineseness, (2) the accumulation of an own capital base (that, however, derived from within the state), and (3) the cooptation of the capitalists in their bureaucratic oligarchy, in which they were the dominant fraction (see Chapter 3). Capital was structurally important (particularly towards the end of the New Order), but politically so much handicapped that it could have never translated its structural power into direct political action.

The end of the New Order can thus be seen as the end of a deviation and as a 'normalisation' of capitalism. With the help of Hutchcroft's typology of capitalisms, it is possible to describe the shift of Indonesia's political economy from a bureaucratic form of capitalism towards a more distinctly plutocratic form. This change, however, merely reflects a modification of the internal hierarchy of the oligarchy in favour of capital, but not a disruption of the basic oligarchic power structures prevalent in Indonesia for the last decades.

3
LIMITED CAPITALISTS: CHINESE BIG BUSINESS AND THE STATE BEFORE 1998

The often turbulent history of Indonesia had one constant element: a predominantly Chinese capitalist class characterised by economic strength and political weakness. This chapter seeks to make sense of this contradiction, explaining the reasons for Chinese big business' incapability to translate economic power into political power. At the same time, I will explore why, since colonial times, the economic vigour of Chinese capitalists remained unimpaired. More pertinently, how did they maintain and even expand their economic power despite being permanently branded and treated as 'foreign Orientals' by successive governments? Or did the perpetuation of their pariah status constitute the necessary conditions for their success?

Culturalist accounts perceived Chinese business success as an inconsistency difficult to explain, because in most regimes the rhetoric as well as the corresponding policies of the respective rulers were targeted against ethnic Chinese. Hence, many culturalists attributed the prominent economic role of Sino-Indonesians to their primordial business acumen that prevailed over all political adversity (e.g. Mackie 1989; Suryadinata 1997). In contrast, I argue that the 'Chineseness' of the capitalists was indeed the most important factor, not because it referred to innate ethnic abilities but to a feature that could be purposefully constructed and instrumentalised by the state. It is suggested here that ethnic Chinese businessmen, as members of a marginalised minority, were deliberately placed in the position of what I term 'limited capitalists' – wielding structural power through their ownership of capital, but remaining politically handicapped due to the marginal social position of the ethnic group they were assigned to. Through this they constituted an ideal, rather harmless bourgeoisie to be co-opted as willing financiers and junior partners in mutually beneficial predatory alliances with state officials, thus perfectly complementing the hegemonic authority of the politico-bureaucratic rulers.

By tracing back the structural conditions for the emergence and existence of Chinese big business, this chapter will show that colonial patterns of state–business relations persisted throughout Indonesian history. Every regime maintained and used these historical legacies, which singled out the Chinese capitalists as 'foreign'; and they themselves as 'essential outsiders' (Reid 1997) benefited from these arrangements no less than the holders of bureaucratic power. I will focus on the symbiosis between the conglomerates and the state during the New Order, which will provide detailed observations on the power structures that were rooted in colonialism and – at the same time – remain immensely significant for contemporary Indonesia's political economy.

And even if they seem to be busy revolutionising themselves and the conditions, creating something which has never been there before, exactly in such epochs of revolutionary crisis they conjure anxiously the spirits of the past to be of their service, assume their names, battle slogan, costume, to enact, in such time-honoured disguise and with such borrowed language, the new scene of world history.
(Marx 1960: 115)[21]

3.1 Determinants: Chinese capital in historical perspective

The relationship between the state and capital can only be understood in regard to historically-rooted developments, tensions, and contradictions in Indonesian society. It is thus necessary to analyse the economic history of Indonesia with reference to the role of Chinese capitalists by going back to pre-colonial times during which particular social and political tendencies and patterns were forged that remain relevant to current issues and problems. It is in pre-colonial society that we find the beginnings of many of the social processes that came to posi-

[21] Original (published 1885): 'Und wenn sie eben damit beschäftigt scheinen, sich und die Dinge umzuwälzen, noch nicht Dagewesenes zu schaffen, gerade in solchen Epochen revolutionärer Krise beschwören sie ängstlich die Geister der Vergangenheit zu ihrem Dienste herauf, entlehnen ihnen Namen, Schlachtparole, Kostüm, um in dieser altehrwürdigen Verkleidung und mit dieser erborgten Sprache die neue Weltgeschichtsszene aufzuführen.'

tion the Chinese in a particular way during colonialism and early independence so that Chinese capitalists played the role we associate with them during the New Order.

Pre-colonial times (From the 'dawn of history' to 1600)

The first Chinese are believed to have arrived in Java as early as the Tang period (618–907) or, as historian Onghokham (2003: 183) put it, 'probably as far back as the dawn of history'. However, it was the intensification of trade during the Ming dynasty (1368–1644) that led to an increased migration from the Southern provinces of China to the so-called *nanyang* (southern seas), today's Southeast Asia (Heidhues 1974: 6).

Reid (1988) has referred to the time before industrialisation and modern imperialism as 'the age of commerce' in order to emphasise the importance of trade, which was, on the one hand, the main motivation for Chinese to leave their homes, and on the other hand, the occupational niche that was not already monopolised by indigenous social groups (Wertheim 1965: 43). These protocapitalist activities thus gave the Chinese a possibility to fit into the pre-colonial societies whose economic gap they could bridge.

This went well with the preferences of many local regents who liked to appoint foreigners as intermediaries between them, the indigenous population, and outside markets. The advantage of such constellations – that were also imposed by mediaeval European rulers upon the Jews (Reid 1997: 44) – was that trade as a necessary but unpopular task was being assumed without the risk of letting indigenous people rise to positions that might challenge the local regents. Chinese merchants were not mere stopgaps, but ideally situated for this role. They could facilitate trade with China, the largest market for Southeast Asian goods at that time (Reid 1992: 464). They were already present in substantial numbers and very mobile, moving from the coast to the interior in ways only sojourners could. Most importantly, they were a minority without a local homeland and without the resultant political rights of people regarded as indigenous, coming from far away without the intention to remain permanently.

The assigned role was utilised and well expanded by the Chinese, most significantly through the monetisation of the subsistence and cash crop economy that gave them a clear advantage above other groups. This also prevented the development of an indigenous merchant class, as the required licences were too expensive and thus out of reach for local entrepreneurs (Kathirithamby-Wells 1993: 133-4). Chinese traders as partners or agents therefore became indispensable for many rulers who established strong symbiotic patronage networks that furthered the political ends of the local aristocrats and the economic targets of the Chinese sojourners, thereby launching persistent patterns of relationships in Java and elsewhere in Southeast Asia (for the Thai case, see Hewison 1989: 34-5).

However, this basic structural framework differed from future regimes in one decisive condition: In pre-colonial times, the Chinese had the possibility to completely assimilate within the native population, which brought about an absorption into the local elite and thus a rise in social status (Wertheim 1965: 46; Skinner 1960). Albeit having certain economic functions, the Chinese were not as excluded from broader society in ways that would occur under the European colonialists who neither allowed assimilation of the Chinese into their caste, nor encouraged them to blend into the native society.

Colonial rule (1600–1949)

As the Dutch arrived in Java in 1596, they were only one group amongst other traders (Onghokham 2003: 151). In 1602, they founded the *Vereenigde Oost-Indische Compagnie* (VOC – Dutch East India Company) and established Batavia in opposition to the prospering Sultanate of Banten as the centre of its operations in 1619 (Blussé 1986: 73-96). This city that later became Jakarta was built around the Chinese settlement, today's Glodok. The proximity to the Chinese was not coincidental. The Dutch utilised the existing political structures (Robison 1986: 5) through which they were able to benefit from the intermediary position of the Chinese as much as the local rulers did before. The Chinese merchants were essential and irreplaceable in setting up and later supporting the economic infrastructure, because the VOC could not advance into the intermediary trade; thus the Chinese with their already established networks and infrastructure of commerce complemented them ideally.

Initially, the VOC officials tried to populate Batavia with their fellow citizens from the Netherlands, but soon they changed this plan, as Dutch people were regarded to be more critical towards the authority of the VOC, the authoritarian political structure, and its trade monopoly (Onghokham 2003: 184; Blussé 1986: 25). The Chinese, however, were no immediate threat for them, as long as they could be separated as a distinct group and curbed in their economic range. The Dutch thus tried to lure Chinese merchants to their trading post; they even sent out expeditions to China to kidnap some Chinese and populate Batavia with them (Liem 1980: 131). Positioned as 'outsiders at the center' (Reid 1997: 34) who were occupying essential niches in the economic system, they were, from the nineteenth century, restricted from owning land or, later on, joining the civil service, thus being left with only few alternatives but to engage in trade, tax-farming, and other activities regarded as morally questionable (Diao & Tan 2001: 125). This special economic position as entrepreneurial middlemen minority paved the way for them to becoming crucial agents of a slowly emerging state (Reid 1997: 43), but – simultaneously – led to their social exclusion as 'foreign Orientals', an image that reinforced the gradual perception of Chinese ethnicity as most prominent boundary marker (see Carey 1984).

It was already in the beginning of the eighteenth century that the Dutch began to fear the increasing market power of the Chinese settlers. The intensity of migration as well as the growth of their economic activities went beyond the control of the Dutch. This led to anti-Chinese regulations like head taxes, deportations, and a ban on owning agricultural land. Whoever was caught without a letter of permission (*Permissiebriefjes*) was to be sent to Ceylon as a slave (Blussé 1986: 94). Dutch paranoia about the growing Chinese dissatisfaction with these measures as well as their general economic advancement, led to the killing of 10,000 Chinese in the massacre of Batavia in 1740 – almost the whole Chinese population of the city (Blussé 1986: 94-5; see also Setiono 2003: 107-19). However, the Company soon realised that these measures were a big mistake, as the economic life of Batavia broke down after the pogrom. They had to recruit new Chinese to take over the now vacant positions in the intermediary trade (Liem 1980: 139). The lesson learned by the VOC officials was that the Chinese were essential for the colony and, as middlemen, served the colonialists' very own interests. Moreover, if necessary, it was always possible to constrain the economic power of the Chinese through acts of repression, thereby corroborating their subordinate position. From 1800 on, after the VOC was dissolved and taken over by the Netherlands monarchy, the objectives of colonialism shifted from trade to the exploitation of raw materials. This modern form of imperialism required a more effective administrative framework and economic infrastructure. However, the state itself was too weak for these tasks, lacking an appropriate apparatus. Therefore it sub-contracted the sovereign right of tax collection and revenue farming to private interests, preferably to already wealthy and well-connected Chinese businessmen (Dick 1993: 3-9). The benefits for the colonial state were obvious: It neither needed to own capital, nor bankroll an existing bureaucracy for this task. Moreover, power did not have to be shared with Javanese aristocrats (Reid 1993: 78).

Many new intermediary positions in the economy were thus created, accelerated through the expansion of foreign trade. The Chinese were the natural partners in this 'alliance of convenience' (Dick 1993: 3). They already had an advantage as first-comers through their middlemen status (Wertheim 1969: 94). A good example is provided in the case of So Bin Kong, who became the first *opsir Tionghoa* (Chinese officer)[22] after having been a trading partner with both the VOC and local regents for many years. However, at least from this time on, we have to carefully differentiate between Chinese petty traders and Chinese big business, as only the elite of the Chinese business community was eligible to play an important role in the

[22] The Chinese officers had to oversee the administration and internal regulations of the Chinese communities, explaining and carrying out political decisions of the colonialists as well as collecting taxes and revenues. In return, monopolies and exclusive licenses were bestowed upon them (see Suryadinata 1997: 26).

colonial system (see Fernando & Bulbeck 1992: 77). Wealth and political connections were the basis for an appointment as revenue farmer or Chinese officer, for which huge sums had to be paid up-front; such positions in turn intensified the concentration of economic and political power in a few Chinese hands and were therefore out of reach for most (Onghokham 2003: 189).

In the colonial administration and economy these businessmen had several possibilities to accumulate capital: as Chinese officers or tax collectors, through opium farming, monopolies, gambling dens, or pawnshops. The basic premise of what Kwee (2006) called ‘elite synergy’ between Chinese merchants and VOC officials was the acceptance of Dutch pre-eminence. To be as close to power as possible gave a small group of Chinese towkays the much needed security and access to business opportunities. Through the consequent emergence of private capital the Chinese were prepared to take part in the more developed capitalism and colonial administration starting in the latter half of the nineteenth century. The capital accumulation process of the Chinese reveals the main contradictions of the colonial economy: The state needed the Chinese middlemen and tax collectors, but it was inimical to its interests to let the Chinese become a powerful capitalist class, whereas the Chinese owed their existence to a colonial state that could not do without them. Their actions, however, nurtured a state, that, in the end, found it expedient to place restraints on their economic role. Clearly, there are parallels to be drawn here with some of the patterns of state–Chinese capital relationships in New Order Indonesia.

From 1850 onwards, however, several Chinese families accumulated capital that they could invest elsewhere. In 1892, Chinese were in possession of, for instance, 45 per cent of land that could be legally owned by non-‘natives’, 63 per cent of all private estates, 31 per cent of buildings and premises on land not privately owned, 22 per cent of tonnage of ships and vessels, 18 per cent of the sugar mills, and 32 per cent of timber concessions (Diehl 1993: 202). This undoubtedly indicated the magnitude of Chinese commercial influence, giving them a relatively autonomous base of social power – a development that the colonial rulers saw as a threat. The Company's attitude towards and treatment of the Chinese economic elite therefore changed significantly, leading to their perception as the 'foremost enemy' of the state (Phoa 1992: 14), even though there was still plenty of collaboration going on. Again it boiled down to many restrictions against them, discriminatory regulations, and clashes under the label of 'ethical policies' – a programme implemented to better the situation of indigenous, which was explicitly directed against the Chinese (Wertheim 1965: 58). This forced many Chinese businessmen into informal, illegal operations such as smuggling, gambling, and the illicit opium trade. In the meantime, however, the whole economic and administrative system was dependent on Chinese and their investments, taxes, revenue collections, and trade activities, which were urgently needed by Dutch businesses. This exemplified a theme which was to recur in history. Chinese were indispensable in the running of the economy, but they could not be allowed to have any significant social and political influence exceeding the authority of individuals (e.g. the Han family in East Java; see Salmon 1991). It was an intended vicious circle. By emphasising the Chinese as a functional group consigned to trade, Chinese exclusivity was fostered, which in turn cultivated anti-Chinese sentiments among the local people and manifested itself as ethnic segregation.

After 1900, the major paths to wealth for Chinese capitalists were in sugar production, tin mining, rice milling and trading, retail and wholesale trade, shipping, and rubber cultivation or trading (Mackie 1996: xxvi). The economic competition of Chinese businesses with Dutch corporations as well as with indigenous traders increased significantly due to amplified reciprocal interferences into formerly exclusive economic sectors and 'a gradual breaking down of traditional occupational dividing lines' (Wertheim 1965: 76). The Depression in 1930 finally weakened many Chinese businesses, but it also damaged – in an even more devastating way – their competitors, thus boosting Chinese' dominance over domestic trade (Geertz 1965: 59). The subsequent decade until 1940 saw the increasing importance of Chinese capital, a decline of the estate sector, and a growth in the manufacturing industry (Robison 1986: 9-10), which enabled the Chinese businessmen to leave the shady niches once provided by colonial capitalism. They could henceforth invest in new, innovative sectors like estates, mines, factories, steamships, and banks (Onghokham 2003: 181).

To conclude, a few Chinese established strong relationships with the holders of political power under Dutch rule. The Chinese officer system – despite being abolished after 1916 – was the pattern of accommodation for the future, preparing the ground for the patronage networks between political and economic elites to come. Despite all anti-Chinese measures, the existence of the capitalists was never endangered, as an eradication of the Chinese element would have meant an annihilation of one of the pillars upon which the whole system was built. However, as Rush (1991: 24) observed, the perception of the Chinese as collaborators – even though they played a crucial role in the early awakening of Indonesian nationalism[23] – also linked ‘a powerful wave of sinophobia […] with the embryonic stages of the Indonesian nationalist movement, a movement whose heirs would build the *new* state and decide who, exactly, was truly Indonesian. And who was not.’ The considerable implications of this will be discussed below.

The post-colonial state (1949–65)

A modern capitalist state requires a union of political and economic power in the hands of the ruling class, as Twang (1998: 318) emphasised in regards to the young Indonesian nation. However, as a legacy of colonialism, the Chinese economic elites and the Indonesian political leaders were divided into antagonistic racial blocs, thereby complicating the nation-building process. Nevertheless, during the struggle against the colonialists some indigenous revolu-

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[23] The Chinese contributed to the nationalist movement in several ways: First, through the participation of a few Sino-Indonesians as Indonesian nationalists (Pramoedya 1998; see also his Buru novels, e.g. Pramoedya 2001), second, by constituting the pivotal counterpart (see Anderson 1991), especially through the simultaneously emerging Chinese nationalism (see Suryadinata 1978: 63-79), and third, by providing the technical and infrastructural means, e.g. newspapers (see Suryadinata 1978: 129-41), as well as an inspiring model to organise and agitate against the colonialists (Purcell 1965: 446).

tionaries already overcame the incongruity between ethnic sentiments and economic necessities and co-operated with some Chinese capitalists (Twang 1998: 324). This reconciliation of mutually exclusive political and economic forces under the umbrella of business operations led to the realisation that both groups' interests were compatible and that their cooperation would benefit both parties. Twang (1998: 325) interpreted these business alliances as a nascent multi-ethnic bourgeoisie, in which political protection was given in return for economic co-operation. This, however, risks being misunderstood. The loose coalition was not a fusion of political and economic power; it was not more and not less than a pragmatic solution to secure the existence of both groups.

The benefits deriving out of it convinced the Indonesian political elite to leave the Chinese capitalists in their colonial position and to take over the general structures of the old regime. Elements of the colonial state were incorporated with apparent ease into the succeeding nation-state, as Dick (1993: 4) observed: 'The state as an institution seems to have been more durable and more significant than the garments in which it is clothed, be they of the colonial state or of the nation-state.' In particular, the post-colonial state inherited a class structure in which power was concentrated in the state apparatus and thus confined to the bureaucracy and army, who were given a certain degree of autonomy due to the economically weak indigenous classes and the politically limited Dutch and Chinese bourgeoisie (Robison 1982: 139-41). For the Chinese, this also meant a continuation of their status as aliens. Indeed, as a minority group, they were regarded as the 'others' in relation to an 'indigenous' majority; in that way they constituted the crucial counterpart necessary to define the non-Chinese 'imagined community' (Anderson 1991) of the newly built Indonesian nation. There was thus no legitimate place in the young republic for the Chinese capitalists. This combination of economic strength and political impotence, however, secured the survival of the essential but innocuous Chinese capitalist class in an environment that desired stabilisation and rehabilitation. The social ostracising of Chinese capital thus served two ends: (1) To contain the economic power of Chinese business as much as it was acceptable for the whole economy, and (2) to weaken the bargaining power of the Chinese capitalists *vis-à-vis* the indigenous officials who had taken over the political positions from the Dutch.

After the Indonesian republican state assumed sovereignty at the end of 1949, policy-makers made a move against foreign and Chinese merchant capital, with the intention of altering the colonial economy into a more self-sufficient industrial economy based on indigenous ownership of capital. By that they could give in to demands of the aspiring indigenous business class that regarded Chinese merchants as immediate competitors. The first measure was the *benteng* (fortress) programme, implemented in 1950 to counter Dutch and Chinese economic interests. Import licenses and credits were given exclusively to indigenous importers (Thee 1996: 317). Chinese businessmen, however, benefited from this regulation through the 'backdoor' by using indigenous license holders as substitutes, thereby effectively contravening the efforts. In 1959, the *Peraturan Pemerintah* (presidential regulation) No. 10 forbade the alien Chinese to conduct retail businesses outside the cities (Heidhues 1974: 24-5). However, the ones who suffered through these policies were mainly the poorer Chinese, not the more established Chinese businesses (R. Brown 2000: 8). Significantly, most political actors, such as Vice President Hatta, prioritised focussing on the lower levels of the economy and, for instance, the transfer of small shops and business opportunities to non-Chinese cooperatives (Heidhues 1988: 122). Sectors that did not require too much capital and experience were seen as an ideal starting point to form an indigenous business class (Robison 1986: 86). However, as I will demonstrate, neither did the latter materialise, nor was it the political will of the powerholders to nurture *pribumi* capitalists.

Indeed, the state leaders around President Soekarno did not intend to fully eliminate Chinese capital, even though they tried to keep their promises of economic nationalism that they gave during the struggle for independence and the process of nation-building. However, the push for indigenisation turned out to be undeliverable. The state could have fostered the emergence of an indigenous capitalist class through state credits. Further, it could have transferred the Dutch enterprises that were confiscated in 1957/1958 to *pribumi* businessmen. Instead, however, they were seized by the state and handed over to the military to manage. Moreover, the ruling elite could have proceeded with Chinese businesses as they did with foreign capital, but no major centre of power really wanted to get rid of them, because this would have caused irreparable economic damage to the Indonesian economy as well as to individual alliances between state managers and Chinese capitalists (Robison 1986: 87). Furthermore, it served the interests of the former best to leave the economic power in the hands of the latter instead of an indigenous bourgeoisie, as Robison accurately assessed:

> The particular importance of indigenous businessmen as opposed to Chinese is essentially political. Whereas a dominant Chinese capitalist class may impose the general interests of capital upon the state, an indigenous capitalist class possesses the potential for direct and public political action. Chinese capital may impose constraints and imperatives upon the policies of the state, but a powerful indigenous capitalist class has the potential to transform the very structure of power.
>
> (Robison 1986: 88)

Following this argument, the continuing economic strength of Chinese businesses was an expression of a political interest in keeping the post-colonial state relatively free from bourgeois dominance, leaving state power as the domain of state bureaucrats. The position of Chinese capitalists, who had neither aspiration nor the possibility of entering the state bureaucracy, was thus relatively secure, providing them with an 'inbuilt resilience in the face of political assault' (Robison 1986: 87).

During the last years of the 'Guided Economy' regime (1957–65) the military emerged as the most powerful politico-bureaucratic force (Robison 1986: 96). As the Soekarno regime further stagnated, at the same time that the president was forging an ever closer alliance with the army's arch-nemesis, the Indonesian Communist Party, the army took its chance to appropriate state power (Crouch 1978). All the while, some of the generals had already started to forge alliances with Chinese entrepreneurs during and shortly after the independence struggle (see Twang 1998: 254-316), of which the most famous and momentous connection was that between Soeharto and Liem Sioe Liong. These future powerholders were well aware of the inherent contradictions in the position of Chinese capital, and, from historical experience, realised the potential value to them of Chinese businessmen in the post-Soekarno set-up. The temporary hibernation of Chinese big business before 1965 that neither destroyed nor particularly furthered Chinese capital thus came to an end, while its contradictory status was to be amplified.

3.2 The New Order accommodation

In 1965, the military took over executive power, terminating a politically and economically dilapidated regime. The appropriation of state power was so comprehensive that the generals around Soeharto were increasingly able to use the state apparatus in the most instrumental of ways (see Chapter 2). To uphold and broaden the social and financial base of their power, an authoritarian, centralised, and predatory system was put in place that secured the hegemony of the politico-bureaucratic rulers, thereby replicating patterns of relationships between the state and Chinese capital that were rooted in the dynamics established during the colonial period.

One essential component of bureaucratic authority – and the main subject of this chapter – was the subordination and co-optation of capital. Hence ethnic Chinese businessmen, who were still regarded as ‘non-indigenous’, were seen as ideal partners for collusion. The politico-bureaucrats had to ensure that the social status of these Chinese remained weak. I will demonstrate how the state managers successfully turned them into pariahs and, at the same time, designated them as their main business partners. They thus succeeded in intensifing the contradictions of Chinese capital’s economic strength and its political weakness. I will show that the limitations of the capitalists were a key pillar of the bureaucrats’ watertight system of societial dominance, which could neither be challenged by an indigenous bourgeoisie nor by the Chinese outcasts, thereby securing for the politico-bureaucrats unimpeded control of the state apparatus.

Subsequently, I will analyse the complex arrangements between capital and the state in Indonesia during the years spanning 1965 to 1997. I will demonstrate how an economically significant class of politically limited capitalists came into being and disclose the role it played inside the New Order regime. The reason why this sophisticated system of 'bureaucratic capitalism' with Chinese conglomerates being dominated by a politico-bureaucratic elite could last for more than 30 years can be found in the establishment of a mutually beneficial politico–business oligarchy, a process that Robison & Hadiz (2004: 47) described as 'a metamorphosis that was to transform the New Order from a regime serving the interests of its own officials into a regime that produced and served a growing and complex business and political oligarchy'. Its chronological anatomy is the focus of the following discussion.

Conditions: The creation of a pariah business class

The policies of the New Order towards the Chinese minority were inexplicable for most observers. Why did some ethnic Chinese manage to become the leading businessmen of a country that was so overtly anti-Chinese? Mackie (1999: 188-9) regarded this inconsistency as 'laissez-faire strategy' of the powerholders. He argued that 'Soeharto's government ignored the broader problem almost completely for over 30 years'. Harry Tjan Silalahi (CSIS, interview 22 September 2004) even claimed that 'there were no minority policies during the New Order'. It will be shown that this was not the case. On the contrary, I will demonstrate that the policies towards the Chinese were purposeful and for the most part perfectly orchestrated to aggravate the contradictions of Chinese capital.

Soeharto did not have to start from scratch. The Chinese as a minority and non-indigenous group were already defined and segregated for centuries. As mentioned earlier, the tradition of exclusion can be traced back to colonial times in which the Chinese were positioned as middlemen. Their exclusion was continued by Soekarno's relatively successful attempts to build an Indonesian nation based on an imagined *pribumi* community, largely leaving out the *non-pribumi* (Chua 2002: 83-114). The New Order's Chinese policies were thus a consistent take-over and expansion of pre-1965 patterns of state–business alliances, aiming at the establishment of a pariah business class. This was done in three steps that will be discussed in the following three subsections. (1) An important condition for embedding the Chinese capitalists into the master plan of the New Order was to extinguish Chinese culture and thus marginalise the ethnic group the tycoons were associated with. (2) Then, discriminatary policies and state sanctioned violence against the Chinese minority relegated the Indonesian Chinese to second class citizens and limited their social radius. (3) Finally, the powerholders succeeded in stigmatising ordinary *orang Tionghoa* as rich expropriators. Through this they dichotomised society into *pribumi* and *non-pribumi* groups and thus linked the capitalists inextricably to a marginalised, restricted minority. Together with all Sino-Indonesians they hence attained the status of social outcasts. MacIntyre summarised the results of the anti-Chinese policies in the following way:

> The uncertain social position of the Chinese has generally been seen as depriving the business community of the capacity to project collective political interests in any direct or organised manner. Along with other segments of society, it has been regarded as effectively excluded from political participation by the state.
>
> (MacIntyre 1990: 3)

An analysis of the process of exclusion will provide insights into reasons and motivations of the powerholders to place their partners into such a fragile social position.

Marginalisation: Extinguishing Chineseness

The desired marginalisation of the Chinese minority was to be achieved by what was euphemistically termed the 'assimilation programme' that the state oversaw in a relatively coherent and straightforward way, striving to eliminate everything that was traditionally seen as 'Chinese'. The officially proclaimed goal was to completely absorb the Chinese in society and thus to solve the so-called '*masalah Cina*' (Chinese problem). The government justified the rigorous steps taken to force the Chinese to assimilate by referring to their supposed incompatibility with the Indonesian people. Hence, it was said, the Chinese posed a threat to national unity and security. Their perceived cultural difference was presented as the main obstacle to ethnic harmony. The rage of the people, resulting in anti-Chinese riots during the first years of the New Order, was used as a proof for the incompatibility of Chinese and Indonesians. Thus the blame for the 'Chinese problem' was put on the Chinese themselves (Heryanto 1998: 103). Accordingly, the *Badan Koordinasi Masalah Cina* (BKMC – Coordinating Body for the Chinese Problem) gave the following instructions:

> Guidance in assimilation in the framework of the realization of unity of the nation should be geared towards the establishment of unity in the value system. […] All forms of cultural affinity based on the country of origin should be removed, in order to give all elements of culture in Indonesia the opportunity to develop according to the Pancasila.
>
> (BKMC, cited in Tan 1991: 115)

This was the outline for an extensive process of cultural genocide that started right at the beginning of the New Order. Everything that was suspected of maintaining Chinese identity was to be removed. In the first year of its rule, the new Indonesian government thus published a decree in which it urged the Chinese to change their names into 'Indonesian' sounding ones to accelerate the assimilation process (see Coppel 2002: 33-4). In order to avoid further difficulties and in a bid to escape anti-Chinese discrimination, many Sino-Indonesians followed this demand. By the middle of 1969, about 250,000 Chinese discarded their names (Heidhues 1974: 83-4). Moreover, the public practice of Chinese religion and customs was prohibited:

> Chinese religion, beliefs and customs [in Indonesia] originated in their ancestral land and their various manifestations may generate unnatural influence on the psychology, mentality and morality of Indonesian citizens and therefore impede natural propensity [for assimilation].
>
> (Presidential Decree No. 14 of 1967, cited in Suryadinata 1986: 160)

For fear of being perceived as communists, many Chinese converted to Christianity, the more so as Confucianism lost its status of being an official Indonesian religion later in 1979 (see Coppel 1983: 164).

In 1966, the People's Consultative Assembly of the Republic of Indonesia (MPR) forbade the use of media in the Chinese language (Tan 1991: 117). Chinese characters were removed from shops or other public displays. Chinese newspapers[24], literature, and documents became subject to the same import restrictions as pornography, weapons, drugs, or dynamite.[25] In this atmosphere of fear, one did not dare to speak Chinese languages even in the private sphere. It is reported that people were publically slapped by passers-by if they were caught using Chinese or one of its dialects. Officials monitored and interrupted telephone calls and conversations in Chinese (Heryanto 1999: 327). The 'Guidelines for the Implementation of Presidential Instruction No. 14 of 1967' (see Coppel 2002: 37-9) revealed that the government proceeded with the utmost care to completely extinguish the 'characteristics and features of Chineseness (*ke-Cinaan*)' of the Chinese minority, even prohibiting the *barongsai* (dragon dance) or Indonesian plays based on Chinese fables (Tan 1991: 118). Public celebrations of the Chinese New Year were not allowed, and in Semarang even the sale of Chinese cookies was forbidden (Heryanto 1999: 327). Mandarin-speaking schools were closed in July 1966 (Tan 1991: 117). All Chinese associations were dissolved, leaving the minority group without the main elements of social coherence and communal identity (Heidhues 1998: 166). Together with the other regulations and measures directed against Chineseness a radical forced indigenisation of the Sino-Indonesians took place.

The result of these policies was the near-extinction of Chinese culture and with it, as the original objective, a marginalisation of about 3 per cent of Indonesians who were defined as Chinese. However, the officially stated aim, to assimilate the Chinese, and its logical implication to let them eventually become part of the majority, was never an element of the New Or-

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[24] There was still one single Chinese paper (*Harian Indonesia* from Jakarta) which served as a platform for propaganda and advertisements, or, in the wording of the 'Instruction of the Cabinet Presidium No. 40 of 1967' as a 'channel for information and fostering of Indonesian residents who only understand the Chinese language, in the framework of overcoming subversive activities and foreign propaganda that is hostile to the Indonesian Government' (see Coppel 2002: 47).

[25] This regulation only disappeared from the embarkation forms in the beginning of 2003.

der's solution of the 'Chinese problem', as Wertheim already analysed with great foresight in the beginning of the 1960s:

> Lack of assimilation is not the real motive force for the campaign: it is a convenient rationalization. It provides an excuse to select a special group of 'foreigners' as the target. If this group should actually decide to try collectively to assimilate, it would not provide a solution acceptable to the competitors.
>
> (Wertheim 1965: 79)

In the following section, I will provide proof of Wertheim's claim and thereby demonstrate how the Chinese were refused integration on the social and structural levels.

Discrimination: Making the Chinese visible

Coppel considered discrimination against the Chinese to be no more than the 'consequence of the ideological imperatives of the assimilationist policy':

> The logic of the assimilation policy required the ethnic Chinese to lose their Chineseness and to be absorbed without trace into the wider Indonesian population. […] A policy which requires one particular ethnic group to be assimilated into the rest of the population cannot help but be discriminatory, no matter how sincerely the government which formulated it may profess to guarantee equality of rights for all citizens.
>
> (Coppel 2002: 27)

With this statement he risks being interpreted as implicitly justifying the measures against the Chinese while misjudging the intentions behind it. Many scholars of the ethnic Chinese in Indonesia agreed with him in principle, while others only diverged in their interpretations of the New Order policies by describing them as inconsistent or arbitrary (e.g. Tan 1991: 118; Suryadinata 1998).

However, if we acknowledge that the regulations decreed to discriminate against the Chinese eventually even increased their visibility, it becomes obvious that the 'Chinese problem' was not to be 'solved' but kept alive to prevent an amalgamation of the Chinese and the *pribumi* majority. Therefore – and it will become even more obvious in the next section when looking at the reasons for these measures – the minority policies of the New Order state were indeed consistent and full of determination, albeit very different in motivation from Coppel's understanding.

The existence of the Chinese as socially stigmatised and politically marginalised outcasts was in fact politically useful. Many regulations were thus produced to ensure that there was no complete assimilation. The identity card of Indonesians of Chinese origin carried a certain code, on their birth certificate was a note about their Chinese descent, and they always had to prove the legal acquisition of Indonesian citizenship with the respective documents (Tan 1991: 123). This marking opened the flood gates to bureaucratic arbitrariness. Whoever had a Chinese name and/or looked Chinese and/or could be exposed by official documents or questioning as a Chinese had to pay higher fees or bribes (Heidhues 1998: 167). This illustrated that name changing was of limited use in decreasing discrimination. As a further example of bureaucratic obstacles, access to state universities was restricted for Chinese. Usually only 5 to 10 per cent of the students could be of Chinese descent. This meant that many Sino-Indonesian parents sent their children to private universities or to study abroad. Likewise, parts of the job market were blocked for them. Unwritten and unexpressed barriers excluded the ethnic Chinese from working as civil servants, in the army, the parliament, and the MPR (Mackie 1999: 191). With these occupational constraints the Chinese were confined to business. As a result, the bureaucratic and political spheres of the state remained inaccessible for them.

The main consequence of these limitations was that the Chinese, after being marginalised, became visible again. On the one hand, their traditional Chineseness disappeared by the elimination of what was perceived to be 'Chinese culture'; on the other hand, they were still branded as Chinese in identification documents, in dealing with the bureaucracy, universities, and the job market. The request in 1979 for all persons of Chinese descent to register, regardless of their citizenship (Coppel 1983: 156), illustrated very clearly that there was no way for the Sino-Indonesians to achieve complete assimilation in terms of being unreservedly included in the imagined community of Indonesians.

On the contrary, their distinctiveness was not only kept alive, it was redefined since 'Chineseness' had an unambiguously negative meaning by this time. Significant for this was the 1967 regulation to label the Chinese with the pejorative '*Cina*' instead of '*Tionghoa*', which was used up to then and considered to be neutral (Coppel & Suryadinata 1978). The official decision made at a gathering of army leaders in Bandung containted the following wording:

> Particularly in order to remove a feeling of inferiority on the part of our own people, while on the other hand removing the feeling of superiority on the part of the group concerned within our State, [...] the seminar has decided to use again as the term for the People's Republic of China (*Republik Rakjat Tiongkok*) and its citizens, '*Republik Rakjat Tjina*' (People's Republic of China) and '*warganegara Tjina*' (Chinese citizens).
>
> (Cited in Coppel & Suryadinata 1978: 121-2)

The implementation of this decision took place comprehensively, and ethnic Chinese in general, not only the ones with Chinese citizenship, were from then on called '*orang Cina*'. In so doing, the government not only slighted Sino-Indonesians (Coppel & Suryadinata 1978: 124), but legitimised racist offences exacted against them. Their position as outcasts became manifest in language and thus justified and normalised anti-Chinese riots which had no legal and rarely moral consequences, for the victims have lost any means of articulating or defending themselves (Heryanto 1999: 303).

Stigmatisation: The Chinese as expropriators

Despite the politico-bureaucratic elite's direct connections to Chinese big business, Soeharto was to cast economically powerful Chinese in a role detrimental to the economic development of the Indonesian nation. He wanted to be seen as the champion and defender of *pribumi* rights against the 'economically strong group', that is, the Chinese. Such diction ensured that the economic gap between rich and poor was perceived as an ethnic gap between Chinese and *pribumi*. Moreover, after the distinction of *pribumi* and *non-pribumi* was officially discarded in 1984, ostensibly to lessen discrimination, it became conventional to differentiate between the 'economically weak' and the 'economically strong' group (Coppel 1983: 168). From the start the new term took over the function of the old dualism and became a 'code phrase' (Schwarz 1994: 117) for the officially tabooed discourse of race[26], and furthermore heightened the impression that all members of the Chinese minority were rich and powerful. Thus the New Order succeeded in ethnicising a phenomenon with an originally non-ethnic background.

This image of the economically powerful Chinese was intensively fostered by the regime. One example was the widespread belief that 'the Chinese' were in control of more than 70 per cent of 'the economy' (see Chapter 1; see also the Kwik-Amir debate in Chalmers & Hadiz 1997: 208-13). It did not really matter if this was true or merely a myth. Its implications were obvious. There seemed to be a disparity of wealth along ethnic boundaries, between 'the Chinese' as one monolithic block and the poor rest, consisting of about 97 per cent 'economically weak' *pribumi*.[27] Another event served the same purpose: the meeting in Tapos 1990, where 31 heads of the largest conglomerates, all but two of Chinese descent, were ordered to come to Soeharto's ranch. Covered extensively by the media, the president urged them to show more responsibility for Indonesian society and to transfer 25 per cent of their enterprises to Indonesian cooperatives in order to close the social and economic gap (Schwarz 1994: 98-102). The end result – they only had to transfer 1 per cent – was relatively unimportant considering the message delivered by this meeting. Soeharto could not only dissociate himself from the patronage networks in which he was deeply involved, but also managed to fortify the

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[26] The SARA-policies that forbade talking about *suku*, *agama*, *ras* and *antargolongan* (ethnicity, religion, race, and class) can be interpreted as means of the government to control and monopolise the discourse on those topics and did not have the objective, as it was often assumed, of protecting minority groups.

[27] Many scholars on the ethnic Chinese tend to base their analyses on this assumption as well (e.g. A. Chua 2003b: 152). They either eventually believed it through endless repetition or, which seems to be more likely, accepted it willingly and thus even helped in constructing this myth, as it fitted with their ethnic frameworks that overstated ethnicity.

perception of the Chinese as disproportionately rich and powerful and as the ones responsible for social inequalities. Many other politicians repeated this political message and did their stint in this 'ethnic blame game' (Schwarz 1999: 345-6).

As political and social outcasts, the Chinese did not have any means to correct this impression nor prevent being represented by 29 tycoons of Chinese descent. They were at the regime's mercy and had to put up with these kinds of stigmatisation that were meant to instrumentalise them as scapegoats in several ways. On the one hand, problems inherent in the system or for which the government itself was responsible, could be veiled in a simple manner. For instance, at the beginning of the economic crisis in 1997, the price rises and shortages of basic items were explained by referring to the Chinese shopkeepers and suppliers who were apparently hoarding products because of their 'well known' profit seeking inclination (Purdey 2002: 72).

On the other hand, they were blamed for the misery of the *pribumi*. The discontent of the powerless masses and the anger about their economic situation could be diverted from the rulers towards the Chinese minority. This happened, for instance, in 1974, when an internal government conflict took the form of anti-Chinese riots (Rosser 2002: 107-9), as well as in 1994 during the unrest in Medan, which was, as Heryanto (1994) observed, in fact an expression of workers' demand for better wages and a further manifestation of a more organised urban poor. However, the mass media and communiqués of the government succeeded in depicting the Medan incidents as another anti-Chinese riot, caused by racial prejudices that had to be curbed, giving the authorities legitimate reason to arrest labour leaders as alleged insurgents.

By defining the economic problems of the *pribumi* as the 'Chinese problem', the New Order managed to prevent the consolidation of a class consciousness, which would have been directed against the ruling oligarchy in general and against the politico-bureaucrats in particular, who nurtured a tiny faction of compliant 'Chinese' capitalists for their own benefits. The perception of the social inequalities as an ethnic conflict between weak *pribumi* and strong Chinese could not harm the *pribumi*-elite; on the contrary, they were even seen as 'economically weak group' since this term became a synonym for indigenous (Coppel 1983: 153).

Implications for the Chinese capitalists

The state-defined 'Chinese problem' set social barriers for all Indonesians regarded as Chinese. Not only the vast majority of 'ordinary' Chinese was affected by the ethnic policies of the New Order, but also the big businessmen. Indeed, to associate the major capitalists of Indonesia with a weak minority through constantly blurring any distinctions between poor Chinese hawkers and rich tycoons was one of the intentional rationales of the government. It was part of the political strategy of the bureaucratic power holders to sustain the marginalising, discriminative, and stigmatising anti-Chinese policies and stabilise the ethnic dichotomisation of society.

Under such circumstances, it became crucial for the tycoons to turn to the ruling elite for defending them and providing the necessary functions and distributions of a state apparatus that remained inaccessible for them. The state managers could thus absorb the upper reaches of the Chinese capitalists into the ruling oligarchy. This was, as will be shown later, beneficial for both sides. Chinese big businessmen were politically and socially handicapped, but economically they were given the special right to partake in the predatory networks that ultimately came to be centred on Soeharto himself.

Certainly, the Chinese tycoons did not benefit equally from the ethnic policies of the New Order. Chinese conglomerates were always in a vulnerable position in relation to powerful politico-bureaucrats. As the Tapos incident revealed, Soeharto could command the biggest tycoons of the country to come to his ranch and threaten to seize a huge portion of their assets. It illustrated clearly the authority of the political elite, which capital could not oppose. However, Tapos disclosed at the same time that the tough stance against the capitalists was merely rhetorical and meant to keep up the pro-*pribumi* Robin-Hood-image of the government.

In Tapos, the contribution expected from the conglomerates was eventually reduced to an irrelevant amount. This signified that most deprivations for the capitalists were not material and that the tycoons indeed remained largely unaffected by the anti-Chinese policies. The actual sufferers were the ethnic Chinese who were neither that well connected nor represented by the bureaucrats. Still, the fate of the Chinese minority had indirect, but important, consequences for the capitalists, codifying their subordinate and dependent role in state–business relations. In fact, this was the biggest barrier to a translation of their economic might into direct political power, but simultaneously one of the reasons for being a perfect silent partner to rule and exploit Indonesia.

Through the 'Chinese problem' the New Order bureaucrats managed to disempower capital politically and, at the same time, veil and assure their own dominance. Hence, the political and economic measures of the New Order only seem incoherent at first sight. In fact, they elucidate a major consistent motivation: the establishment of a frail class of pariah capitalists. The way the latter was brought into being will be addressed below.

The formation of the alliance (1966–74)

Such a marginal business class was well suited to join up with a bureaucratic elite that yet lacked a capital base of its own. Here, I will point out how the Chinese capitalists were purposefully raised and installed as junior partners in pervasive patronage networks. It will be shown that the establishment of a mutually beneficial symbiosis with Chinese capital was a crucial step in the formative years of the New Order that warranted the ascendance of both political patrons and their business clients.

Raising Chinese cukongs

With Soeharto's seizure of power after 1965, the politico-bureaucrats, initially dominated by its military element, obtained complete control of the state apparatus. Their foremost task was to revive the crippled economy with an inflation rate of 636 per cent in 1966 (Thee 2003: 18).

They immediately stopped the former government's economic nationalism and invited foreign companies to bring in loans and investments and thus launched an ambitious industrialisation programme, drafted by US trained technocratic economic advisors (Robison & Hadiz 1993: 18-20). In only two years, by 1968, relative price stability was achieved, allowing the economic policymakers to shift their focus from stabilising the economy to its rehabilitation and long-run development (Rosser 2002: 40-1).

The Soeharto government had sufficient resources to change the structures of the economy, especially through the confiscation of assets belonging to capitalists close to former President Soekarno as well as through the massive number of state corporations (Robison & Hadiz 2004: 54). Moreover, it disposed of the means to allocate these resources, as the new rulers were in control of the centralised gatekeeping institutions such as the Forestry Department, the Trade Ministry, the state logistics board Bulog, and the national oil company Pertamina (Robison & Hadiz 2002: 45). Most enterprises remained in the possession of the state, while, as second pillar of the economy, a domestic private business class was to be formed. These capitalists were recruited from the ranks of the Chinese minority.

Chinese businessmen – the so-called *cukongs* (a Hokkien word used in Indonesia for well-connected Chinese tycoons) – turned out to be the only group with relevant business experience, entrepreneurial skills, and networks to generate profits and to support general economic growth. A few traders were already partners of the actual rulers long before, such as Liem Sioe Liong and Bob Hasan, who were closely linked to the Diponegoro Division of then-Lieutenant Soeharto (Robison & Hadiz 2004: 54). The political powerholders knew that these capitalists were effective and reliable. Through anti-Chinese policies they assured that their allegiance would not change. The new economic elite of the New Order was harmless because it was marginalised, and – if required – further marginalisable (see above); a condition that allowed the emergence of Chinese capitalists as key business players.

Most crucial for their enhanced economic stance was the Foreign Investment Law No. 1 of January 1967, followed by the Domestic Investment Law of 1968. The former gave foreign capital guarantees and incentives such as a continuation permit for over 30 years, tax holidays, and exemption from import duties (Robison 1986: 138-9). Chinese businessmen became the preferred partners in joint ventures with foreign capital that served as incubator for the rise of Chinese big business. Hence, the *cukongs* could shift from trade and distribution to the more lucrative sectors the labour based industry provided, being offered an 'epoch-making momentum for potential businessmen with no experience, capital, and technology to jump into the manufacturing sector, enter into new fields of industry, and further diversify their lines of business even into unrelated industries' (Sato 1994: 128).

The second law catering to domestic investors was implemented more than one year later following the earlier law on international capital, because '*pribumi* Indonesians were busy bashing the country's ethnic Chinese during 1966 and 1967', as Winters (1996: 77) explained the delay. The investment potential of Chinese businessmen, however, was far too massive to be ignored, as stated already in Article 5 of 'The basic policy for the solution of the Chinese problem' (Instruction of the Cabinet Presidium No. 37 of 1967):

> Different from FOREIGN CAPITAL as mentioned in Law no. 1 of the year 1967, capital which has been accumulated and expanded in the territory of Indonesia, which is domestic foreign capital is basically national wealth in the hands of aliens; therefore it is to be mobilised, fostered and used in the interest of rehabilitation and development.
>
> (Official translation, cited in Suryadinata 1986: 218)

The Domestic Investment Law was meant to reanimate specifically domestic Chinese capital, as only Chinese businesses had the required financial resources and were thus – even as aliens – eligible for the subsidised credits (Winters 1996: 77-8). Therefore, they were given, for the first time in history, relative security to invest in Indonesia, while the benefits stipulated in the law were out of reach for *pribumi* businessmen. Winters (1996: 77) remarked that 'either the economic ministers did not know what they were doing with these laws, or they never seriously intended to give a boost to *pribumi* investors'. The latter assumption appeares to be more accurate, as signified by the wealth of economic privileges the state provided for certain

Chinese businesses, such as exclusive contracts, licences, and credits (Robison 1996: 91), that constituted a further, not less significant factor of their growth. For example, through Bulog Chinese businessmen received import and distribution monopolies for food, several ministries provided them with concessions and protective trade regimes, and, as former Minister of Finance Bambang Subiyanto claimed,

> if we were to believe in a conspiracy theory[28] at all, then the most important event in fostering the Chinese was the special credit scheme masterminded by Soeharto, through which state banks willingly gave Chinese businessmen highly subsidised special credits below the market rate, to be used for huge investments.
>
> (Bambang Subiyanto, interview 16 September 2004)

With tariffs and non-tariff barriers to trade and certain restrictions to foreign investment the market was sufficiently regulated, resulting in a concentration of Chinese businesses on the highly promoted import-substitution industries (Rosser 2002: 34).

This protectionism facilitated an unrestricted growth. The cronies grabbed every chance that they were offered. Anthony Salim described the formative period of the New Order:

> Everything you touch at that time is basically a very big opportunity, everybody is doing it, and so the new conglomerates are being born – Salim is one of them. […] This is the period where a lot of new companies, new groups are being formed, and a lot of capital formation is taking place at that time.
>
> (Anthony Salim, interview 13 April 2005)

Possibilities were indeed innumerable; thus the tycoons founded companies in multiple sectors, thereby forming the basis of the diversified shape of Indonesia's conglomerates. As many as 17 of the 30 largest business groups before the crisis – all but one owned by Chinese

[28] Subiyanto (interview 16 September 2004) himself did not believe that there was a master plan of the New Order government to foster Chinese big business: 'That the Chinese were economically so strong in the New Order was simply a coincidence, or perhaps the government could not foresee or ignored the impact of the 1967 law.'

– were established in 1966–73 (see Appendices, Table 1).[29] Considering that three of the seven groups that already existed before 1965 were single product companies from the highly constant cigarette sector, a comprehensive exchange of capitalists had taken place with the advent of the New Order.

One of these new *cukongs* was William Soeryadjaya, whose Astra Group capitalised on his connections with Pertamina chairman General Ibnu Sutowo, who controlled government contracts for supply and construction (Robison 1986: 293). Through the latter, Astra became the sole agent for Toyota, Honda, Fuji-Xerox, and Daihatsu (Shin 1989: 337). Another major beneficiary of import substitution and exclusive protection by the government was Liem Sioe Liong. His close partnership with Soeharto, deriving from long-term business relationships with the latter's military division, secured him two central monopolies – one for cloves and the other one for flour, as well as many more privileges (Shin 1989: 352-4; see also case study on Salim in Chapter 5.3). By the mid-1970s, these conglomerates formed the largest two of the country. According to Robison (1986: 305), it was the windfall profits derived from the monopolies and secured through political connections that constituted the basis of domestic private capital formation. In the first years of the New Order, the politico-bureaucrats therefore succeeded in raising a client bourgeoisie that – as will be shown below – was to be co-opted in a mutually beneficial symbiosis.

The foundations of symbiosis

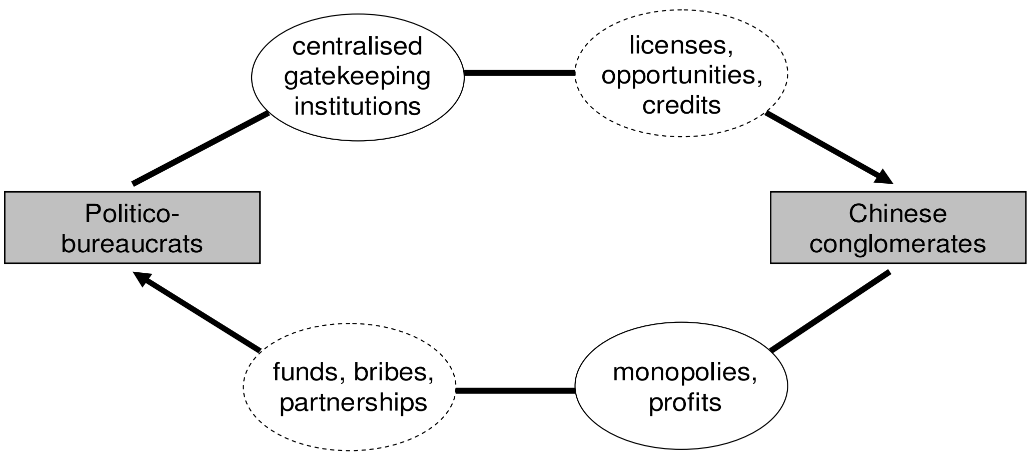
Most Chinese businessmen used to be only more or less successful traders before the new regime gave them the possibility of becoming major capitalists. They were therefore highly dependent on the political elite that guarded their quick rise and could also decree a sudden fall

[29] Most of the favoured businessmen already had some rather small scale companies before 1965 (see Sato 1994: 129). The year of establishment (as indicated in Appendices, Table 1) thus refers to the time in which they took the decisive step towards conglomeration.

if deemed necessary. The alliance between the state and capital at that time was thus very much under the control of the political patrons.

The networks of patronage between the politico-bureaucrats and their Chinese business clients functioned in the following way (see Figure 3): The political elites controlled ministries, state banks, and regulating agencies that could give out licenses, credits, and facilities. The Chinese tycoons were the recipients, who were then able to realise a formidable profit, as most of the ventures provided opportunities for market domination. In return, the conglomerates offered the politico-bureaucrats shares or business partnerships or simply channelled some of the profits back to their political protectors, often via donations to the latter's 'charitable' foundations (*yayasan*) (Schwarz 1994: 133-61).

Figure 3: Patronage networks in the New Order



(Based on Chua 2004b: 72)

For both parties involved it was a win-win situation. Although the political powers lacked the economic know-how, connections, and capital, they could access the markets through their Chinese cronies from whom they extracted massive gains. These payments acted as bribes to open up opportunities, as commission charges for profits, or as protection money for the relative security the new regime guaranteed. The kinds of trade-offs they received for their rents was extensive, as listed by McLeod (2000: 155-6): (1) Favoured companies were protected from competition from imports; (2) government departments and state owned enterprises awarded contracts without bidding; (3) state banks including Bank Indonesia gave cheap loans at highly subsidised rates with very generous repayment options; (4) close cronies received the right to exploit natural resources such as forests or even gold; (5) the government bestowed permits to take over land; (6) cronies were further designated to be the obligatory partner in foreign joint ventures. (7) Moreover, they were favourably treated when it came to dealing with state enterprises, being able to purchase inputs for artificially low prices. (8) Finally, they benefited from extra low taxes or tax holidays and, (9) in the latter years of the New Order, they even obtained the right to collect taxes. This system based on *korupsi, kolusi, dan nepotisme* (KKN – corruption, collusion, and nepotism) became the basis of the predatory New Order alliance.

The patronage networks secured the integration of Chinese capital into a symbiosis between politics and business. They further provided the bureaucrats with start capital and were the foundation of Indonesia's stunning economic growth. However, these networks were not incidental results that could be forged between any partners in arbitrary combinations. This kind of alliance was only possible between the politico-bureaucratic authorities and the Chinese capitalists in the given power configuration. Moreover, this coalition required an elaborated authoritarian and centralised system that the state managers developed soon after they took over power. The thriving partnership with Chinese capital was the result, but it also underscored the need for a more stable form of regime that could consolidate and remain virtually unchallenged in the second decade of New Order rule.

The consolidation of bureaucratic power (1974–82)

The oil boom that started with a sudden rise in oil prices at the end of 1973 massively filled the state's coffers and caused a shift in economic policies from a relativly liberal regime towards increased protectionism and patronage disguised as economic nationalism. An industrialisation programme with the aim of developing a self-sufficient economy hampered foreign investors' involvement in certain sectors (Robison & Hadiz 1993: 18-20). The *Malari*-riots of

January 1974, in which middle class protestors demonstrated against the dominant role of foreign and Chinese businesses (see Rosser 2002: 107-9), gave the politico-bureaucrats the accordant political justification as well as the initial ignition to better their own economic stance.

Sato (1994: 136) listed three aims the government announced right after the riots: giving priority (1) to national capital instead of foreign capital, (2) to state capital instead of private capital, and (3) to *pribumi* capital instead of Chinese capital. As the policy guidelines and their later realisation showed, all three dimensions of capital that were to receive favourable treatment, i.e. national, state, and *pribumi* capital, were under control of – or even synonymous with – the politico-bureaucrats. However, the development of private capital remained largely unaffected. In the oil boom period, ending in the early 1980s, as many as five of the pre-crisis top 30 conglomerates emerged (see Appendices, Table 1). Moreover, despite the populist attitude, the politico-bureaucrats did not see their Chinese *cukongs* as competitors or opponents, but rather as the main vehicles for the growth of indigenous capital, which was to be represented by the state managers themselves. The collusion between capital and the state was thus intensified.

By means of massive state interventions the powerholders transformed the formerly loose business alliance into a politico–business oligarchy and induced a comprehensive 'metamorphosis of state and class power' (Robison & Hadiz 2004: 43). The Chinese capitalists transcended their role as mere financiers preying on quick profits while the political elites did not confine themselves to being only 'gate-keepers and toll collectors to a class of business supplicants' (Robison & Hadiz 2004: 53), figuring out that their – widely congruent – interests with their Chinese clients could best be promoted in an internally united and structurally deeply entrenched oligarchy. The absolute control over the state that became the main catalyst for the consolidation of patrimonial bureaucratic capitalism was utilised to actively promote the oligarchy's needs (Hadiz 2001a: 129).

In the following, I will illustrate how state power manifested itself in the economically protectionist and politically authoritarian and centralised system that turned out to be the best – if not the essential – shell for the oligarchy-in-formation. By 1982, the oligarchy had firmly established an administrative patrimonial regime, in which the politico-bureaucrats effectively ruled in tandem with the still dependent Chinese tycoons. The transformation of the bureaucrats into indigenous capitalists was the decisive difference to the formative years, firmly rooting the state managers' power over the state – and inside an emerging bureaucratic oligarchy that was under their control.

The system of dominance: Authoritarianism, centralism, and protectionism

The New Order regime was founded on three pillars: authoritarianism, centralism, and protectionism. This political system that provided the fundamental setting for the unchallenged dominance of the politico-bureaucrats and a further rise of Chinese capital became even more entrenched through the immense revenues of the oil boom, allowing the government to bask in enormous economic growth and depict itself as the engine of a successful developmental state (Liddle 1996: 36-42). By means of the hijacked state apparatus that was penetrated by the omnipresent bureaucracy and backed by the powerful military, the political powerholders had the means and legitimation to rule without constraints.

Their immediate authority was based upon a 'regime of state terror' (Aditjondro 2002: 34), whose foundations were laid when between 500,000 to one million alleged communists were killed between 1965 and 1966 (Cribb 2001). The military, as the 'bodyguard of oligarchic interests' (Hadiz 2001a: 136), with support of paramilitary groups, instigated violence against any form of opposition to the state (Wessel 2001). The *Gleichschaltung* of all other non-state social forces was virtually absolute. Political adversaries were murdered, suppressed, or incorporated by the system. Although opposition groups existed here and there, civil society was on the whole muted and restricted. The lack of avenues to voice and organise criticism or opposition forestalled any possible challenge to the regime. The executive forces were absolutely in the hands of the politico-bureaucrats, and nothing could be done without their consent.

However, the regime had a broader base than just coercion. With the help of organisations which were purposefully established and controlled by the state, a corporatism was put in place that channelled and regulated political engagement consensually (Robison & Hadiz 2002: 17). For business the widely impotent Indonesian Chamber of Commerce and Industry (KADIN) provided the platform upon which capitalists could voice out their concerns. According to MacIntyre (1990: 44-7), only a few of the leading Chinese tycoons bothered to join it, although they were forced to subsidise its costs. All other social groups as well had to be founded on the principles of the state ideology *Pancasila* that laid out the boundaries of legitimate political activity, emphasising the consent-oriented integralist character of the New Order (Robison 1993: 42-4). Any action undertaken against the state and its managers was thus interpreted as an attack on the nation. However, economic advancement endorsed the politico-bureaucrats. The eradication of poverty – the population living below the poverty line fell from 60 per cent in 1970 to 11 per cent in 1996 (Azis *et al.* 2002: 199) – and the general progress in living standards and income that even affected Indonesian villagers in distant regions therefore ideologically sanctioned the idea of a strong state. As long as their pockets were filled, most citizens appeared prepared to do without some of their basic rights.

Another crucial element in the system of dominance was the extreme centralism that bundled all decisions in the hands of the political elite in Jakarta. Through the major gatekeeping institutions the bureaucrats monopolised the allocation of licenses and resources, thus ensuring the obtainment of adequate gratification from the beneficiaries. The centralised structure enabled the political elite to completely control the economy and determine the recipients of favours unimpededly. This so-called '*dirigisme*' fostered the great leap forward of Chinese business groups to big conglomerates and was thus an essential factor for the rise of the capitalists (Robison 1993: 58). It also led to the emergence of corporations belonging to the major politico-bureaucrats. A key institution for this was the State Secretariat (Sekneg), through which patronage and the allocation of government-funded projects was coordinated, and within it Team 10, established in 1979 as a ‘locus of far-reaching government control and an enclave for kickbacks to officials and contracts for everyone from backers of the Suharto regime to the president’s children’ (Rosser 2002: 125). Officially, it was supposed to secure preferential allotment of government contracts to small and medium *pribumi* enterprises that were badly impaired by the rupiah devaluation in November 1978. This aim was – if at all – only partly reached. Instead, as Rosser (2002: 125-39) explained, Team 10 was misused as a cash cow for the officials who allocated the contracts and as an instrument to nurture the ventures of politically connected businessmen. It was thus a vehicle that amplified the New Order’s centralism and concentrated it in the closest circles around Soeharto, thereby widening the reach and impact of the patronage networks. Perhaps more importantly, Team 10 was the decisive midwife to a class of ‘*pribumi*’ politico-bureaucratic capitalists, enshrining the structures of patronage even after its dismantling in 1998.

The third pillar on which the system was based was the unlimited accumulation of capital for both political and economic elites. It took place under the protectionism of an interventionist, patrimonial state. Robison & Hadiz (2002: 37) characterised the regime as ‘predatory’, a ‘system where the state apparatus and public authority become the possession of a corps of politico-bureaucrats whose main objective is their own political and economic enrichment’. The state was increasingly turned into an instrument of the ruling class. Through it the politicians hijacked the markets and subjected them to their authority and, at the same time, intensified the patronage networks with their Chinese cronies (Robison 1993: 44-5). The ever-growing state sector with capital-intensive upstream activities taken over by state-owned enterprises such as Pertamina and Krakatau Steel played a most crucial role in capturing and allocating the utmost lucrative downstream activities among political patrons and their business clients. As Habir (1999: 179) observed, most of the corporations that benefited from these collaborations were owned by ethnic Chinese entrepreneurs.

This system of dominance consolidated the New Order regime for the next few decades to come. Authoritarianism successfully forestalled any potential internal threat to the oligarchy in the form of criticism against the predatory alliance between the bureaucrats and Chinese big business, thus presenting a political apparatus that perfectly served the political elite's greedy needs of plunder and control as well as the capitalists' longing for security and development.

Indigenous capital

On their way towards the consolidation of their authority as ruling class, it was not sufficient for the politico-bureaucrats to control the state apparatus, but further to prevent the rise of a class that could challenge their rule. This was to be achieved (1) by impeding the influence of other capitalists and (2) by building an own capital base to prevent being used as compradors of domestic and international corporations. They wanted the state to be their instrument, and not to constitute a mere committee to oversee the needs of capital.

In accordance with these aims, the government ended the relatively liberal regime in 1974. The responsiveness to international capital decreased significantly, as the end of many privileges and incentives as well as new restrictions and conditions for investments from abroad showed, leading to a massive reduction of foreign investments (Rosser 2002: 110-6). In addition, and as outlined before, they further socially marginalised the most significant domestic capitalists, the Chinese, thus increasing their dependency and co-opting them in the politico–business oligarchy. The category *pribumi* capital, however, which would have been entitled to share in the biggest part of the economy, was successfully usurped and monopolised by the politico-bureaucrats themselves.

Pribumisasi, which stood for protectionism in favour of the *pribumi* in order to have a more equal distribution of wealth in society, was the official policy of the New Order. However, it turned out that this was nothing more than a 'legitimacy device' for the predatory self-enrichment of the ruling class (Robison & Hadiz 1993: 26). Shin identified the 'unsuccessful' policies of indigenism as an ideological project of the New Order

> to cushion the effects of a rapid restructuring of the Indonesian economy in which the new capitalists, along with the military-dominated state, rose to dominance. The policies, which achieved little progress over time, nevertheless had to be created repeatedly, only to make the state appear neutral and above class interests.
>
> (Shin 1991: 142)

In fact, one main effect of economic policies was to *prevent* a broad indigenous middle class and a more powerful *pribumi* bourgeoisie emerging outside the realms of the politico-bureaucratic families. A native entrepreneurship would have had more 'moral right' to speak out against the Soeharto regime, contrary to the Chinese pariah capitalists. This was the reason why, as Schwarz (1991: 41) justly claimed, 'the prospect of an indigenous business class wielding political power may prove to be more of an obstacle to pribumi business ambitions than their access to capital or the quality of their entrepreneurial talents'. Therefore, the political powerholders did everything to retard the rise of independent indigenous businessmen in order to protect their own position and keep a potentially challenging *pribumi* bourgeoisie at bay (Budiman 1988: 121). However, a small number of individuals such as the Bakries were allowed to rise as capitalists, making use of the pro-*pribumi* phrases of the government (Robison 1996: 96). They remained, nevertheless, far too few to challenge the system and were, indeed, very close and loyal to Soeharto and his family and thus quickly became a part of the oligarchy.

The vacant position through the lack of indigenous capitalists inside the national economy was filled by the politico-bureaucrats themselves. Businessmen were recruited from their midst. The most significant example was Soeharto's own clan. Revealingly, the president's son Bambang was amongst the main proponents of *pribumisasi*, signifying for whom these measures were really meant (Hadiz 1997: 206). They facilitated the emergence of the Cendana groups (named after the address of Soeharto's house) in the 1980s. Bambang Trihatmodjo's Bimantara, Tommy's Humpuss, Tutut's Citra Marga Nusaphala Persada, Sigit Harjojudanto's Arseto, and Titiek Prabowo's Maharani Group as well as many other ventures of further relatives belonged to Soeharto's extensive business empire, with Bimantara and Humpuss being two of the largest conglomerates in 1996 (see Appendices, Table 1). Many other politico-bureaucratic families also managed to establish their own business groups (Habir 1999: 188). The examples that Aditjondro (2002: 40-1) mentioned read like a comprehensive list of persons of distinction and importance in the New Order, including relatives of former Vice President Habibie, former Information Minister Harmoko, and former Development Planning Minister Ginanjar Kartasasmita.

The politico-bureaucrats thus started to accumulate sufficient capital themselves, thereby decreasing their financial reliance on Chinese businesses. They could even hope in the long run to become their own class of businessmen and eventually be able to substitute for their Chinese counterparts. For this the permanently sustained anti-Chinese xenophobia was instrumental in several ways: (1) It gave the politico-bureaucratic justification to represent and expand *pribumi* capital; (2) it reproduced Chinese dependence on the state, while (3) it diverted criticism against the New Order, blaming the increasing inequalities solely on the Chinese. (4) Moreover, it provided a reason for the ruling powers to re-establish order through the military, whereby the army could underline its own indispensability. The implementation of new repression against the population could thus be justified, while the demand of the poor masses – as well as the populists and indigenous businessmen who supposedly spoke up for them – for a larger share of the Indonesian economy was discredited and de-legitimised, linking these postulations to anti-Chinese violence (Heryanto 1998: 102). Thus it was not surprising that riots were more than once instigated by the military itself (see McBeth & Tripathi 1998). However, it was a fine line to walk for the government. As will be shown later, social unrest could not always be channelled and became increasingly harmful for the rulers (Robison & Hadiz 2002: 52).

The emergence of politico-bureaucratic capitalists helped the oligarchy to anchor itself both politically and economically and to organise the New Order as a regime that gave its dominant element, the politico-bureaucrats, nearly absolute power. They managed to subdue or co-opt all actual and potential opponents. Foreign investors usually appreciated and supported the corrupted system as long as it fulfilled its function as a cash cow, delivering profits unthinkable elsewhere. Domestic private capital, as well, took a share in the predatory alliance and was efficiently repressed through the permanently maintained fragile social status of the predominantly Chinese business class and the hindrance of *pribumi* capital. The politico-bureaucrats therefore succeeded in depriving capital of its general authority and – as is the case in many states – even command over the political sphere. Significantly, the only capitalists who could overcome the effective separation of money and power were the political elites akin or close to Soeharto, who increasingly grew into big business themselves at eye level with their main Chinese cronies, occupying an advantageous political position due to their family links with the government.

The expansion of oligarchic capitalism (1982–97)

Robison & Hadiz (2004) characterised the alliance between the politico-bureaucrats and the Chinese capitalists as forming a 'capitalist oligarchy'. In fact, after the collapse of oil prices first in 1981/1982 and again in 1986 it became even more obvious that the two groups were combined in more than just a partnership of convenience. Although Chinese capital and the state managers were still two distinct entities, they constituted a ruling class bound together by common strategic interests. Significant for this were the predatory raids on markets that became possible through the technocratic policy reforms in the 1980s that were implemented to find a replacement for the oil exports (Robison & Hadiz 1993: 20). They ended the protectionist economic policies and relaxed many regulations for foreign investors. However, what first looked like a bitter defeat for the oligarchy turned out to be one of its most decisive victories. The reforms admittedly meant a retreat of the state, but at the same time constituted a shift in policies in favour of private capital. Through the deregulation packages that involved an opening of sectors formerly closed to investments and a radical liberalisation of the capital markets, both politico-bureaucratic and Chinese capitalists were given the opportunity to grow domestically. In the 1990s, finally, the conglomerates were liquid enough to engage themselves internationally as well. In the following, I will demonstrate how the capitalist oligarchy expanded. We will see, however, that the increasing success also disclosed some signs of tension between the two parties involved. The contradictions that became more apparent towards the end of the regime reveal the faultlines between the state and capital, helping us to determine the respective positions inside the New Order power structures.

The politico–business oligarchy

The reforms implemented in the wake of the oil crisis were meant to structurally adjust the state-led interventionism of the late-1970s to the requirements of a post-oil recession. According to the technocrats, Indonesia's international competitiveness would be hard to maintain without the immense oil revenues, if the domestic markets were not liberalised (Pangestu 1996: 141). They hoped that a thorough deregulation would lure foreign direct investment and loosen the grip of the politico–business oligarchy on the economy (for a good overview of major contending groups in the economic liberalisation process, see Basri & Hill 2004: 647). From 1982 to 1986, the financial and tax system was modified and many industries such as banking, transport, trade, and manufacturing were deregulated in order to vitalise the private sector and non-oil exports as an alternative to the state sector and oil related businesses respectively (Sato 1994: 141). By 1987, the measures yielded fruit. Foreign as well as domestic investments rose significantly.

Contrarily to the reformers' expectations, however, it was these policy changes that made the instruments for an unprecedented capital accumulation available to the oligarchy. Robison & Hadiz (2002: 48) observed that the move towards deregulation was only implemented in certain economic areas, leaving monopolies in the most lucrative sectors intact and exclusively under oligarchic control. In fact, the capitalists succeeded in grabbing many state ventures that were to be deregulated. It was thus a 'colonisation of a system of state monopolies by state-backed private conglomerates' (Robison & Hadiz 1993: 26) that took place in Indonesia in the 1980s.

Most vital for the massive expansion of big business was the liberalisation of the banking sector after the mid-1980s economic crisis (see Rosser 2002: 51-83). This gave the conglomerates the opportunity to acquire capital from sources that were not accessible for them before, enabling them to grow even more rapidly in and beyond Indonesia (Hadiz 2001a: 130-1). On the one hand it was a huge advantage for them that the Central Bank as well as state banks lost their quasi monopoly of giving credits. From 83 per cent of all outstanding bank credits in 1982, the ratio of politico-bureaucratic controlled loans fell to only 40 per cent in 1995 (Rosser 2002: 57). On the other hand, the reforms of the banking sector also terminated most special credit programmes for small indigenous companies that constituted half of the total credit by the early 1980s (Rosser 2002: 65), resulting instead in a massive increase of loans for Chinese big business groups who could easily afford to pay market rates for interest (Rosser 2002: 63). In the mid-1990s, preferential credits to small businesses had fallen to 7 per cent, while 80 per cent of all bank credits went to the conglomerates (Habir 1999: 186-7).

From 1988 to 1994, the number of private banks more than doubled, while the amount of commercial bank loans quadrupled (Rosser 2002: 63). Financial services offered quick and lucrative returns on investments, which was, as Hing (1987: 409-35) observed for Malaysia, very attractive for a group highly dependent on lenient ethnic policies. Almost every big Chinese group founded one or more private banks, thereby decreasing their dependency on funds from state banks. Indeed, in the early 1990s, they intensively made use of intra-group loans that, in many conglomerates, rose up to a level of 90 per cent, bringing some corporations close to bankruptcy, only to be eventually rescued by the government (Robison & Hadiz 2002: 49-50).

A further step was to reform the capital markets. The government increased the importance of the Jakarta Stock Exchange (JSX), giving in to the pressure of potential international investors (Rosser 2002: 90). From only 24 listed companies in 1988, the number rose to 250 eight years later (Rosser 2002: 89). With the stock market the conglomerates found a source to raise capital, substituting for the decreasing ability of the state to protect and finance them.

Moreover, being partly owned by the public enabled Chinese big business to hedge some of their companies against confiscation.

The deregulation measures were thus a process that provided adequate backup, calculable risks, and unending possibilities. Indeed, they were an inevitable, necessary step the conglomerates had to take to overcome the glass ceiling of growth under the protectionism of the 1970s. This made them the main beneficiaries of the reforms, as Sato observed:

> Now dominant private capitalists (even those who were developed by patronage) have outgrown the initial stage to become the main engine of the revitalization of the economy, regarding liberalization not as a threat but as an opportunity. The evidence for this is the recent prominent performance of business groups in every deregulated sector.
>
> (Sato 1994: 147)

This resulted in the formation of domestic capital in the hands of a 'state-sponsored private oligopoly' (Robison 2001: 33). Chinese businessmen could henceforth count on their own immense capital base that allowed them to seize the many opportunities created by deregulation. The greater access to capital further allowed them to play an important role globally and shift their assets overseas, which, in turn, made them relatively independent from the Indonesian market. The second beneficiaries from the reforms were the politico-bureaucrats, especially the Soeharto family that increasingly replaced the Chinese in the state–business networks, thus becoming the main recipients of patronage. They induced power through a frictionless fusion of both political and economic authority. Being combined in one politico–business 'capitalist oligarchy' the state managers and the Chinese corporate moguls had thus erected an apparatus of power that was unassailable for outsiders, enshrining their might through an ever growing capital base.

They were an ideal team. In an elaborate division of labour the Chinese tycoons and the indigenous political powerholders complemented each other perfectly. There was no need for the capitalists to possess own political power, as their interests were well represented by the politico-bureaucrats. The latter, on the one hand, needed Chinese capital to finance projects and even invest in various unprofitable sectors which the government wished to see developed (e.g. steel production; Robison 1986: 314). On the other hand, the Chinese fostered them and helped them become capitalists. Therefore, despite the enormous economic growth of Chinese conglomerates, the powerholders saw no reason to exchange their partners, the more so as the social and political position of the tycoons remained weak. Chinese big businessmen were thus *unwilling* to revolt against their subordinate position, as the system still served them very well, and they remained *unable* to do so due to their pariah status.

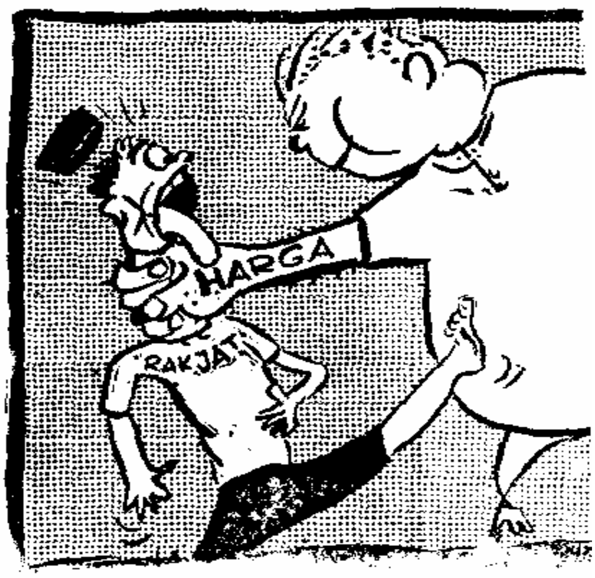
It is not possible to determine the exact degree of the capitalists' power during the New Order. Certainly, their capital resources gave them a structural veto, but they never had to apply it as their loyalty had never been put to the test. Although some of the government's decisions were overtly anti-Chinese in character and consequence, the tycoons were aware that the discriminatory policies were necessary to mediate, legitimise, and stabilise the system. However, for a potential dissension, the politico-bureaucrats had put in place sufficient provisions such as riots or demonstrations to curb a more immediate grip on power of the Chinese, whose position was still too delicate to have a stake in Indonesian society and politics. The Chinese capitalists were thus reliable partners, whose economic growth did no harm to the political powerholders. They secured the latter's political authority and economic rise, for which they became stakeholders in a predatory form of oligarchic capitalism. Therefore, both partners benefited immensely from this intensification of the well-established state–capital symbiosis.

Contradictions

The inherent contradictions between Chinese capital's economic power and its political vulnerability were increasingly difficult to conceal towards the end of the Soeharto regime. On the one hand – as has been shown – they constituted the basic foundation of the successful oligarchic alliance and were critical for the functioning of bureaucratic capitalism. On the other hand, however, they more and more endangered the very existence of the New Order accommodation between the state and capital.

One major problem for the government was its increasingly untrustworthy claim to represent *pribumi* interests. The more predatory the politico-bureaucrats proved to be, the more difficult it became for them to depict themselves as an economically disadvantaged group. The recurring pronouncements in favour of economic democracy (e.g. Suryadi in Chalmers & Hadiz 1997: 199-203) threatened some of the ideological legitimacy of the state, highlighting the discrepancy between the political leaders' egalitarian pretension and rapacious bearing (Robison 1993: 69). As it turned out, populist protests against the prominent role of Chinese big business became a powerful tool of opposition to the regime, providing an outlet to challenge the otherwise unassailable position of the bureaucratic powerholders indirectly. As mentioned before, the government did not have to fear the critics and had sufficient retaliatory actions at hand to curb, channel, or even make use of upcoming dissent with its rule. However, on the coat-tails of the criticisms some potent opponents rose, emerging out of the ranks of the indigenous or Muslim bourgeoisie. They could resort to an increasingly more assertive media that moved the conglomerates to the focus of their attention (Habir 1999: 183). The excesses of capital were intensively monitored and scrutinised, often in a mix of racist and anti-capitalist attitudes (see Figure 4).

Figure 4: Anti-Chinese/anti-capitalist cartoons



(*Mingguan Trisakti* 25 May 1966, taken from Coppel 1983: 55)

(Taken from *Far Eastern Economic Review* 2 May 1991: 39)

The state managers thus had to take care that they did not overstretch their ethnic policies. Anti-Sinicism was only helpful in certain, instrumentalisable doses. Too much of it could backfire on them and inhibit the whole regime.

Another key contradiction that led to strain inside the politico–business oligarchy was the unending growth of Chinese capital. As explained earlier, at the end of the day Chinese business success had never seriously threatened the durability of the alliance with politico-bureaucrats. However, it elevated the Chinese into a potentially more assertive position *vis-à-vis* the political elite and thus distorted the carefully negotiated balance of power between the state and capital. The bureaucrats had to rely on the congruity of interests with their cronies and could not be sure of the consequences a clash of interests would bring about. According to MacIntyre (1990: 251-2), from the mid-1980s on, business interests were ready to organise and act outside the given corporatist structures. This signified a degree of economic maturation of the conglomerates, which obviously could as well do without protectionism. In fact, MacIntyre (*ibid.*) even noted that Chinese businessmen became more and more accepted in society, gradually losing the negative image that used to hinder them before. Moreover, through their overseas investments and expansion into global markets they became international players and hence did not have to confine themselves to Indonesia. The assets that they silently shifted abroad to safer shores gave them an insurance against crisis, social unrest, and regime change. They had achieved a certain degree of autonomy, as their fate was neither determined by, nor linked with the political elites.

In the early post-crisis years, Hadiz (2001a: 131) suggested that ‘it is possible that such internationalised conglomerates have survived the recent Asian crisis’. By now, almost one decade after the crisis, it can be assessed that they indeed did – in contrast to the politico-bureaucratic business groups that obviously failed to grow beyond the status of mere rentiers dependent on political protection. The power of Chinese big business apparently was more substantial and structurally anchored, even though the restrictions during the New Order were comprehensive, but not absolute. Although they were necessary for the functioning of the politico–business oligarchy, before the crisis the capitalists already managed to limit their limitations effectively, thus providing successfully for the post-Soeharto era. Eventually, this was the ultimate reason that the crisis became the catalyst for a regime change from bureaucratic to plutocratic capitalism, with capital claiming a position that better suited its actual power.

3.3 The limited power of capital

The New Order was a sophisticated system based on an authoritarian, centralised, and predatory state apparatus that effectively secured the dominance of the state elite for more than three decades. A pervasive ideology and the comprehensive control of executive, legislative, and judiciary powers in tandem with enormous economic success shielded the dominant politico-bureaucrats from any threats to their ascendant position. There were almost no sources of effective challenge to the Soeharto dictatorship. Most decisive was the co-optation of Chinese capitalists through the predatory networks and their marginalisation with the help of ethnic policies, turning them into willing helpers and prospering junior partners. The compliant class of restricted capitalists gave the politico-bureaucrats the much needed financial base to collateralise their rule and prevent the rise of politically more threatening indigenous businessmen.

In this chapter, I pointed out where this system of dominance had its historically rooted determinants. Already before 1600 the indigenous rulers established relations with Chinese traders that bore patterns to be bequeathed for the centuries to come. During Dutch rule Chinese businessmen became indispensable to the colonial economy and especially to the powerholders, who soon realised the crucial role of non-indigenous entrepreneurs for their own authority and economic endeavours. By the end of colonialism, Chinese capitalists became so important that even explicitly anti-Chinese nationalist policies of the independent Indonesian republic could not – and did not intend to – do them any serious harm. Chinese big businesses maintained their economic power since colonial times; a circumstance economic historian Thee Kian Wie (interview 19 April 2004) called ‘the tragedy of Indonesia’ because of the fateful repercussions of anti-Sinicism culminating in the May 1998 riots.

The New Order regime purposefully took over the precarious Chinese position in economy and society and further amplified the contradictions. This can be gleaned through four main trajectories: (1) The ruling politico-bureaucrats marginalised the ethnic group of Sino-Indonesians and recruited the major capitalists out of it, thereby linking capital to an outsider group that was thus turned into a pariah business class. (2) The Chinese capitalists were co-opted in patronage networks with the political powers, which laid the foundations for the rise of Chinese capital. (3) This symbiosis was consolidated during the 1970s, a time of immense revenues for the state due to the oil boom. The politico-bureaucrats secured their dominance in a bureaucratic oligarchy and with an authoritarian, centralised, and protectionist system that facilitated the emergence of the political powerholders as indigenous capitalists. (4) From the 1980s onwards, the politico–business oligarchy managed to exercise and expand class power through a rapacious form of oligarchic capitalism, effectuating unlimited capital accumulation of both political and economic elites at home and abroad. At the same time, however, these successes resulted in increasing tensions and hardly concealable contradictions.

This historical overview of Chinese big business and the state before 1998 therefore reveals the following power relations: In Indonesia, the bourgeoisie was predominantly Chinese and relatively weak until the late 1960s. Political power was first in the hands of colonial and later 'indigenous' bureaucrats who managed to tame the capitalists and prevent their access to direct executive power. Although the state elite succeeded in transforming itself into an indigenous capital class in the latter half of the New Order regime, the politico–business accommodation became increasingly unhinged in favour of Chinese big businesses through their impressive success at capital accumulation from the 1970s – paradoxically facilitated and guaranteed by the state. The growing economic power of the Chinese capitalists thereby intensified the need to counterbalance Chinese economic strength through instigating popular anti-Sinicism and implementing discriminatory policies. This indicated that a slow transformation had taken place in Indonesia, in which the hegemony of the politico-bureaucrats steadily lost its material foundations, although, as long as the New Order regime existed, the Chinese capitalists were not willing – and had no need – to apply their structural veto power. In the final analysis, however, they succeeded in entrenching themselves as a ruling class-in-hibernation that could do very well with patronage, but would also survive without.

Through the crisis, as will be shown, parts of the state apparatus – before under absolute control of the administrative rulers – unravelled. Chinese conglomerates, formerly integrated in a flourishing regime of bureaucratic capitalism and an integral part of the politico–business oligarchy, were not yet sure if they could sustain themselves without protection. The following chapters provide some strong indications that they can. Indeed, they were very well equipped to thrive in a post-authoritarian regime in many ways, as the reforms offered a more congruous setting for an emerging plutocracy in contemporary Indonesia in which the Chinese bourgeoisie was able to steadily extend its structural veto power to a more unrestricted rule.

4
CAPITAL IN CRISIS: THE CONGLOMERATES AND THE END OF THE NEW ORDER

The New Order accommodation between the state elite and the Chinese capitalists ended abruptly when the economic crisis hit Asia in 1997. Many members of the oligarchy were seriously struck by the unexpected dishevelling of the Soeharto regime. The big conglomerates, as the financial backbone of the system, were especially affected. Threatened with bankruptcy, they were thought to be unable to survive without centralised KKN and the conducive environment of a corrupt economy and authoritarian state. The aim of this chapter is to examine how these times of economic and political crises affected the conglomerates and to evaluate their impact. To what extent did the state-centred patronage networks disintegrate? Could the reforms help constitute a new system that would finally pave the way for an eventual dissolution of the oligarchy's cling to power? Before I discuss in Chapter 5 how the conglomerates reacted to an unknown terrain of democracy, decentralisation, and deregulation[30], it is necessary to analyse the unravelling of the New Order in some detail.

I will show that the crisis had indeed been a significant disruption that resulted in a breakdown of the conglomerates' collusive arrangements. They were affected considerably, many of them so much that a recovery seemed to be unlikely. The reforms the crisis triggered were powerful enough to destabilise and temporarily paralyse the New Order oligarchy. This chapter seeks to outline the resulting changes and their consequences for the conglomerates.

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[30] In this chapter, I use the terms 'democracy', 'decentralisation', and 'deregulation' merely in relation and contrast to the New Order regime, being aware that in most characteristics the post-Soeharto Indonesian state remains only formally democratic, decentralised, and deregulated.

It is important to bear in mind the manifest limitations to historical change, which Marx (1960: 111) referred to in his ‘18th Brumaire’.[31] The ability of social actors to refashion an entrenched social order is encumbered by the historical and structural circumstances they immediately encounter. Here and in subsequent chapters, I will show that so-called ‘democratic transitions’ are by no means tantamount to transformations automatically leading to an idealised world of free markets and good governance, as expected by the IMF, the World Bank, and others in the neo-liberal camp (e.g. Sen 1999). I suggest that *reformasi* in Indonesia neither resulted in the end of the conglomerates, nor has it been the starting point for a new and significantly different *system* of power relations, as the changes failed to alter the underlying structures of power (see Chapter 1.1). Instead, a *regime* was swept away and replaced by another more democratic, decentralised, and economically liberalised one, while the old power elites managed to survive and re-establish themselves in the new post-authoritarian environment.

Therefore, it is misleading to consider this transitory period as a *kairos*, a potential turning point where everything was possible. However, even though the modifications to the regime were not substantial enough to entirely disempower the New Order forces, the changes in the years 1997/1998 were constitutive for the post-Soeharto time and relevant for the future stance of capital in Indonesia. They thus deserve detailed elaboration.

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[31] ‘Men make their own history, but they do not make it just as they please, not under circumstances selected by themselves, but under directly prevailing, given and historically transmitted circumstances’ (Marx 1960: 111).
Original (published 1852): ‘Die Menschen machen ihre eigene Geschichte, aber sie machen sie nicht aus freien Stücken, nicht unter selbstgewählten, sondern unter unmittelbar vorgefundenen, gegebenen und überlieferten Umständen.’

4.1 The crisis in context

On 2 July 1997, the Bank of Thailand floated the Thai baht to defend the currency against speculation and further capital outflow. This prompted a 7 per cent fall of the Indonesian rupiah on 21 July. Many experts did not attach great importance to this plunge and anticipated the economy to be back on track soon, believing that 'Indonesia is not Thailand' (e.g. Ferid-hanusetyawan 1997: 8). Indeed, its astonishing boom, which led to forecasts that saw the Jakarta stock market index heading 'for the stratosphere in the period leading up to the year 2000' (Faulkner 1995: 11), made it hard to believe that the amazing transformation of Indonesia from a formerly poor 'Third-World' country into an up-and-coming high-performing economy was about to be reversed. The widespread enthusiasm was endorsed by authoritative global institutions such as the World Bank, which published its widely anticipated eulogy on 'The East Asian Miracle' only four years before the crisis took place (World Bank 1993).

In the first half of 1997, Indonesia's economy still performed as impressively as in most of the 30 years before and achieved a growth rate of 7.3 per cent (Soesastro & Basri 1998: 3). In July 1997, therefore, nobody wanted to acknowledge the severity of the monetary problems which surfaced. However, what was first perceived to be a passing 'blip' (Hill 1999) turned out to be a major crisis of an enormity unbeknownst before in Indonesian history, as the government's inability to halt the financial meltdown inevitably transformed the economic crisis into a political one with far-reaching implications and consequences. These resulted in futile attempts of the powerholders to save their regime, major social upheavals and riots, and ultimately in nothing less than the end of the New Order.

Interpretations

There have been various attempts to explain this development and the crisis in general. Rodan *et al.* (2001: 2-9) divided them into neo-classical, historical institutionalist, and social conflict approaches. The neo-classical approach constitutes the mainstream perspective. It emphasises the functioning of markets, seen as inherently efficient mechanisms that regulate themselves and every other aspect of society. Neo-liberalism, the ideology that is derived from this theory, not only makes a distinction between the political and economic spheres, but regards politics as naturally antagonistic to the market. Good public policy should thus annihilate itself and 'leave it to the market' or, at best, ensure that the market is allowed to operate effectively (e.g. World Bank 1983: 47-56; Soesastro 1998). The latter proposition is only partly shared by historical institutionalists. For them it is not just the rational choice of individuals aiming for higher profits that contribute to economic growth – as assumed by neo-classical theory – but also, and more importantly, the institutions and organisations that forge markets. The state, therefore, becomes a main focus of such interpretations (e.g. Booth 1995). Institutionalists are especially concerned about institution-building and good governance. Fundamentally different from these two perspectives is the social conflict approach. It is based on the main assumption that neither markets nor institutions can be insulated from politics and interests. On the contrary, specific power relations produce particular institutional arrangements. Markets as well as institutions are thus not neutral, mechanical entities operating in a vacuum, but embedded in the hierarchical order of society determined by systemic processes of social and political conflict (Rodan *et al.* 2001: 7-9).

Based on these basic suppositions, exponents of the various schools of thought analysed the crisis and revealed the flaws they held responsible for it. Neo-classical economists claimed that the economic downturn corroborated their main assumption about the necessity of keeping markets free of political obstructions. The New Order state with its pervasive market distortions through corruption, collusion, and nepotism had offended this universally valid rule, made worse by wrong decisions and bad policy responses of Soeharto (e.g. Soesastro & Basri 1998) as well as 'the erosion of the quality of technical competence and integrity of President Soeharto's cabinet ministers, as he relied more and more on his family members and cronies for advice' (Nasution 2001: 38). The crisis was thus seen as a 'wake-up call by financial markets, which might – in a relatively painless fashion – curb very high current account deficits, induce governments to clean up the financial sectors, and reign in the proliferating, mostly dubious and off-budget, "mega-projects"' (Hill 1999: 15). Backed by international donor organisations such as the IMF and the World Bank that provided the much needed funds, neo-liberals had the leverage to anchor their normative views and solutions so that a retreat of the state as well as deregulation and privatisation became the commonly accepted remedies to which governments were forced to subscribe.

Institutionalists, on the other hand, blamed the crisis precisely on the insufficient intervention of the state (e.g. MacIntyre 1999). They declared the economic prescriptions of the neo-liberal camp, i.e. liberalisation and deregulation, as the very cause of the havoc that ruined the formerly extremely successful developmental state model of the booming tiger nations in East and Southeast Asia. To protect the vulnerable economy from slipping again into yet another crisis, institutionalists demanded even more capacity for the state to prevent further market failures. However, although both sides varied considerably in their basic assumptions and long-term solutions, they were not too far apart from each other in their immediate objectives: good governance and institution-building to achieve quick economic recovery and growth. The lack thereof inevitably led to the disaster as the economy became more open and internationalised, because Asian capitalisms[32], in particular the Indonesian adaptation, could not cope anymore with the demands of a more sophisticated and global market system (Boorman & Richer-Hume 2003). The argument between neo-liberals and institutionalists was therefore merely about the right form of capitalism and the roles that markets and institutions play therein.

Social conflict theorists rightly dismissed these discussions as bagatelles that do not address the core of the problem (e.g. Robison & Hadiz 2004). Concerns about power relations

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[32] Particular to the Asian versions of capitalism was the role of the state, its links to big business, and an aversion to handling economic matters in a laissez-faire style (Beeson & Robison 2000: 9). It was *planned* capitalism, or, as Beeson & Robison (2000: 11-13) called it, 'coordinated capitalism' that helped a scrupulous power-interested 'predatory' regime to get into and stay in power.

and interests were lacking in both other approaches. While poor regulation, inadequate supervision, and bad governance did aggravate the crisis, works that exclusively emphasised these factors and identified the main problems merely as technical or even behavioural ones remain inadequate to understand the fundamental dynamics of the Indonesian political economy. Furthermore, such explanations are often ambiguous as it is very uncertain whether appropriate institutional arrangements or completely deregulated markets could have prevented the crash, or would turn out to be the panacea for the problems. Without a framework that amply considers the contestations within state and society, observers from a neo-liberal or institutional perspective had difficulties explaining the severity of the crisis, why it was sequenced with the fall of long-time dictator Soeharto, or for which reasons a revitalisation of the Indonesian economy did not set in immediately, such as in the cases of Korea, Thailand, and Malaysia (see Basri 2004: 40-1). Therefore, this chapter considers the crisis as a social conflict regarding the distribution and (re)configuration of power before, during, and after the collapse of the New Order.

I will also examine how the crisis unsettled the New Order arrangements, particularly in relation to the Chinese conglomerates. The social conflict perspective allows us to comprehend the development of capitalism as a specific manifestation of its normal cyclical boom–bust nature (Hewison 2000: 210) and the Indonesian crisis in particular as a significant disruption of the highly centralised, predatory patronage networks of the New Order. At the same time, it also acts as a facilitator and an arena of a new round of power struggles (Robison 2001: 109). I will therefore begin with a brief analysis of the configurations of power before the crisis commenced.

Capital on the eve of the crisis

The sudden economic collapse came as a shock. Nothing extraordinary happened in Indonesia. There had been no catastrophe, no political incident, or any other event of sufficient significance that might have caused the economic ruptures. Nobody anticipated a crisis, and definitely not one in such severity. On the contrary, until the end of 1997, most observers admired Indonesia's 'remarkable record of socioeconomic development', achieved through macroeconomic stability over many decades (Boorman & Richter-Hume 2003). For instance, only two years before the crash, Hill (1996) saw no indication of a nascent crisis while still emphasising the robust characteristics that by far outweighed the negative ones. The crisis took him admittedly by surprise (Hill 2000: xiv). Why were all economic forecasts completely inaccurate? Why did every early-warning system fail?

The problem was that most economists were dazzled by the massive growth and convinced of the general functionality and effectiveness of the New Order. Their analyses therefore did not question the structural system on the whole and scrutinise its constituent powers and interests, but addressed only relatively minor economic policy issues, thereby neglecting the immense structural changes that reconfigured Indonesian capital. As described in Chapter 3, capital emerged during the early 1970s and became a major social and economic force. However, these capitalists, who were mainly Chinese, were constrained by being labelled and stigmatised as Chinese. They were thus dependent on their partners in the bureaucracy and executive. The opening of the financial markets in the mid-1980s eventually gave them the possibility to amass sufficient capital to establish an independent power base relatively autonomous from the state and its rulers. The conglomerates gained further immunity and security by transferring enormous sums outside of Indonesia, propelling them into an advantageous bargaining position through which they attained a structural veto that compensated for their lack of direct political power.

However, by no means did the capitalists want to jeopardise the bureaucratic capitalism that brought them into being and continued to nurture them. Even though they had to face significant limitations, the circumstances they were in were much too convenient and profitable to be broken up. It required the Asian crisis to dissolve such collusive arrangements. The sudden deterioration of the economy also revealed the inherent contradictions of Indonesian capitalism. More than ever, it became obvious that the very bases of the New Order's boom were also the reasons for its bust. KKN, on the one hand, was a vital precondition for the politico–business oligarchy – and also for the economy as a whole – to grow. On the other hand, it was also one of the attributing reasons for the collapse of the financial system. While the socially weak, ostracised position of Chinese capitalists was necessary for the establishment and functioning of the New Order regime, it was also the very cause for the tycoons to bring their capital to safer havens as insurance for times of political turmoil. This fragile, carefully balanced system worked well as long as the economy boomed. The moment the capital markets in Asia collapsed and capital deserted Indonesia, the New Order tumbled down as well.

The crisis illustrated most clearly the indispensable position capital had achieved. From dependent clients the Chinese tycoons silently emancipated themselves to become a structurally decisive bourgeoisie inside the capitalist oligarchy, which was, however, still restricted by the social status of its ethnicity. Whoever was to rule Indonesia required an accommodation with the forces of capital. At the end of the day, it was the sudden pull-out of Chinese capitalists from the Indonesian economy, along with the diminishing international investor confidence, that triggered the unravelling of the economic and political arrangements which had been so beneficial for them.

Monetary crisis

Most conglomerates emerged in the 1970s and 1980s out of virtually nothing more than their good connections with the political elite (see Chapter 3). By the mid-1980s they started to become global players, financed by their domestic, extremely lucrative patronage networks. Many monopolies and exclusive contracts were bestowed on them without much competition. Through these arrangements they grew and contributed to enormous growth rates. As the main engine of Indonesia's economic boom, the conglomerates became megalomaniac. The unending possibilities for reaping giant profits lured them to invest in increasingly gargantuan projects. For this, they needed money that they borrowed from banks outside of Indonesia or from their own banks, neglecting all legal lending limits. In only eight years, the private sector debt rose more than six times, from US$12.4 billion in 1989 to US$80.1 billion in 1997, which even surmounted the public sector's debt (see Nasution 2001: 27). Most of these liabilities were unhedged and denominated in US dollars, thus making the Indonesian corporate sector very vulnerable to depreciations of the rupiah. Relatively minor disturbances in the capital market could therefore demolish the conglomerates' impressive looking empires like a house of cards.

The problems became acute as Indonesia's big businesses panicked through the currency problems in Thailand and started to buy US dollars to minimise the effects of a devaluating Indonesian currency. The haemorrhaging of capital further intensified the fall of the rupiah, which led to a collapse in confidence in the general economic situation, aggravated by the perceived helplessness of the government. The result was, in turn, an even larger scale of capital outflow, as private enterprises sought to prevent insolvency, fearing that their widely unhedged liabilities, denominated in foreign currencies, would exceed the value of their rupiah based assets.

To alleviate the exodus of capital, the government floated the rupiah on 14 August 1997 (for a chronology of events, see Hill 1999: 11-14) and announced several packages to rescue the currency. This, however, did not keep the stock markets from plunging on 28 August 1997, thereby compelling the government to turn to the IMF for assistance. On 31 October, it signed an agreement with the Fund that provided US$43 billion financial aid package, which was tied to demands for strengthening monetary and fiscal policies, a major restructuring of the financial sector, significant deregulation measures, and trade reforms, as well as the promotion of transparency and openness (IMF 1997). On 1 November, 16 banks were closed at the request of the IMF, a step that increased uncertainty and further worsened rather than helped the situation (Cole & Slade 1998: 63). None of these 'ambitious reforms designed to equip Indonesia's economy for the challenges and opportunities of globalization in the coming decades', as the IMF (1997) praised them, could either prevent the rupiah's devaluation of – by September 1998 – eventually 78 per cent against the US dollar (Evans 1999: 119), or stop the massive capital flight that reversed the net inflow of US$16 billion in fiscal year 1996/1997 to a net outflow of US$13 billion the year after (IMF 2002).

Certainly, the conglomerates did not do this voluntarily, arbitrarily, or even purposefully. They were in existential distress to safeguard the value of their assets by seeking shelter in other, more stable currencies. The latent flaws of the whole financial system, i.e. the lack of appropriate macroeconomic management, regulation, and governance, which they had previously profited from, induced them before to increase their external debts and the level of mobility of their capital, thus amplifying the harshness of the situation. At the same time, it obstructed any effective and immediate solution of the problem.

Through the sudden absence of economic growth the regime lost the main foundation of its legitimacy. Not being able to redress the situation further strengthened the impression of a fundamentally weakened government, which lost its authority and credibility to the IMF that determined the necessary actions to be taken to solve the crisis.

Regime crisis

Soeharto realised quickly that the foreign-led initiatives to save the Indonesian economy were harmful to the continuing existence of his regime. The recommended reforms not only consigned him to the role of one who was vanquished, but also threatened directly the bases of the patronage networks he had carefully built over the years, as well as the politico–business alliances that lay at the heart of the New Order oligarchy. Not surprisingly, the president was not committed to the intentions he was forced to declare. He thus decided to stall for time. The Letters of Intent (LOI) signed by the Indonesian government (IMF 2003: LOI 31 October 1997, 15 January 1998, 10 April 1998) complied with the demands of the IMF, but apparently, the concessions were mainly tactical in nature. By acceding, he intended to divert the attention of IMF from him and receive some urgently needed money to circumvent the immediate doom of his order. However, he increasingly ignored the suggestions of reformers, as the constellation of his last cabinet of March 1998 showed. This included free-spending research and development minister B.J. Habibie as Vice President, Soeharto's business and golfing buddy Bob Hasan as Trade Minister, and his daughter Tutut as Minister of Social Affairs, accomplishing 'the unusual feat of offending nearly everyone', as Schwarz (1999: 351) remarked. The formerly invulnerable dictator desperately tried to save the old apparatus – an objective destined to fail as the remaining stakeholders were about to shift their stakes from the road to ruin to a rather unpredictable future. The Chinese capitalists, as pointed out before, had already deserted the sinking ship by transferring parts of their capital abroad.

As the oligarchy fell into a spin, the rudiments of Indonesia's civil society, which was efficiently disorganised and suppressed under the New Order, seized the opportunity to stage protest against the regime. Prompted by inevitable price rises due to the devaluation of the currency, impoverished people were starting to show their displeasure openly. In January and February 1998, the first serious riots were directed mainly against Chinese Indonesian shopkeepers in small towns of Java (Purdey 2002: 73-5). The elimination of fuel subsidies as part of the IMF stabilisation programme (IMF 2003: LOI 15 January 1998) and the immediate increase in price of petrol after implementation on 1 April led to outbreaks in Medan and other cities.

This social unrest got out of control, even though some fractions of the powerholders, amongst them most likely elite units of the military around Soeharto's son-in-law Prabowo Subianto (Schwarz 1999: 355), played the 'Chinese card' once more to direct the anger of the people away from the government towards the Chinese minority that served as ideal scapegoat (see Chapter 3.2). This was a well tried method the New Order government periodically resorted to, such as during the anti-Chinese demonstrations in Jakarta and Bandung in 1973 and 1974 (Setiono 2003: 1001-6), during the riots in Solo in 1980 (Setiono 2003: 1025-8), and in Medan in 1994 (Heryanto 1994). This time, however, things got out of hand. Instead of being satisfied with seemingly obvious explanations for the crisis that blamed the Chinese shop-owner for the shortage of rice or the Chinese tycoon for the economic deterioration, the instigated rage of the mob did not stop at burnt-down cars, houses, shopping centres, and murdered or raped bodies of Sino-Indonesians, but was intensified and re-orientated against the actual powers by demonstrators from the universities. If there was any hidden master plan to save Soeharto through initiating chaos, it failed entirely. On the contrary, the fragility of the system increased and it became clear all the more that Soeharto had gradually lost control over the situation.

It would be an exaggeration to assert that it was the students and other protestors who overthrew the regime (as suggested by, e.g., Sukardi 1999: 204). However, they exposed that the system had no means anymore to contain the unrest. This contributed to the more decisive factor: Old stalwarts and former reliable bases of Soeharto's power turned away from their leader in the moment in which a new person on the apex of the system seemed to be a better alternative to ensure their own survival. The treason of his most loyal allies such as the erstwhile Golkar chair and Speaker of the MPR Harmoko, then-Housing Minister Akbar Tandjung, or former Coordinating Economy Minister Ginandjar Kartasasmita (see O'Rourke 2002: 118-35) symbolised the new divide of the power elites who were lining up for better starting positions in a new round of power allocation in a new regime. The same applied to his onetime business partner Sofjan Wanandi who voiced his concerns and had to bear the disciplinary sanctions (Schwarz 1999: 346-7).

Soeharto finally stepped down on 21 May 1998. The oligarchic powerholders saved their system by sacrificing its main architect. This was very risky, largely because the president's dismissal could potentially affect or cause the deterioration of their links with the political-economic bases. Without him, would the whole apparatus disintegrate? How did the end of the New Order affect the conglomerates, which were suddenly lacking political protection?

4.2 Economic impact: The dismantling of the business empires

The economic and political changes generated by the crisis disrupted the symbiotic accommodation that had been achieved by state and capital during the Soeharto regime. The New Order's unsettling caused immense distress to the conglomerates, who were perceived to be largely responsible for the whole crisis (Rosser 2002: 95). It appeared to put an end to an extraordinary economic success story and deprived the business groups of the networks and arrangements from which they had profited. Before I discuss the breakdown of the very supportive and protective environment the authoritarian, centralised, and collusive New Order regime provided, I will show in this section how the capitalists' material base eroded, making them – for the first time ever – vulnerable to attempts to hold them responsible for their practices.

Financial collapse

The economic damage caused by the sudden and deep plunge of the Indonesian currency massively disrupted the corporate world, whose composition was regularly depicted in the annual Top 222 of *Warta Ekonomi* and other magazines. Despite the lack of such rankings for post-crisis Indonesia (see Chapter 1.3), it is certain that an actual configuration and order would vary significantly from the last list compiled in 1997 (*Warta Ekonomi* 24 November 1997: 32-5; also Appendices, Table 1). It is safe to assume that today's key data of most business groups, i.e. the value of assets, the number of companies and employees, and the turnover rate, are now by far more modest than before. Economist Chatib Basri estimated that the conglomerates lost 25 to 30 per cent of their assets (interview 12 May 2004).

Data Consult (1998: 184) assessed that 55 per cent or 138 of the 250 conglomerates it monitored have to face 'the fate of being removed from business stage' (Data Consult 1998: 152), because 'those which were very close to the political elite in the New Order Era and enjoy[ed] special facilities and privileges, are now being investigated, scrutinized and cornered'

(Data Consult 198: 145). Eight business groups out of the largest 30 pre-crisis conglomerates were not mentioned in the list of surviving conglomerates, i.e. Gajah Tunggal, Argo Manunggal, Barito Pacific, Humpuss, Danamon, Metropolitan, Matahari, and Ometraco (Data Consult 1998: 184-90).

Certainly, it was inevitable that some groups faced bankruptcy. Danamon Group, for instance, lost its bank and was therefore not able to sustain its operations in the financial sector that used to be by far the core business of the group. While Bank Danamon, which was later sold to Singaporean DBS and German Deutsche Bank, continued to exist, former owner Usman Admajaya was banned from leaving the country and had to face prosecution (Data Consult 1998: 176). The end of the regime also meant the loss of economic power for Soeharto's closest cronies. First, the president's family enterprises under the Cendana group were placed under great pressure. Tommy was convicted of fraud, while his brother Bambang's group Bimantara owed US$2.5 billion to state banks. Most of his major partners cancelled joint ventures and contracts, as Bimantara lost its main appeal, the direct access to the president. The market capitalisation of Bimantara Citra, the publicly listed companies of the group, dropped from US$2 billion in 1997 to US$40 million in 1999 (*Far Eastern Economic Review* 13 May 1999). Another prominent casualty was Soeharto's close friend, timber baron Bob Hasan, who forfeited all his monopolies, concessions, and positions and eventually was jailed for cheating the government out of US$75 million.[33]

Other conglomerates at least had to declare huge losses and struggled to repay their domestic and external debts as well as the loans Bank Indonesia had provided for their banks. For the non-recoverable domestic loans, which well-connected business groups received mainly from state-owned banks, the tycoons had to negotiate with the government (see fol-

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[33] Both Tommy Suharto and Bob Hasan were released early. The latter, because 'he showed a good example in prison by organizing a business in which inmates turned volcanic rock into jewellery for sale to tourists' (*Far Eastern Economic Review* 4 March 2004).

lowing section). To illustrate the immenseness of the amounts in question: Texmaco and Barito Pacific, for instance, had outstanding debts of Rp17.3 billion and Rp8.4 trillion respectively, while Bakrie defaulted on Rp6 trillion (Sato 2004: 30). The external debts were even more gargantuan. As of the end of 1997, the three largest, most highly diversified and globalised conglomerates, Salim, Astra, and Sinar Mas, were estimated to owe US$5.5 billion, 5.1 billion, and 3.8 billion respectively only to foreign creditors (*ibid.*). The *Far Eastern Economic Review* (14 February 2002) reported that Sinar Mas Group's 'prize asset' Asia Pulp & Paper (APP) alone had to repay US$13.9 billion in total. Furthermore, it disclosed the structural deficiencies of these groups, such as APP's decentralised procurement of supplies and its inefficient and costly marketing and distribution network tying up capital and inventory, which was regarded as a 'mess with hundreds of subsidiaries and affiliated companies scattered around the world' (*ibid.*). The biggest problem for most conglomerates, however, was the debts of their private banks. Due to unresolved structural weaknesses in the real estate and banking sectors, where the level of unhedged short-term debts was high and the one of capitalisation low, a serious liquidity crisis developed that brought many of the 238 pre-crisis banks on the brink of collapse, such as Liem Sioe Liong's BCA, which was indebted by Rp52.7 billion, Sjamsul Nursalim's BDNI, Rp28.4 billion, and Usman Admadjaja's Bank Danamon, Rp12.5 billion (*Tempo* 27 January 2002).

Through the financial breakdown of the conglomerates 'an important split was now driven into the business/state relationship', as Robison & Hadiz (2004: 154) observed, because this not only put an end to the patronage networks, but also tied up enormous financial resources of the government that was forced to bail out the defunct business groups. The old ways of collusion were henceforth not feasible anymore. On the contrary, to prevent its own bankruptcy, the state established the Indonesian Banking Restructuring Agency (IBRA) in January 1998, which it sought to recover the debts of its former partners.

Debt settlement

The thorough restructuring of the banking sector began with the closure of 66 banks by IBRA, the take-over of 11 banks, the merger of 14, and the recapitalisation of 9 others assessed as viable (Adiningsih 2001: 180). With this, the government had three explicit objectives, namely to rehabilitate the banking sector, reduce the debt burden, and restructure the private sector debt (IBRA 1999: 5). Through IBRA, in cooperation with the Indonesian Debt Restructuring Agency (INDRA) and the Jakarta Initiative (jointly established by the Government of Indonesia, the World Bank, and USAID), it implemented a guarantee scheme and rehabilitation programme for the banking sector and undertook corporate debt restructuring, shareholder settlements, assets divestment, and the recovery of government funds (IBRA 1999: 11-17).

IBRA soon became the largest creditor of the conglomerates by buying the non-performing loans (NPLs) that crippled the banking system. These loans were the consequence of an anarchic financial sector without prudential regulations, which allowed 23 of the top 30 business groups to have one or more of their own affiliated banks (Sato 2004: 30). Banks were not only status symbols and flagships, but also used as internal cash cows by channelling funds to other businesses inside the conglomerate, complementing the enormous sums of loans already received from state-owned banks. According to Bambang Subiyanto, Minister of Finance under Habibie (interview 16 September 2004), most of the banks in Indonesia should have been liquidated due to an overall quota of 80 per cent NPLs (Rp320 trillion) of the Rp400 trillion in total liabilities. As this was economically and politically not feasible, the government gave blanket guarantees that accumulated – including interest – to Rp650 trillion in government bonds by the end of 1999, through which in effect private losses were transferred to the public. Additionally, the ailing business groups received Rp146 trillion of Central Bank Liquidity Funds (BLBI) from Bank Indonesia for the recapitalisation of their banks (Hadiz & Robison 2005: 227).

IBRA's main task was to recoup these contingent liabilities from the conglomerates. To force them to liquidate assets, it had several instruments at its disposal: It could threaten defaulted debtors to bring them to trial before the new commercial court on the basis of a revised bankruptcy law implemented in April 1998 (Rosser 2002: 183), or simply seize the needed assets, a sanction which IBRA was authorised to mete out. Hence, debt settlement and corporate restructuring were closely interwoven. IBRA was therefore in a potentially very powerful position that some politicians – such as the Minister for Cooperatives Adi Sasono – wanted to use to expropriate the conglomerates and redistribute their assets to cooperatives (Murphy 1998). The tycoons were thus in the dock, a situation further intensified by their huge foreign debts (see Sato 2004: 27, 30). The immense losses caused by the economic crisis and the plans the government tentatively devised to recoup them gave the tycoons an unambiguous signal that times had changed. IBRA's rules were the new norm with which the business groups had to comply, removing their immunity and hindering them from proceeding as they used to. To survive, they needed to make this new institution subservient to their needs. In 1998, it still looked as if the conglomerates were not able to do that and to recover fast and easily, as not only their economic empires collapsed, but also the political regime in which they had emerged.

4.3 Political impact: The dissolution of predatory arrangements

As outlined in Chapter 3, the New Order was based on authoritarianism, centralism, and collusion, thereby enabling the oligarchic elites to maintain their dominance. It was this political environment that bore and moulded Chinese big business. The crisis terminated the quasi absolutist, openly predatory characteristics of the old regime. Suddenly both businessmen and politicians were exposed to reforms that sought to undermine the foundations of the New Order (Bhakti 1998: 174-5). More specifically, *reformasi* was intended to reconfigure the power structures in three areas: shifting power away, first, from the president and the political elites to the people and society; second, from Jakarta based gatekeeping institutions to provincial parliaments and regional decision makers; and third, from the major cronies and parasitical capitalists to free markets and international investors. I will examine and analyse the struggles to democratise, decentralise, and economically liberalise Indonesia that took place right after the breakdown of the old regime, and evaluate the consequences for the conglomerates the demise of the New Order brought about. I will show that the implementation of the reforms in 1998 seriously threatened the business groups by dismantling the foundations of the old oligarchy.

The end of authoritarianism

Authoritarianism was imperative to uphold the New Order. Not being hindered by any noteworthy opposition, the ruling state elite around President Soeharto could engage in predatory capitalism without checks and balances (see Chapter 3). The Chinese cronies especially needed a strong, protective state that defended them against populist racism (that, in turn, was instigated by the government itself). This situation changed tremendously with the advent of the formal-institutional and the civic sphere of democracy, i.e. parliamentarism and the awakening of civil society.

With the fall of their leader, the politico-bureaucrats were suddenly confronted with attempts to install a new democratic framework designed to override their former centralised institutional power. This suddenly became possible because the army that safeguarded the old system had only one feasible option during and after the final days of the New Order: to submit itself to civilian supremacy. The alternative would have been to use violence openly to break down the student movement, which the military leadership under Wiranto deemed unwise (Schwarz 1999: 363-4). Thus, the soldiers retreated partially from the political sphere they had dominated for decades. This paved the way for some important reforms that included the reduced powers of the presidency and the state party Golkar, which were formerly the main political centres of the old regime.

After 32 years of Soeharto's rule, the legislative period of presidents was limited to five years with the possibility of one re-election. Significantly, none of Soeharto's immediate three successors – Habibie, Abdurrahman Wahid, and Megawati – managed to remain in office for a prolonged period. Indonesia's sixth president, Susilo Bambang Yudhoyono, became the fourth head of state in only six years after Soeharto's resignation. He has to share power with many other political institutions at various levels, above all with the DPR (*Dewan Perwakilan Rakyat*/House of Representatives), formerly a rubber-stamp parliament par excellence (O'Rourke 2002: 88). The DPR has grown so much in power that it is able to control the executive body and even hold the president accountable for his actions. The impeachment of Abdurrahman Wahid in July 2001, for instance, exemplified the shift of power from the executive to the legislature.

The strengthening of parliament led to the emergence of politicians and parties. The number of the latter rose from only three government funded and largely impotent ones to more than 140 by end of 1998, out of which 48 were eligible to compete in the national elections (Fealy 2001: 100). Golkar, the undisputed political instrument of the politico-bureaucrats, suddenly had to face serious competition and was forced to transform itself from a governmental state party with 75 per cent of the vote in 1997 to an ordinary participant in the struggle for votes with only 22 per cent in 1999 – which made it a distant second to the PDI-P (Fealy 2001: 101). Most notably, two leading former opposition politicians, Abdurrahman Wahid and Megawati, assumed the post of president and vice president following the first free elections of post-Soeharto Indonesia. Parties and candidates were now forced to appeal much more directly to the electorate. This was a considerable renunciation of the formerly rigged electoral procedure that took place every five years, which had been merely in place to sustain the appearance of a democratic system. Through the new regime of parliamentarianism the elected politicians needed and obtained democratic legitimacy, thereby ending the monopoly of unlimited authoritarian power.

This was a major drawback for the conglomerates. The time of guaranteed political protection was over and a new era of great uncertainty had begun. Without their main patron, President Soeharto, the architect and integral facilitator of the New Order patronage networks, they suddenly lacked the reliable political backing necessary to uphold the well established symbiotic arrangements between capital and the state. Furthermore, they lost their access to unlimited funds, which, during the New Order, merely depended on the proximity to Soeharto and his family. Additionally, due to their ethnic ascription, they became assailable to populist demands for a 'redistribution of assets' – a code-phrase for the expropriation of Chinese conglomerates (Murphy 1998), best epitomised by Amien Rais' attempts to define the Chinese tycoons as parasites:

> We must respect the economic achievements of our Chinese brothers and sisters. But at the same time we must tell them frankly that in the future we would like a fairer distribution of the national wealth. I can say that 95% or more of the Chinese love Indonesia like I do. Only a very small percentage are absorbed with economic greediness. They have become parasites.
>
> (Amien Rais, cited in *Asiaweek* 29 May 1998)

Thus the appointment of Soeharto's confidante B.J. Habibie – known for his anti-Chinese sentiments – as his successor was met with consternation. At the beginning of his presidency, he wanted to replace Chinese businesses and 'give the opportunity to the pribumi, who make up the largest population and build them up' (cited in Suryadinata 1999: 11). Commenting on the exodus of Chinese businessmen and their capital, Habibie noted: 'If the Chinese community doesn't come back because they don't trust their own country and society, I cannot force, nobody can force them. […] But do you really think that we will then die? Their place will be taken over by others' (cited in *Washington Post* 19 July 1998). He was backed by the parliament that called upon the government in November 1998 to shift assets and preferential attention away from the conglomerates to cooperatives and small and medium enterprises (Emmerson 1999: 341-2).

The many unknown parties, politicians, and administrative authorities that the reformed framework brought about were even more disconcerting than the new president, who was in the end himself a product and one of the main protagonists of the New Order. As former PAN General Secretary Faisal Basri (interview 14 September 2004) reported, many businessmen relied heavily on Golkar to which they felt indebted, because it protected them and provided them with economic privileges. However, the politico-bureaucrats who used to penetrate the state apparatus through Golkar were forced to take a back seat. It therefore became very unclear for the conglomerates whom to choose as a suitable partner. Politicians, and even presidents, were appearing and disappearing quickly. For the immediate post-Soeharto years, no distinct power centre inside the party system was able to establish itself. Thus, it became problematic to identify what the important positions were and who filled them, making the return on investment in bribes very unpredictable.

A similar threat to them was the emancipation of the civilian sphere from the former all-embracing state that – rather than the formal aspects of democracy – made a real difference to the populace. The newly achieved liberalisation of society was in stark contrast to the former corporatist regime of the New Order, in which a suppressive state apparatus with the help of the pervasive ideology of 'integralist developmentalism' (Bourchier 2001: 116) either co-opted or dismantled all societal groups and muted every kind of serious dissent (see Chapter 3). With *reformasi*, civil society regained two of its basic rights, namely the freedom of association and the right to express opinions openly.

An increasingly critical population started to organise itself through numerous new and older NGOs to fight for human rights, equality, transparency, or other concerns, thereby directly or indirectly balancing the ones in power. A few groups were explicitly geared towards controlling big business. One example was the '*Koalisi Masyarakat Anti Skandal Bank Lippo*' (people's coalition against the Lippo Bank scandal), led by prominent figures such as Lin Che Wei and Faisal Basri, that closely monitored the Lippo Group and aimed to prevent excessive fraud (Agam Fatchurrochman, Programme Manager Partnership for Governance Reform in

Indonesia, interview 2 September 2004). Indonesia Corruption Watch (ICW) was another group that effectively exposed many cases of KKN. According to its Vice Coordinator Danang Widoyoko (interview 7 September 2004), ICW's strategy against systemic corruption was to create publicity for shady dealings and arrangements, thereby minimising any form of secrecy possible, which would henceforth change the overall business culture.

This reveals the second characteristic of a more vibrant civil society. Public opinion suddenly became an important factor which could be used by NGOs and other critics to mobilise for their aims. The growing media industry also gave them an appropriate platform. The free press could print opinions in unrestrained, critical ways unknown before and still alien to the media of some other countries in the region. *Kontan* journalist and Head of *Aliansi Jurnalis Independen* (AJI – Alliance of Independent Journalists) Eddy Suprapto (interview 8 September 2004) emphasised that most of his collegues were eager to prove their indispensability for a liberal society and saw themselves as guardians of the new, weak democracy. The press constituted 'the fourth power that has to substitute for a non-existent system of checks and balances', as the Executive Editor of *Rakyat Merdeka*, Teguh Santosa (interview 14 June 2004), described the role of his newspaper.[34] Through the media, liberal *reformasi* ideas became ascendant in the public discourse. The unanimous goal was to strive for an open, democratic society.

This objective, of course, was not at all in accordance with the interests of the conglomerates. Indeed, it was detrimental for them. In the eyes of many activists, the corrupt Chinese tycoons disqualified themselves through their behaviour and could hardly play a role in a people-based democracy. In a few cases, anti-conglomerate sentiments became emotionally or instrumentally mixed up with anti-Chinese resentments, creating a politically powerful tool

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[34] *Rakyat Merdeka* is one of the most outspoken daylies that 'gained prominence as a result of its gritty, often abrasive, style, with articles and caricatures that frequently strongly criticize the political establishment' (Amnesty International 2003). As such, it was sued for defamation of then-Speaker of the DPR Akbar Tandjung and then-President Megawati.

at the disposal of populist politicians or indigenous competitors (e.g. Jusuf Kalla, see Wibowo 2004).

Chinese big business was under close supervision of the media and under public scrutiny. Economic historian Thee Kian Wie (interview 19 April 2004) stated confidently that, with a freer press, the same kind of cronyism would not be possible anymore. Businessman Sofjan Wanandi (interview 8 June 2004) agreed and lamented that ‘the conglomerates cannot expect anything from the government anymore. It […] cannot just give monopolies because we now have so many watchdogs here and there that are complaining all the time.’ Elsewhere, he deplored that ‘the overall environment for business is far from being favourable. In the case of some, most likely Soeharto’s children and cronies, there is a witch-hunt taking place’ (Wanandi 1999: 131). An anonymous ‘consultant who works with many Chinese conglomerates in Jakarta’, cited by *The Wall Street Journal* (22 May 1998), claimed with justification that the tycoons would ‘much prefer martial law. […] They at least know how to get along with the army.’ Hence, with the end of the New Order style of authoritarianism, they had to face an active, organised, and critical civil society that treid to make their lives more difficult.

The end of centralism

The highly centralised and unitary New Order state ensured Jakarta’s institutional and political authority over the provinces and districts. Demands for greater regional autonomy were not tolerated during the Soeharto years. As the dominance of the centre faded in 1998, several regions started to demand more rights; some of them, such as Aceh or East Timor, called for independence more intensively than before. To prevent the balkanisation of Indonesia, the central government had no other feasible alternative than to give in to demands for greater self-determination. These intentions were corroborated by the World Bank, which expected that

> decentralization may create a geographical focus at the local level for coordinating national, state, provincial, district, and local programs more effectively and can provide better opportunities for participation by local residents in decision making. Decentralization may lead to more creative, innovative and responsive programs by allowing local 'experimentation.' It can also increase political stability and national unity by allowing citizens to better control public programs at the local level.
>
> (World Bank 2001)

In essence, decentralisation was seen as a means to increase the efficiency, immediacy, and accountability of governance to secure political stability and national unity. In this sense, many responsibilities were handed over to more than 400 local governments, and the distribution of revenues from natural resources was renegotiated in favour of the districts of origin (Brodjonegoro 2004: 128). *Kabupaten* (districts) and *bupati* (district heads) thus became newly powerful in relation to many institutions and ministries based in Indonesia's capital (see Bünte 2003: 129-41). Another step in this direction was to take away the right of the president to virtually approve every single investment. Authorisation was only required for huge projects worth more than US$100 million (Rosser 2002: 183). This symbolised that the conglomerates' main vehicles for the allocation of favours that used to be based in Jakarta were considerably threatened to be vitiated by Indonesia's move from centralism to decentralisation.

These structural adjustments were anticipated to be paralleled by fundamental changes in the way that power operates. For the World Bank (2004a), the decentralisation of power was the precondition for an 'ambitious program to tackle corruption in Indonesia from the ground up' by implementing its 'good governance initiative that may pave the way for a major improvement in accountability, transparency and participation at the local level in Indonesia – and it is hoped the economic and poverty reduction performance in the selected regions'. For this, the Bank appealed to local authorities with the prospect of substantial funding and investments for the '50 to 60 of the best local governments' in the amount of more than US$200 million per year, in so far as they adhered to 'good governance' reforms and participated in anti-corruption initiatives (*Laksamana.net* 10 April 2004). As the World Bank's Chief Governance Advisor of Indonesia, Joel S. Hellman (interview 16 September 2004), pointed out, decentralisation did not only yield new institutions, but also led to 'a vastly different range of political actors and entirely different interactions with institutions'. The traditional strategies of the conglomerates were thus no longer apposite.

Corruption had become less predictable in its outcomes. As economist Faisal Basri (interview 11 September 2004) stated, 'there is no guarantee, no certainty anymore that your business is successful, because power is more distributed and you have to deal with more than one instance'. He expected that this eventually would result in cleaner companies. Analyst and politician Sjahrir (interview 24 September 2004) concurred and asserted that the conglomerates were being forced to change their behaviour, because in a decentralised Indonesia substantial capital accumulation through corruption was not possible anymore. Businessmen, such as Pharos boss Eddie Lembong (interview 21 October 2004), confirmed that 'the situation now is difficult. Power is scattered and not concentrated, which makes it complicated for businesspeople to deal with'. The boss of Artha Graha, Tomy Winata, declared that

> During the New Order, everything was easy for Chinese big business: There was one pot of money, contracts and opportunities, and the pot was with the Cendana; now the pot is spread to thousands of people. The political landscape has changed a lot and is more complex than before. Now the social cost of doing business in much higher.
>
> (Tomy Winata, interview 17 September 2004)

Thus, the end of centralised authoritarianism spelled the end of the New Order's centralised system of patronage, from which the conglomerates benefited immensely before.

The end of protectionism

As long as the state–business oligarchy allowed others to take a share in the huge profits generated during the New Order, predatory and instrumental control of the Indonesian economy on the part of Soeharto's family and his Chinese business cronies was tolerated. Indonesians outside the immediate power circle as well as foreign investors were not too worried about the hijacked markets that still yielded sufficient revenues for them. Driven by internal technocrats, external creditors, and a poor macro-economic environment, Indonesia experienced some market-oriented reforms in trade, investment, and the financial sector from 1986 to 1988 and from 1994 onwards (Soesastro 1998). However, the areas in which the predatory interests of the ruling alliance were most thoroughly entrenched in remained untouched by the deregulation measures. In general, they enabled the state–business oligarchy to seize new monopolies (Hadiz & Robison 2005).

Nevertheless, Indonesia was held up as an example of an economic miracle (World Bank 1993), despite massive corruption and widespread overregulation of the economy. Indeed, it was the successful Indonesian case which the neo-liberal World Bank premised for an adjustment of its stance on capitalism and the state (World Bank 1997). However, as soon as the economy crashed, the former apologists resorted to their old neo-liberal recipes, which, from their perspective, obviously proved to be superior. Therefore, Indonesia had to undergo a thorough process of deregulation to free the markets, preceded by institution-building, to enforce and safeguard the contentious economic liberalisation.

In fact, after the crisis the paradigm of economic policies changed dramatically. While liberalism used to engender negative connotations in society (Hadiz 1997: 139; Hill 2000: 250) and was highly contested in Indonesian history (see Rosser 2002), it became the cure-all for the crisis and the detrimental effects of KKN, which was regarded as nothing more than a ‘debilitating luxury Indonesia could not afford’ (Borsuk 1999: 140). The still highly regulated economy was to be transformed into a liberal market system. Through much needed injections of funds and the implementation of programmes from neo-liberal institutions such as the IMF or the World Bank, reformers suddenly had the leverage to push for their economic visions of transparency, competition, equal access to opportunities, and a less distorted market that was deemed to be self-regulatory (e.g. Simanjuntak 2000). Many Indonesian economists as well as international organisations pointed out that liberalisation, deregulation, and privatisation were imperative to regain international business confidence and eradicate unproductive and costly rent seeking (e.g. Basri 2004: 55-6; Boorman & Richter-Hume 2003). The media rejoiced that Indonesia's doors were finally wide open for foreign investors, a condition which was supposed to further foster free markets (*Bisnis Indonesia* 29 July 1998).

As a first step, the acceptance of the new rules of capitalism had to be ensured by creating an appropriate institutional framework. During the New Order, supervisory boards that limited the cruising radius of the oligarchy were non-existent. Thus a system of checks and balances was urgently needed that set out the rules and kept the market free from entrenched predatory interests. Being aware that 'the strengthening of prudential rules and regulations is essential to rebuild the banking industry' (Nasution 2003), and that international investors needed an accountable, reliable, and predictable business environment, the new government had to install effective watchdogs, reform the courts, and implement laws that stemmed corruption.

A few measures in this direction were carried out decisively. The authority of former 'strategic gate-keeping terminals' (Robison & Hadiz 2004: 76) such as the State Logistics Agency (Bulog) or the National Development Planning Agency (Bappenas) was significantly cut down. New institutions such as IBRA (see Chapter 4.2) or the Business Competition Supervisory Commission (KPPU), modelled on the German *Kartellamt*, were put in place to scrutinise and prevent business practices aimed at the establishment of monopolies or market dominance, as KPPU Commissioner Faisal Basri (interview 11 September 2004) pointed out. They acted on the basis of a new anti-monopoly law that sought to maintain and promote market competition as a means to achieve economic efficiency, and thus improve the welfare of the general public (Thee 2002: 333-5). Notwithstanding the elusiveness of these guidelines, they signalled to the conglomerates that they finally had to deal with a modified regulatory framework that made it difficult for the capitalists. New people (such as economist Faisal Basri), some of them very idealistic, were appointed in new boards that were crafted especially to inspect the behaviour of big business, with new rules to protect the market from distortions. These cumulatively connoted an end of the conglomerates' immunity.

The post-KKN economy could not be used as the personal playground of the oligarchy anymore. This especially became clear through the abolition of privileges. Most special government projects in, for instance, the automobile and aircraft industry, and all state-sanctioned licences for the import and marketing of commodities ranging from cement and food to 'silly things like garlic' (Bambang Subiyanto, former Minister of Finance, interview 16 September 2004) were revoked. Licences, reserved for well-connected businessmen, including bank credits, were annulled. All government contracts were reviewed and dismantled in case they had been concluded through KKN (James & Nasution 2001: 199). Huge SOEs like Pertamina that served as generators of collusive contracts and cartels were dissolved or subjected to gradual privatisation (*Laksamana.net* 21 September 2003). Significantly, as suspected by *Tempo* (10 November 1998), the Salim Group wanted to dispose of its flour producer, Bogasari, due to the abolishment of the lucrative flour monopoly it enjoyed over the decades. Former President Abdurrahman Wahid (interview 17 September 2004) maintained that Indonesia was on the way towards an 'improved capitalism', in which businessmen could not count anymore on their close connections with the government and had to subordinate themselves to the needs of the market and the people.

It is useful to recount Wallerstein's (1988: 103) premise about the inherent interest of capitalists in monopolies. As he suggested, 'capitalists do not want competition, but monopoly', because they 'seek profits, maximal profits, in order to accumulate capital, as much capital as possible'. They are thereby not merely motivated but structurally forced to attain monopoly positions. Thus, a liberal economy – from this perspective – obstructs big business particularly. Economist Chatib Basri (interview 12 May 2004) pointed out that, with the implementation of regulations leading to free markets, 'old-style business groups' would cease to exist. Reformers such as Sjahrir (interview 24 September 2004) were 'quite sure that there was no way [for the conglomerates] to enjoy the sort of facilities they had in the Soeharto era.' Instead, it was widely expected that they had to adapt to western norms of corporate governance, transparency, and professionalism to exist in a liberal economy. Similarly, Gunadi Sindhuwinata, President Director of Indomobil, contended that

> since the environment has become liberal and you are a part of the international society, the way of doing business has to be tuned up and trimmed accordingly. We now have to let professional people run the business.
>
> (Gunadi Sinhuwinata, interview 22 September 2004)

The conglomerates that survived the crisis had to realise, according to Farid Haryanto (Lippo advisor, interview 21 June 2004), that growth was only possible through the market.

Sofjan Wanandi (interview 1 July 2003) was not alone in his prediction that the conglomerates of the New Order would disappear sooner or later if they stuck to their old patterns of collusion. Sampoerna's Angky Camaro acceded:

> Now everything is open, licences are available for everyone. The conglomerates have to compete in the free market. That leads to a change. […] Who has the mentality of the New Order cannot survive.
>
> (Angky Camaro, interview 17 September 2004)

If they were right – and in 1998 there were not many indicators that contradicted them – big business in Indonesia indeed had to transform itself fundamentally to be able to carry on in deregulated markets without the help of protectionism and KKN. But were the conglomerates able to survive in those new, even alien conditions?

4.4 The end of the conglomerates?

The political environment in Indonesia changed immensely after the crisis. From predatory, centralised authoritarianism, the country moved towards deregulation, decentralisation, and democracy. Economic liberalism, safeguarded by various watchdogs, was expected to replace the collusive appropriation of the markets by the oligarchy. Regional autonomy was also supposed to shift more power to the districts and away from Jakarta. Moreover, political parties and civil society groups seemed to thrive in new ways that were not possible under the old dictatorship. All these reforms – at least in intention – were potentially harmful to a continuing existence of the conglomerates, as they 'swept away the financial and political arrangements that held this system together' (Robison & Hadiz 2002: 39). Thus, it was widely expected that the unravelling of the old regime was equivalent to an end of Chinese big business, as many observers assumed that the conglomerates were not suited to survive in an open, transparent political and economic setting (e.g. Sjahrir 2004). Capital was believed to be economically and politically in a deep, severe crisis. Therefore, political risk consultant Kevin O'Rourke concluded that

> the conglomerates are longing to have the New Order back, because for them the succeeding regime is neither efficient nor reliable. They are forced to pay off too many persons, while being constantly harassed by critics, media, and politicians.
>
> (Kevin O'Rourke, interview 6 September 2004)

As the President Director of Indomobil, Gunadi Sindhuwinata, confirmed:

> Under the New Order the directions were clear: I give you opportunities, you develop that, in return you get some amount of money. […] Suddenly you are confronted with all this professionalism, with all the ways to do business by, first thing, non-corruption, second, non-nepotism, and third, non-collusion. Under the New Order it was very easy, and people felt also at that time that it was safe and secure because of the strong hand of the regime.
>
> (Gunadi Sindhuwinata, interview 22 September 2004)

He certainly missed the convenience and security of the former regime. However, there was nothing to be done. The New Order was irrevocably gone for good, and with it the political environment without which the conglomerates were left unprotected. This chapter has shown in detail how democratisation, decentralisation, and deregulation brought about many changes that initially were totally unfavourable for big business.

However, much of this turned out to be just a temporary setback. Only a few years later, Anthony Salim (interview 13 April 2005), boss of Southeast Asia's formerly biggest business group, praised the new business environment and called it 'encouraging and much more benefiting than harmful'. The crisis, obviously, did not at all terminate the conglomerates. It was an enormous shock that hurt them significantly and destroyed some of them, but it did not obliterate them. On the contrary, most were able to reorganise and adapt, but not necessarily through business practices that were any more transparent than during the New Order. It is thus necessary to take a closer look on the sort of markets that were to be established.

As will be discussed in the following chapters, the reforms were eventually and paradoxically even advantageous for the capitalists. They removed the barriers designated for 'Chinese' big business and enabled capital in general to emancipate itself from the dominance of the politico-bureaucrats, whose intertwined system of political hegemony disintegrated. To those observers who expected real structural change and the dissolution of the economic and political foundations of entrenched oligarchic interests, the outcomes of the crisis were disappointing. However, behind the surface of the lingering status quo, a major shift in the balance of power between the political and economic elites is taking place, which would allow capital to gain an upper hand over the political sphere. Chapter 5 will show how the capitalists resisted, diverted, or took instrumental control over the *reformasi* process and thus laid the foundation for a plutocratic post-Soeharto Indonesia regime on the basis of enduring power structures.

5
CAPITAL'S REACTION: THE SURVIVAL OF THE CONGLOMERATES

The reforms that were meant to change Indonesia seemed to be the end of the road for the conglomerates. The crisis threatened their economic empires and unravelled the political arrangements that had underpinned them. It was widely assumed by observers (such as Mackie 1999: 189) that Soeharto's cronies would not be able to carry on in an environment lacking the formerly crucial authoritarian, centralised, and protectionist features of the New Order. However, the fact is that most of them obviously survived the end of the old regime. The objective of this chapter is to explore how they managed to do so and what implications their resilience had for the actual state of Indonesia.

I suggest that the main reason for the conglomerates' survival was the indispensability and importance of Chinese capital for a recovery of the Indonesian economy. The tycoons could thus prevent their impending collapse and ensure that the whole *reformasi* process took place under the premise of structural continuities that did not endanger their existence. As I will show, the reforms were too incoherent and superficial to completely destroy the power bases of the New Order forces and to subordinate them to a substantive reform agenda. The elites, their interests, and institutions that constituted the old system did not completely vanish into thin air. On the contrary, as long as the more fundamental power structures of a predatory form of capitalism remained intact, the New Order oligarchy had time and opportunity to restore its collusive politico–business networks and to silently reinvent itself in a post-authoritarian environment, in which the majority of the conglomerates quickly re-emerged from the brink of oblivion.

Before I point out in Chapter 6 how the capitalists utilised the possibilities of the new regime to emerge as an autonomous bourgeoisie, I will focus on their reaction to Indonesia's democratisation, decentralisation, and deregulation. I argue that *reformasi* weakened the state considerably, but failed to impede the conglomerates sufficiently, although, in such a situation, they had to operate in the context of a much more decentralised and diffused system of power. Businesses eventually got back on track, as I will demonstrate through the discussion of two case studies, Lippo and Salim, which – as two of the largest conglomerates – can be regarded as generally representative to illustrate the economic recovery of the big groups. This chapter will show how the state gradually lost the means of control over capital and deliberate upon the conglomerates' future status, revealing how they achieved a favourable position, which they employed to engage in the reorganisation of power in post-Soeharto Indonesia.

5.1 *Reformasi* in Indonesia: Economic and political contexts

Enormous changes occurred in Indonesia following the fall of the New Order. As demonstrated earlier, the foundations of previous Chinese big business success were disrupted, thereby inflicting a severe crisis upon the conglomerates that pushed them to the brink of financial and political collapse. However, the post-Soeharto government decided to focus on economic revival instead of economic restructuring. Most urgently needed for this was capital, whether domestic or foreign. Thus, the conglomerates – by hook or by crook – were able to protect themselves from the harmful effects of reform initiatives, which included the areas of bank restructuring and debt repayment. Ultimately, economic and political developments in the post-crisis phase were to be closely interrelated and shared one fundamental, somewhat paradoxical feature – the consolidation of the conglomerates.

Economic necessities: The indispensability of the conglomerates

Economic growth rates fell more drastically in Indonesia than in any other country affected by the Asian economic crisis of 1997/1998. Only after the third quarter of 1998 did the economy begin to slowly recover, while Malaysia's or Korea's growth, for instance, was already above pre-crisis level by the end of 1999 (Bird 2001: 46). According to the IMF (2001), the crisis in Indonesia was the worst of its kind in the twentieth century worldwide. To overcome it, investments were needed, which shrank to less than 60 per cent of their 1997 volume in 1999 (Basri 2004: 42). Foreign direct investment was especially sought to contribute to economic recovery (James & Nasution 2001: 198) in order to thoroughly reform and modernise the Indonesian economy and thus validate the technocratic assumption that 'pressures for reform generally emerge from some crisis' (e.g. Ali Wardhana, cited in Borsuk 1999: 165). However, due to the problematic business environment, there was hardly any foreign company willing to invest in Indonesia (Simanjuntak 2000: 60-1), which was, according to a report of the World Bank (2004b), rated as one of the most difficult places to do business[35]. Therefore, it became imperative to lure back the ones who were well used to the way the Indonesian economy worked: the Chinese capitalists.

For many economists and politicians, a dilemma was whether the country should plan its reconstruction with or without the conglomerates. On the one hand, the massive exodus of Chinese capital was regarded as the cause rather than the effect of the crisis. A new beginning with small and medium enterprises instead of Chinese big business and KKN was the future most reformers envisioned (e.g. E. Salim 2001, *Republika* 17 February 1998). On the other hand, they were aware that the return of Chinese capitalists to Indonesia was the only practical and quick solution to get out of the situation of lack of investments to stimulate economic growth. In July 1998, Abdurrahman Wahid stated that 'we should not dream that we will be able to improve our economic system without them' (cited in Suryadinata 1999), after he tasked tycoon William Soeryadjaya to persuade the ethnic Chinese to return to Indonesia (*Kompas* 23 June 1998). Megawati, as then-Vice President in 2000, was also convinced that the 'repatriation of domestic funds placed abroad would indeed be a great breakthrough to

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[35] For Indonesia, the report listed legal uncertainty, security issues, poor implementation of regional autonomy, red-tape, and corruption as major turn-offs to investors.

save the country from crisis' (cited in Bhui 2004). Chinese capital was the urgently needed fuel the stuttering Indonesian machine lacked and required to jump-start the economy.

According to Sofjan Wanandi (cited in Ching 1999), the tycoons could bring back US$5 to 10 billion of private capital that left Indonesia in 1997/1998. Other sources even estimated a much higher sum, ranging from US$80 billion (*Jakarta Post* 26 Oktober 1999) to even US$165 billion (*Merdeka* 6 June 1998). Although the actual numbers are impossible to determine, it is clear that a substantial amount of money was abroad with the Chinese conglomerates and needed to be attracted back to Indonesia to be used for economic reconstruction. Policy-makers (e.g. Abdurrahman Wahid, former President, interview 17 September 2004) expected the Chinese tycoons to adjust themselves to the new environment of *reformasi* and to submissively contribute with their capital to economic recovery and political reform.

However, this was obviously too optimistic, as it naïvely underestimated the leverage capital had. It was then-President Habibie who had to experience the severe repercussions of anti-Chinese rhetoric. The following day after he told the Chinese capitalists that Indonesia was not dependent on them (*Washington Post* 19 July 1998), the value of the Indonesian currency plunged by 5 per cent. This severe reaction proved the total opposite of Habibie's supposition and caused an immediate change of pronouncements and policies. The president quickly realised that there were serious limitations to any populist, anti-Chinese endeavours. Chinese conglomerates were materially too essential for Indonesia's recovery as well as for his own political survival and financial well-being. With personal friends such as the corporate moguls Ciputra and Eka Tjipta Widjaya, he soon adjusted his attitude towards Chinese big business and courted them to secure their support, as Umar Juoro (former advisor to President Habibie, interview 6 September 2004) confirmed. Habibie even appointed James Riady as his ambassador-at-large to bring in Chinese investors (*Merdeka* 4 July 1998). The same efforts to entice the conglomerates were undertaken by subsequent presidents, thus demonstrating the constraints to ruling against Chinese capital.

The indispensability of the conglomerates was the major structural condition of the *reformasi* era. This provided them with immunity against expropriation, because, as CSIS economist Pande Radja Silalahi (cited in *Newsweek* 3 February 2003) annotated: 'If you release and discharge, the money comes and the economy rolls.' It therefore became 'a question if we want cash or justice' (Dasa Sutantio, IBRA Vice President, cited in Solomon 2000), and Indonesia decided that it could not afford the latter. I will show how this enabled capital to instrumentalise the reform process for its own consolidation, thus determining the extent and direction of *reformasi.* From a position of weakness, the conglomerates eventually managed to secure their own survival and dictate the terms of their recovery.

Structural continuities: The limits of political reform

Structural continuity was a precondition for Chinese big business to come back to Indonesia. At the same time, it was a requirement the tycoons could demand because of their capital, which was urgently needed. Hence, the capitalists and other entrenched interests did not have to worry too much. Indonesia's major donors such as the IMF and the World Bank merely urged the Habibie government to strengthen institutions and focus on good governance in order to consolidate initial stabilisation gains, to sustain economic recovery, and to 'embrace the two sweeping forces of globalization and democratization' (World Bank 1999: i-ii). Thus, by focusing on rather superficial reforms, political change in Indonesia could only have a transitory effect on the conglomerates. This strategy of meddling with the symptoms gave them sufficient leverage not to become marginalised by *reformasi*.

Many aspects of the old system endured, although there were significant fatalities such as the Soeharto family's Cendana empire (see Chapter 4.2). Furthermore, the two other pillars of politico-bureaucratic power, i.e. the military and Golkar, were considerably weakened as well. Therefore, Soeharto's successor, Habibie, who personified the New Order like no one else in the political scene at the time, had to start from a very defensive position. The only way he could survive was to cultivate the credentials of a reformer who wanted to put an end to the authoritarianism of the Soeharto era and democratise Indonesia. However, many incidents revealed that the new president used *reformasi* merely as camouflage, most embarrassingly exposed through the scandal regarding a taped conversation between him and attorney general Andi Ghalib, in which they plotted on how to spare Soeharto from investigations into his crimes and fortune (O'Rourke 2002: 219-21).

Eventually, Habibie failed to stay in power, but managed to anchor the old apparatus in the new regime. His successor, Abdurrahman Wahid, who once had the credentials of a genuine reformer before he assumed the presidency in October 1999, was finally perceived as just another power broker who tried to direct lucrative and influential posts to his own cronies (see Mietzner 2001). Wahid himself (interview 17 September 2004) blamed the difficulties of his reign on reactionary and power-hungry forces in other parties and in the army that coerced him to put their proxies in his cabinets and finally ousted him in July 2001. Megawati's presidency also did not cause any substantial changes to the 'persistence of predatory politics', as Robison & Hadiz (2004: 244) argued.

From a notably weaker position than before, the old powers – without Soeharto – were given the time and space to gradually reorganise themselves under the modified conditions of a new regime. In less than one decade, Golkar once again became the most successful party in Indonesia's electoral democracy. The actual president, Susilo Bambang Yudhoyono, elected in 2004, came from the ranks of the military that regained much of its importance, and the bureaucratic status quo forces made themselves comfortable in all parties, slowly but surely marginalising the liberal intellectuals (Robison & Hadiz 2004: 240). FEUI economist Faisal Basri (interview 11 September 2004), for instance, resigned from his post as General Secretary of the PAN and left the party after he realised that it was assimilating too many elements of the New Order, leaving him no space in advocating more progressive ideas.

Even before Soeharto's resignation the limits of any potential transition were apparent. Significantly, it was the then-high ranking general Susilo Bambang Yudhoyono, who cautiously advocated reform, as quoted in *Jakarta Post* in April 1998, but only in a 'constitutional, conceptual, and gradual manner':

> The mechanism of reform is already prearranged in our political system. There is mechanism at the DPR/MPR level, there is also a set of established processes of implementing development programs, and there are proposals about political life, programs to increase political communication and programs to increase the quality of the general elections. All those things constitute the mechanism of reform, and they are constitutional.
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> (Then-Lt. Gen. Susilo Bambang Yudhoyono, cited in Buchori 2001: 74-5)

The style of the regime, but obviously not the structural substance of the system was to be rearranged, explaining why the term for change was '*reformasi*' (and not '*revolusi*'). This allowed a commitment to this process of even high ranking New Order officials who hence – in tandem with the conglomerates – succeeded in using the dynamics of reform to secure their own positions in a post-authoritarian regime.

5.2 The conglomerates and the new regime

Foreign organisations in particular that supported the Indonesian democratisation process with material and non-material help were very optimistic in their evaluation of the post-Soeharto situation (e.g. for the German Friedrich-Ebert-Stiftung: Kleine-Brockhoff 2004). They hoped that the existing problems would be solved eventually through institutionalisation and further reforms, following the way outlined by the *reformasi* movement in 1997/1998. The changes I discussed in the previous chapter and the difficulties that emerged for the state–business oligarchy seemed to substantiate this perspective.

However, a closer look will reveal the actual outcomes of democratisation, decentralisation, and deregulation – the three major objectives of *reformasi* that were purported to put an end to the New Order's authoritarianism, centralism, and KKN-protectionism. I will show that they were not the foundations of a regime without entrenched interests, but provided the very vehicles that transported the conglomerates into a new social and political order in which many of the old forces had been able to reposition themselves favourably. The first step had to be to halt the reforms that could be prevented and modify the ones that were already implemented. The result was a regime that forfeited its instruments of authority over the Chinese capitalists.

Democratisation

As I pointed out elsewhere (Chua 2004a), the holding of free elections in Indonesia in 1999 was often portrayed by observers as the ultimate indicator for the success of the democratisation process, despite the fact that the majority of the population was still excluded from substantive participation in the political process. Indeed, the struggle for power was confined to only a small group of people, a 'melee of the elites', as O'Rourke (2002) remarked. They rearranged themselves in hardly distinguishable parties whose only ideology was the acquisition and maintenance of power and access to state resources. Hence, coalitions amongst the major parties were possible in any arbitrary combination. Most of the political actors were also interchangeable, with only very few new faces in the limelight. Since 1998, many leading politicians – 'former apparatchik, military men, entrepreneurs, and assorted political hustlers, peddlers and enforcers of the old New Order', as Hadiz (2004: 699) described the personnel of the PDI-P – had already played a role in Soeharto's corporatist regime, in which even opposition politicians were an immanent part of the system (Aspinall 1996). During the ensuing years after the collapse of the New Order, they simply moved from the periphery to the actual centres of power. Having arrived there, the new protagonists – most importantly former high profile critics of Soeharto such as Abdurrahman Wahid, Amien Rais, and Megawati – obviously did not want to dissolve the old regime completely, but to reform the state only to the extent that its previous crew was reshuffled. The revamped institutions could then serve as shells for the recent powerholders and their followers. It was thus a competition for the capture of the vehicles of KKN, and not for their abolishment or total reform (see Robison & Hadiz 2004: 223-52).

This basic principle of the post-Soeharto power struggles allowed the conglomerates to be more than just passive outsiders. They observed the new regime for a while, but their shock about the loss of their main protectors, who were once organised in the state party Golkar, soon gave way to confidence that electoral democracy was by no means tantamount to structural change and could not do them much harm, especially as it was characterised by major continuities in relation to the kinds of interests that would preside over the political process. In fact, the cost-intensive electoralism provided the setting in which capital became a necessity, without which candidacy for political office was not affordable. According to Hadiz (2004: 714), even a local election required several billions of rupiah, let alone presidential campaigns, which *Tempo* (21 June 2004) estimated to require between Rp140 billion to Rp500 billion per team just for the first round in 2004. Thus, the political parties were dependent on large donations from the business world, from where the Megawati camp received about Rp66 billion in legal contributions, while Rp16.4 billion reportedly went to Susilo Bambang Yudhoyono and Jusuf Kalla (*Tempo* 30 August 2004).

Many NGOs therefore trusted in the new strength of civil society rather than in such kind of parliamentarianism (Danang Widoyoko, Vice Coordinator ICW, interview 7 September 2004). The emergence of a non-state sphere that efficiently controlled and restricted the formerly unchecked activities of the conglomerates set certain standards which entrenched business interests had to uphold. It was impossible for them to take no notice of or even contain the new openness of society. Their only chance was to adjust – which they did, although in ways reformers envisioned otherwise. Indeed, the new modes of representation offered by civil society provided the tycoons with genuine democratic means that they could utilise for their own purposes. For instance, demonstrations were staged to protest against foreign competitors that wanted to take over their companies (Roland Haas, former President Director Lippo Investments, interview 21 September 2004). Riots, as the ones against the *Tempo* headquarters by a mob supporting Tomy Winata, could be easily organised – supposedly by the businessman himself (see Taufik 2003). The alleged puppeteer consistently recognised, that 'it's much easier to influence decision making in a democratic environment specifically in Indonesia. Famished and poor people will do everything to maintain their survival' (Tomy Winata, interview 27 September 2004).

A further decisive undertaking was to manipulate public opinion. The Salim Group, for instance, was eager to get back into the media business, repurchasing its former television broadcasting company Indosiar through proxies (Kwok 2002). According to Ahmad Taufik (*Tempo* journalist, interview 1 September 2004), Tomy Winata was also keen on entering the media business: 'Tomy Winata is becoming very big in the media. First, he tried to pressure the press not to write negatively about him. Now he makes media himself.' Besides the police radio station *911*, the newspaper *Harian Jakarta*, and *Jakarta TV*, he established the magazine *Pilar*, positioned in direct competition to his arch-enemy *Tempo*, thereby revealing a possible motivation to crush the latter in order to increase *Pilar*'s market share (*ibid.*). Futher, Winata could revert to his allegedly good relations with individuals like the son of Jakob Utama, owner of the influential daily *Kompas*, and with the TV station *Lativi*, owned by former New Order Minister Abdul Latief. To his critics, allegations of such relations were corroborated by the nature of the coverage of the two media of the notorious tycoon, which tended to be mild at best (*ibid.*). Lippo, as another example, had a relationship manager for extraordinary public relations efforts such as taking journalists around in helicopters, bringing them to the nightclubs of Kota on an all inclusive joyride or, openly, increasing their income (Roland Haas, interview 10 August 2004). During my fieldwork, I experienced myself how they were even concerned with what would be written about them in PhD theses, which supposedly was the main rationale for granting interviews to me in the first place. One respondent threatened to sue me in the event that I wrote unfavourably about him. At the same time, he offered to pay for a trip throughout Indonesia for me and '20 of my NGO friends', so that we could observe that his expositions were accurate. This illustrated clearly the tycoons' perception and handling of civil society.

The same carrot-and-stick methods were applied to establish a complaisant journalistic culture favourable to business interests. Besides bribes, some businessmen counted on violence and lawsuits. For instance, in an angry reaction to a *Tempo* article which implied that Winata was behind a fire at the market in Tanah Abang (Taufik *et al.* 2003), the tycoon allegedly sent his mob to the *Tempo* headquarters (Taufik 2003), then sued the journalist Ahmad Taufik, subeditor Teuku Iskandar Ali, and editor Bambang Harymurti for defamation, and took the magazine to court in seven other cases, where *Tempo* had to face penalties totalling US$40 million (McCawley 2003). The decision of the courts to use criminal legislation instead of the press code and the subsequent conviction of Bambang Harymurti (*Laksamana.net* 16 September 2004) revealed the fragility of press freedom and liberal elements in society in general. The conglomerates, forced onto the defensive, could obviously count on corrupt, incompetent judges as well as on sections of the media itself. They also used many other tools at their disposal to intimidate journalists. Most effective – though rather conventional – was the threat to withdraw advertising (Teguh Santosa, Executive Editor, *Rakyat Merdeka*). A more eccentric method, as *Far Eastern Economic Review* correspondent Jeremy Wagstaff reported (interview 11 June 2004), was to send a dead cat's head to the editor of an online news magazine that investigated some of Lippo's more shady businesses. The journal was later acquired by Lippo boss James Riady, which was yet another way of keeping the media reporting favourable to Chinese big business.

Thus, the 'democratisation' in Indonesia did not at all anchor the kind of norms hoped for by reformers. On the contrary, parliamentarianism as well as the civil society were regarded and treated by the conglomerates as simple instruments to legitimise their dubious business practices that could henceforth be hidden behind a democratic façade. Indonesian post-Soeharto democracy thus provided capital with powerful means and influence on politics and society.

Decentralisation

There is no doubt that regional autonomy has helped to make unfeasible the kind of heavily centralised patronage networks that characterised the New Order. The conglomerates' previous partners as well as the formerly guaranteed gains receded into a dim distance, as the powerful politico-bureaucrats in Jakarta were replaced by regional authorities, who were increasingly in charge of the allocation of resources. The New Order dimensions of KKN were apparently only possible in a centralised, authoritarian regime. However, although many businessmen initially deemed their business model obsolescent due to the new complexities of decentralisation, *otonomi daerah* (regional autonomy) could neither meet the expectations of eliminating corruption, nor offer a more transparent and immediate decision making process regionally. In contrast, new decentralised, diffuse patronage networks emerged that, in many ways, replicated the old systems of patronage in miniaturised forms. With the shift of authority to regional bodies, KKN was also transferred to the corresponding lower levels. According to disillusioned reformers, this was 'the only real democratisation that happened' (Sjahrir, Head *Partai PIB*, interview 24 September 2004). The centralised KKN was merely replaced by decentralised collusion.

In fact, it was highly unrealistic to expect corruption to be eradicated by relying on the integrity of the new officials in charge of the local or regional institutions. Although Pharos boss Eddie Lembong (interview 21 October 2004) anticipated that the behaviour of the *bupati* would change by and by, actual developments did not seem to reflect his optimism. Other businessmen complained that the district heads behaved like absolute rulers over their little fiefdoms, which was regarded as a general problem that furthered KKN and hindered professionalism (Angky Camaro, Managing Director Sampoerna, interview 17 September 2004). Far away from Jakarta, it was even more difficult to impose effective controls. One example from West Sumatra illustrated this very well: Almost all members of the legislative council were jailed for misusing budgets, while eight more councils in other districts had to face graft probes (*Jakarta Post* 3 July 2004).

Such politicians, extremely prone to seeking extra-legal funding, were therefore ideal for the conglomerates. The new decentralised environment turned out to be even cheaper and easier to help accelerate the realisation of projects with financial injections, because a *bupati* could not ask for as much money or shares as high-ranking bureaucrats used to do (Joel S. Hellman, Senior Advisor The World Bank, interview 16 September 2004). The major difficulty – to identify the right persons – could be solved within a short time. It did not take long until the conglomerates found out whom they should deal with. Anthony Salim (interview 13 April 2005), for instance, was sure that his group mastered the new, confusing situation of post-Soeharto Indonesia, stating: 'I think we adapted ourselves.' Obviously, he was not bothered by the greater unpredictability of corruption and contently noticed that his managers figured out whom to address: 'All the directors of my company must have relations with each political department. If it's about distribution, of course, they have to talk to the trade department. If it's about plantations, they have to talk to the local government.'

Thus, regional autonomy did not end corruption at all, but provided – notwithstanding the measure of uncertainty and unpredictability – a relatively favourable environment for big business that, as I will show in the following chapter, leveraged the conglomerates in an advantageous position *vis-à-vis* their former political patrons.

Deregulation

The neo-liberal economic policies that Indonesia adopted created a dilemma for the conglomerates. On the one hand, the market offered plenty of new opportunities for businesses. On the other hand, with the termination of state sanctioned protectionism, they lost their exclusive business opportunities, including the immense guaranteed profits. Therefore it was, for the time being, more convenient and less risky for big business to retain as many elements of the KKN economy as possible.

The more transparent, equally accessible system was indeed very unfamiliar to the structures in which the conglomerates originated. Many well-established entrepreneurs, such as

Sofjan Wanandi (interview 8 June 2004), initially expressed their dismay, complaining that 'sometimes Indonesia is too liberal'. He feared that too much competition might decrease the margins of profit or, even worse, put the conglomerates out of business. Therefore, the capitalists – quite successfully – tried to revive the networks of patronage and collusion, as the still rampant usage of corruption illustrated (Indonesia Corruption Watch *et al.* 2004). According to a rating of the Political Economic Risk Consultancy (PERC), post-Soeharto Indonesia was assessed as the most corrupt country with the worst achievable score – 9.9 points out of 10 (Castle 2004: 76). The same applied to the perceived inadequacy of the legal system, which was significantly worse than during the period under Soeharto (Castle 2004: 77). *Reformasi* obviously did not manage to structurally anchor effective checks and balances. Thus, reform was perhaps doomed to fizzle out without real impact, as change solely depended on the persons inside the institutions. Moreover, it was not in the interest of these people to renounce KKN. The post-Soeharto regime's personnel, therefore, constituted a vulnerable flank for the capitalists to invade, allowing them to subordinate the new watchdogs that were put in place to supervise them.

Indeed, the impact of deregulation was highly volatile and superficial, allowing the capitalists to pledge themselves to it but to proceed otherwise. Many old practices were simply renamed. Instead of 'collusion', businessmen talked about 'lobbying' (Eugene Galbraith, BCA President Commissioner, interview 8 September 2004) or 'communication' (Anthony Salim, interview 13 April 2005), thereby seemingly adopting practices associated with 'western-style' capitalism, leaving former corrupt ways behind. The truth was, though, that the new economic environment was paradoxically even more infused with money politics. This apparently turned out to be the most practical way for the capitalists to secure political support and protection, which they still needed to compensate for the loss of certainty.

However, compared with the New Order economy, these informal – and now illegal – channels were rather insecure, ineffective, and risky. In contrast, for *pribumi* capitalists, it was easier to demand the adoption of protectionist policies in favour of 'indigenous' businesses. Aburizal Bakrie, for instance, wanted the government to use the 'golden opportunity' to redistribute Chinese Indonesian property (Eklöf 2002: 232), while Jusuf Kalla planned to help 'small and medium enterprises', because '90 to 95 per cents of the small businessmen are pribumis' (cited in Harsono 2004). Past experiences corroborated their concerns against liberalisation: Through the economic reforms of the 1980s, the big Chinese conglomerates became the main winners of deregulation and privatisation (see Robison & Hadiz 1993). At that time, public monopolies simply became private ones, further strengthening the dominance of Chinese Indonesian business groups and catapulting many of them into the league of multi-national enterprises. This historical trauma fuelled the opposition to the neo-liberal approach favoured by the IMF and others, especially from *pribumi* business groups that have always been suspicious of 'free-fight-capitalism' as a disadvantage to indigenous capitalists (see Kwik in Chalmers & Hadiz 1997: 239-41). They feared further marginalisation and an impending verification of A. Chua's hypothesis (2003a) that minority groups will dominate the markets in democratic, liberal economies. Populism – in Indonesia usually referring to economic nationalism, i.e. protectionism for *pribumi* – became an important instrument in political debates, which was powerful enough to prevent noted economist and regional IMF head Sri Mulyani from taking up the post of the Minister of Economics in 2004 (*Jakarta Post* 20 October 2004). Instead of her, *pribumi* entrepreneur Aburizal Bakrie was put in charge of the economy. Together with Vice President Jusuf Kalla, two businessmen-turned-politicians, who suggested ethnicity-based redistribution programmes such as those in Malaysia, occupied key positions in the new government. Free markets, therefore, were highly contentious.

Thus, the conglomerates had to carefully balance their apprehension against IMF proposed economic liberalisation and deregulation, since a swing of the pendulum in the other direction would cause much more discomfort. It was better for them to deal with and in an economic environment that was perceived as neutral and conducive than with one that was basically hostile towards them. In fact, they soon found out that less nepotism meant a certain independence from the Cendana clan. One businessman, cited by the *Far Eastern Economic Re-*

view (Cohen 1998a), expressed a collective sense of relief about the downfall of the Soeharto family: 'Before we were afraid to do business. The family could take over anytime. Now, we don't have to feel afraid'. Moreover, economic liberalism provided new opportunities of growth for the capitalists, as deregulation followed the simple logic of capitalism to favour capital-rich incumbents. Thus the Chinese conglomerates were best equipped to start the new era of post-crisis economy from a pole position, with still significant funds at their disposal. Most tycoons therefore became fervent supporters of free markets, such as Anthony Salim (interview 13 April 2005), who asserted that all conglomerates with a clear market orientation were successful in the new competitive environment. He claimed that his company Bogasari, for instance, the world's largest flour producer, became even more profitable than with its former wheat monopoly, as did Indomobil and Indocement, compared to pre-crisis growth. Angky Camaro, former Salim manager and actual Managing Director of Sampoerna, confirmed this:

> The Salim Group is still the biggest group in terms of assets, because now everything is based on a market economy and there are no special licences like before. And that is positive for the Salim group. Take a look at Bogasari. Before it had a special license for the processing of flour. Now there is a free licence for everything and everyone. And Anthony Salim prefers Bogasari now.
>
> (Angky Camaro, interview 17 September 2004)

In the first years after the crisis, the conglomerates tried to undermine the new regime wherever possible by reverting to KKN. In the long run, however, they will take even more advantage of the freer markets. The neo-liberal deregulation efforts, another project intended to take market shares away from the New Order cronies, therefore turned out to effectuate the opposite, as it was the case with decentralisation and democratisation.

You see Anthony Salim, he has not been called to the attorney-general till today. Salim and Lippo have never been investigated. Tell me why? You think they don't have very good relations with the past government and the present government and the future government?
(Marimutu Sinivasan)[36]

5.3 Economic recovery: Recouping the losses

The ultimate litmus test to ascertain whether the conglomerates could be held accountable for their plundering of resources – and thus be made to submit to the new regime – was the settlement of their debts. It was of utmost symbolic as well as financial importance for the state to force its main 21 defaulters to repay their Rp650 trillion of non-performing loans, which were taken over by IBRA, and offset these against government bonds (Bhui 2004). However, the way IBRA, the institution entrusted with the task of recovering the gargantuan debts, dealt with its debtors, demonstrated clearly the continuities of relations between the new powerholders and old business interests, indicating the newly achieved strength of the conglomerates *vis-à-vis* the weakness of the state. Instead of viewing the tycoons as criminal defaulters obliged to pay, IBRA became the major instrument for nursing the ailing business groups.

Although the rules of restructuring were rather straightforward – debts had to be settled in cash or in assets, which were to be sold to investors unrelated with the former owners (Sato 2004: 34) – there remained several ways for the capitalists to get around the worst consequences, as the slow pace of IBRA's programmes indicated: Up until end of the year 2000, only 15 per cent of the total private debt had been restructured (Bird 2001: 63). In 2002, IBRA still expected to recover 42 per cent from assets disposals and loans cash settlements, emphasising that this 'recovery rate achieved by IBRA/government in relative term, could hardly be considered as disappointing' (IBRA 2002: 3). However, as its five year mandate came to an end in February 2004, IBRA merely recouped 28.5 per cent of the total debt, thereby failing to reach its own modest targets by far (IBRA 2003).

[36] Texmaco boss Marimutu Sinivasan, interview in *Far Eastern Economic Review* 9 August 2001.

The whole process of debt settlement began quite promisingly in September 2000 with several Master Settlement and Acquisition Agreements (MSAA) between the Agency and its main debtors, where the payment obligations were put on record. Soon, however, it became clear that, despite the MSAAs, the conglomerates were free to do whatever they wanted to do (as will be shown through the case studies in this chapter). They were in a strong position, protected by the IMF, supported by the government, and unimpeded by courts that regularly sided with them and refused to declare them bankrupt.

The patterns of the indebted groups in dealing with the state were broadly the same: As they became insolvent, IBRA as their creditor only had the option of seizing some companies of the liquidated conglomerates to recoup at least a portion of the money. The tycoons, however, still owned the strategic assets privately and held on to them, while the companies they transferred to IBRA were worth much less than initially stated, heavily indebted, and without the respective licences, thus being of no use and value. IBRA, having to recover as much of the debts as possible, recapitalised the companies to turn them into saleable assets or bonds and tried to sell them for a fraction of their actual prices. Due to the inscrutability of the real composition of the companies and the generally opaque business environment in Indonesia, external investors were not enthusiastic about taking over the assets on sale. Thus, IBRA often had no other choice but to give the companies to whomever was willing to pay for them – and these were in many cases the old owners, either disguised as offshore buyers, through third parties, or their overseas companies – as they themselves were officially banned from repurchasing their firms. Putting back the missing pieces into their corporations thus resulted in a valorisation of the assets whose debts were mainly undertaken to be paid by the government.

Many debtors further utilised the opportunity to blatantly make money through the recapitalisation programme, as they took cash out of the US$11 billion in Bank Indonesia Liquidity Support (BLBI) credits, provided by the government in order to save some of the banks. They used it for overseas investments, currency speculations, and debt servicing on other companies in the group (Hadiz & Robison 2005: 227). This money deprived Indonesia of much needed funds and gave the conglomerates the possibility of getting some high returns for cheap loans (Eugene Galbraith, President Commissioner Bank Central Asia, interview 8 September 2004).

Although initially regarded as the main losers of the economic downturn – and some unquestionably were (see Chapter 4.2) – many conglomerates managed in various ways to survive and even benefit immensely from the crisis. The more time passed, the better their chances were in striking a deal with IBRA, due to a lack of interest and competition from outside. Under these circumstances, the debtors were able to determine the conditions of their debt settlement and the price of the assets that they wanted to buy. Hence, many corporate moguls that were thought to be economically finished were left in charge of their conglomerates and propped up through generous amortisation terms. A few high profile cases (such as Texmaco, *Far Eastern Economic Review* 9 August 2001, or Lippo and Salim) were subject to intensive press coverage; other groups have survived without causing much of a stir.

IBRA's staff usually had no way of examining the cases they had to deal with and of exposing the financial tricks and concealment of the assets they were holding, the financial situation of their debtors, or the identity of the bidders, though they were certainly aware of the rumours or often even had evidence that old owners were also the buyers of the shares on sale. In fact, former IBRA Deputy Chairman Farid Haryanto (interview 21 June 2004) openly admitted: 'Perhaps IBRA knew who was buying back the assets, but it did not want to know', thus confirming that immediate money was more important than a long-term reorientation of the economy.

The process of bank recapitalisation, debt settlement, and asset sales hence turned out to be the lifeline for the conglomerates. As I Putu Gede Ary Suta, who later became Head of IBRA, accurately observed, it was a successful attempt to 'reconstruct an obsolete and defective structure': 'Instead of rigorously separating ownership of private banks from borrowers, there is an eagerness to return banks to their original owners – as long as they can raise capital to repay government loans' (cited in Hadiz & Robison 2005: 227). The request of Lippo Bank boss Mochtar Riady for the government to rescue the banking sector, and not to clean it up (*Jakarta Post* 28 July 1998), was thus granted. The conglomerates' indispensability, together with compliant officials, thus paved the way for Chinese big business to a soft landing after what at first seemed to be a massive nosedive. I will illustrate this point with two detailed case studies that depict the survival of the Lippo Group and the Salim Group, two leading Indonesian conglomerates.

The principles of good corporate governance, transparency, and effective communication are going to establish a stronger trust amongst the general public and international investors.
(Mochtar Riady)[37]

The Lippo Group

In 1996, the Lippo Group[38] was the fifth biggest conglomerate in Indonesia with a turn-over of Rp9 trillion/US$3.8 billion per year. Its survival – especially the methods its owners applied to sustain – demonstrate that, despite all changes, the new regime still provided plentiful opportunities for capital to conjoin with decision-makers and proceed in old ways that ought to have been vanquished through *reformasi*. Founded in 1976 by Mochtar Riady, a successful banker who built up Liem Sioe Liong's Bank Central Asia, this group was centred on its bank, the Lippo Bank, which, in 2001, had more than 2.4 million customers with 3.5 million bank accounts and 366 branch offices in Indonesia (Lippo Bank 2002: 3). Besides its core business, the group was involved in stock brokerage, retail, insurance, and property, which it expanded after 1989. From the early 1990s, a gradual handover to Mochtar's son, James, took

[37] Original (cited in Lippo Bank 2002: 8): 'Prinsip-prinsip *good corporate governance*, transparansi dan komunikasi yang efektif akan mewujudkan kepercayaan masyarakat publik dan investor internasional yang lebih kuat.'
[38] The information reported here, unless specified, is gathered from several interviews (in June, August, and September 2004) with actual and former Lippo executives as well as external observers who did not want to be mentioned.

place. As compared to his media-shy father, he was described as a ‘flamboyant, outgoing, and an extremely good marketing person, but less interested on the operational side’ (Roland Haas, former President Director Lippo Investments, interview 31 August 2004). Although Lippo mainly focussed on the domestic market, it achieved international prominence through the campaign-financing scandal in the United States, where James Riady illegally donated more than US$1 million to the election campaign of Bill Clinton (Solomon & Holloway 1996; *Gatra* 26 July 1997).

Before the crisis, Lippo was, as every successful business venture in the New Order, sufficiently close to the political powers. However, the Riadys never belonged to the innermost circle of Soeharto’s cronies, as one occasion in 1996 revealed. According to a Lippo executive (interview July 2004), the president’s children wanted to take over Lippo Bank. As Mochtar Riady refused to sell, stakeholders and clients were pulling their money out of the bank, causing a severe liquidity crisis that led to a restructuring of the whole conglomerate. Hence, a vertical structure was implemented, where Lippo Securities owned Lippo Life, which in turn owned Lippo Bank, making it exorbitantly expensive for anyone to buy the group or parts of it.

This emergency solution eventually turned out to be very functional for the group during the crisis in 1997/1998 and decreased its vulnerability, providing it with lots of cash and lowering its debt rates (Djisman Simandjuntak, Commissioner Lippo Bank, interview 27 February 2004). Thus, Lippo was only relatively mildly affected, although it had to sell its life insurance business, ‘Mochtar’s new baby’ (Roland Haas, interview 31 August 2004), to AIG. The Riadys, however, could forestall a loss of their bank. By calling in related party loans that were settled by means of handing over group-related properties, which were owned by the debtors, to the bank, they managed to prevent Lippo Bank from breaching the legal lending limit. This averted a classification of Lippo Bank as a takeover bank and Riady’s inclusion in the DOT (*daftar orang tercela*), the list of former bank owners who were banned from banking. It was of utmost importance for the Riady family to stay off the black list, as this would have been the end of the whole business group, because Lippo was not a very diversified financial group with export business that could survive without banking at that time. Thus, the Riadys were the only ones who were legally allowed to buy back their bank – although this was difficult to convey to the public and to most politicians who wished for a clear cut solution that excluded any involvement of the former owners. Therefore, the methods Mochtar used to pull the strings inside the group, and the means which James eventually employed to regain control of Lippo Bank, were characterised by rule-breaking and deception, as shown below. The Lippo experience reveals the relative ease with which the conglomerates dealt with the new regime.

Many competitors complained that the Lippo Group received privileged treatment, as it obtained US$500 million in recapitalisation funds before other qualified banks even knew that this money was available (Shari 1999). Indeed, Lippo Bank was the first bank to do an IMF sponsored rights issue in December 1998, in which the government, through IBRA, took over 80 per cent of the new shares (*Kontan* 21 December 1998). For this – against all tradition and usual procedures – the bank only offered Rp10 nominal instead of Rp500 nominal shares (*Bisnis Indonesia* 22 December 1998), thereby diluting the shares of minority shareholders and intentionally squeezing them out (*Suara Pembaruan* 22 December 1998). Public shares thus went back to Lippo Life, which was – with 65 per cent – Lippo Bank's majority shareholder before the recapitalisation (*Suara Karya* 24 December 1998). This first round, which was hardly noticed by the market, was carried out so early and quickly that nobody understood the process. The sole participants were the government and the old owners, who financed the remaining 20 per cent.

The second recapitalisation took place in July 1999. This time, the Riadys were not participating because they assessed that the crisis would take a longer time than expected and that the shares would go down in the long run. In fact, they were even clandestinely, but aggressively selling their shares while they continued to convince others and the government to put money in the recapitalisation, triggering a strong demand by investors. One interviewee suspected that the old owners determined their strategy (see below) at that point in time, and thus did not want to put any of their own money into a bank that they were going to deliberately run into the ground. Another observer called this an 'abuse of tax-payers' money' and a 'clear breach of law', as a secret selling of shares was against the regulations of the Capital Market Supervisory Board (Bapepam).

Altogether, the bank received cash injections by the government of Rp7.2 trillion (*Jakarta Post* 19 February 2003), raising the state's costs to up to more than Rp10 trillion including the interest it had to pay for the recapitalisation bonds. From the end of 2002, one year before the planned divestment of IBRA's Lippo Bank shares, the Riadys began to engineer the recapture of their bank, leaving their marks with a trail of scandals. Their most effective instruments to obviate a takeover of the bank by others were the foreclosed assets or AYDA (*aset yang diambil ahli*) that the bank had previously received from debtors related to the group in order to be within the legal lending limits, supposedly worth Rp2.4 trillion (Tanjung 2003: 53). Nobody but the former owners of these assets was able to assess their actual value, making it difficult, if not impossible, to sell them. However, as long as they kept on appearing on Lippo Bank's balance sheet, their undeterminable value was a deterrent for potential investors. Depending on the Riadys' needs, the value rose and fell, with audited sums ranging from Rp1.1 trillion to Rp2.1 trillion – 46 or 88 per cent of the officially stated figure. As Hadiwinata remarked,

> this was because the former owners of Lippo Bank were actually playing two roles, both that of potential buyer as well as that of seller. In other words, it was suspected that they could adjust the value of the AYDA assets in line with their own interests: raising or lowering the value to suit themselves.
>
> (*Tempo* 6 October 2003)

These tricks, or 'financial engineering', as Faisal Basri (interview 11 September 2004) called them, required the assistance of Lippo's Dutch partner and 'best-practise'-advisor ING, which was needed to overstate the foreclosed assets and to manipulate the annual reports to keep the value of the property high. After ING left, the assets were devalued massively and were supposed to be sold for Rp500 billion (*Koran Tempo* 15 January 2003), only via internet, during the New Year-vacations and within 10 days – a plot that made the media suspect that the Riadys were behind this as well (e.g. *Bisnis Indonesia* 03 January 2003). By writing off a significant portion of the property values, Lippo Bank could not meet the central bank's CAR (Capital Adequacy Ratio) requirements and requested a third recapitalisation round (*Republika* 22 February 2003) in order to dilute the government's stake and increase the Riadys' ownership at a cheaper cost (*Jakarta Post* 17 February 2003), to which IBRA chairman Syafruddin Temenggung had already privately agreed (Roland Haas, interview 31 August 2004). Following severe public scrutiny, he prohibited the write-off of AYDA values and publicly argued against the third rights issue (*Koran Tempo* 28 February 2003). As such, the bank's CAR was actually still acceptable (*Suara Karya* 28 February 2003).

Another means to buy the bank back cheaply from IBRA was the issuing of two versions of the same financial report in 2002, one submitted to the general public, showing a profit of Rp98 billion, and the other one to the Jakarta Stock Exchange with a loss of Rp1.38 trillion (Bisnis Indonesia 20 January 2003), thereby reducing the sales price of Lippo Bank shares while misleading the public. Additionally, the price of the shares was systematically cornered from 4 November 2002 until 10 January 2003, as a concerned minority shareholder reported (interview August 2004). The latter revealed this scandal by sending letters under the pseudonym of 'Scott Ashton' to the press (Koran Tempo 19 February 2003) as well as to all involved authorities such as Bapepam, IBRA, Bank Indonesia, Jakarta Stock Exchange, IMF, the World Bank, and the police – without receiving any serious or apposite answer, which led him to assume that 'they were all on Riady's payroll'. The public only took notice after well-known analyst Lin Che Wei (interview 22 September 2004) repeated these allegations in a Kompas article (Lin 2003). The investigation that Bapepam consequently carried out only resulted in a fine for the Lippo management, although Mochtar Riady's critics expected him to be jailed or at least put on the black list (Koran Tempo 19 March 2003). Instead, he was confirmed as President Commissioner (Kompas 16 April 2003).

As IBRA finally decided to divest its 52 per cent share in Lippo Bank at the end of 2003, hoping to reach at least 1.1 to 1.4 times of the Rp590 book value (*Tempo* 6 October 2003), the three remaining consortia that took part in the tender were not willing to offer more than Rp470 per share. The Riadys were believed to be involved in all three bidding parties (*ibid.*), while one consortium, the Eurocapital Asia Limited Bank, evidently belonged to them (*Koran Tempo* 26 September 2003). In the end, Swissasia Global, which was, according to an insider (interview August 2004), a 'very dubious consortium from Switzerland with their main office in a shoe-shop and staff who looks like the mafia', bought the bank at Rp592 per share and, significantly, did not change the management; an indication that it was indeed 'Lippo's Swiss proxy' (*ibid.*). This was the final victory of the Riady family, which thus 'managed to still control the bank through one or the other way' (Sofjan Wanandi, interview 08 June 2004).

This whole operation only became possible through the active collusion of Lippo and the government, i.e. the finance ministry, the central bank, the president, Bapepam, and IBRA. The case illustrated the means through which an established conglomerate was able to survive in the initial tumult of the demise of the old regime by using long-standing methods of corruption, collusion, and nepotism in the context of the new one.[39] In the modified conditions, it was at least as important as ever for the Lippo Group to have access to the new powerholders and establish helpful political connections. It is true that democracy was perceived as a possible threat to the interest of the conglomerates, with the critical public being a major source of

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[39] Intriguingly, while most business groups were eager to depict themselves as reformed and professionalised, Lippo's advisor Farid Haryanto (interview 21 June 2004) was not able to give a clear answer, whether Lippo had changed or not. It must have been a sensitive question, as he told me to ask James Riady himself.

discomfort.[40] However, the Riadys managed very well to manoeuvre through the difficulties the more transparent environment imposed upon them. With their proximity to decision makers, financial engineering, and tricks, Lippo could continue to be 'involved in the murkiest of murky fields', as one Lippo executive (interview August 2004) remarked, and has yet to lose out to its critics. But KKN, particularly in post-Soeharto Indonesia, requires enormous resources and is immensely time- and money-consuming. In an ever changing democracy, the costs and risks of building up close personal relationships with new political patrons are very high, as partners might vanish after the next elections. Therefore, one analyst was sure that Lippo would not benefit greatly with every change in the highest office. Nonetheless, this assertion remains questionable, as the Riadys would have by now established new links with new repositories of power. In the longer run, however, either Lippo's strategy will change and adapt to the new openness, or the latter will give in to the interests of the former.

What is so wonderful about market forces, they can be black, they can be white tomorrow, […] but the main thing is that during black and white you have to survive.
(Anthony Salim)[41]

The Salim Group

Southeast Asia's former largest conglomerate, the Salim Group, used to be in a different league altogether compared to the other Indonesian business groups. With 600 companies in 1996, its annual sales of US$22.3 billion were almost three times the amount of the next largest one, Astra, more than 12 times greater than the sixth largest group, Bimantara, and 33 times greater than the Gemala Group, which was ranked at number 30 (see Appendices, Table 1). In some years, Salim's sales constituted 5 per cent of Indonesia's GDP. After the crisis,

[40] James Riady disinvited me from an already confirmed interview appointment. Instead, I first had to talk to his friend, advisor, and Lippo Commissioner Farid Haryanto who – so it seemed – was supposed to find out if the questions I wanted to ask were too critical. Obviously I failed this fit-and-proper test, as Riady henceforth refused to meet me. This might be coincidental or due to other reasons, but it is not unlikely that this signified Lippo's stance on how to deal with the public.
[41] Interview 13 April 2005.

the enormous gap with competitors became smaller and Salim lost its extraordinary size and status, although it is still 'one of the largest' (Gunadi Sindhuwinata, President Director Indomobil, interview 22 September 2004), if not 'the biggest group in terms of assets' (Angky Camaro, former Salim manager, interview 17 September 2004). The Salim boss Anthony Salim himself (interview 13 April 2005) claimed: 'I don't know if we are still the biggest, but at least we're still there', thus referring to the remarkable fact that the group survived the crisis at all. In the following, I will point out how the conglomerate expanded, almost vanished, and re-emerged again. I suggest that the Salim Group was sufficiently developed to carry on in the post-authoritarian environment by adopting new strategies of survival. Salim thus represents the type of business group that was able to sustain without political protection. Indeed, it required the new, post-authoritarian regime to grow further.

The incredible success story of Salim started with the migration of the then 21 year old Liem Sioe Liong (also known – since the 1960s – as Soedono Salim, his Indonesian name) from Fujian in China to Kudus in Central Java in 1937 (see Schwarz 1994: 109-15). The problems he had to face as an indigent immigrant gave him, according to his son Anthony Salim (interview 13 April 2005), the necessary drive and urgent need to succeed in an alien environment. He thereafter established himself as a trader and expanded into the lucrative clove business. While he undoubtedly possessed high self-motivation and good business skills, his links with the republican army, which he supplied with goods, were clearly important to his initial success. In the 1950s, he became a major business partner of the Diponegoro Division in Semarang that was commanded by Lieutenant-Colonel Soeharto. From 1966 onwards, as the latter took over political power in Indonesia, these connections paid off and Liem emerged as the president's main crony. Through exclusive access to state credits and all kinds of business fields where 'everything you touch at that time was basically a very big opportunity' (*ibid.*), the Salim Group rapidly became Indonesia's largest business group. Most instrumental were the trade and flour milling monopolies that served as the major money-making machines of the group, facilitating capital accumulation on an immense scale.

Basking in windfall oil revenues from the mid-1970s to 1980, the focus of the New Order's economic policies changed from light to heavy upstream industry. The Salim Group correspondingly shifted its activities to cement, steel, and automobiles. In the mid-1980s, Indonesia slowly undertook deregulation policies under pressure from falling international oil prices, which provided new opportunities for the conglomerate outside the immediate protection of state powerholders. The decisive factor, however, that triggered a cautious orientation of the Salim Group towards the market in general, was the deregulation of the capital markets at the end of the 1980s (*ibid.*). Consequently, the group established its dominance in the banking and financial service sector that, together with construction, food/consumer products, and automotives, constituted one of Salim's four most important divisions (out of 11). The Salim group's flagship companies were thus Indocement, Indofood, Indomobil, and Bank Central Asia (BCA) (Sato 2004: 41).

With the help of the latter, Indonesia's largest private bank, the conglomerate was sufficiently liquid to expand more extensively beyond Indonesia, a process that had already begun in the late 1970s. Particularly in the 1990s, Salim branched out and established its headquarters in Hong Kong and Singapore. According to Anthony Salim (interview 13 August 2005), 35 per cent of Salim's operations were overseas before the economic crisis of 1997. He described the rationale behind overseas diversification:

> Between the mid-1980s to the 1990s, we already geared up in order to balance our portfolio, not only for Indonesia, but also multi-dimensionally, regional as well as international. So we had a diversification not only of markets, but also a diversification of activities, and more importantly a diversification of the portfolio. That enabled us to have a better balance during crisis.
>
> (Anthony Salim, interview 13 August 2005)

Significantly, he assessed Indonesia in the 1990s as 'a political risk', which he tried to compensate through international expansion in order to 'have a diversification of our difficulties' (*ibid.*). This reveals that the Salim group's main motivation for overseas investment was to minimise the problems that they expected to experience should regime change occur in Indonesia. Indeed, in the third decade of Soeharto's rule, the group had begun to gradually distance itself from the president and his family, albeit not to the extent that was claimed by Anthony Salim (*ibid.*). He suggested that Salim companies 'were not taking government contracts' anymore by the 1990s, and even 'during the mid-1970s to the 1980s, we were hardly having government contracts at all'. The truth is that the Salims always kept their proximity to Soeharto, whose family held 30 per cent of BCA shares, while Bambang Trihadmodjo's Bimantara Group was a favourite partner for joint ventures. Only two years before the end of the New Order, the Salim Group was involved in the takeover of Astra International, commonly regarded as a Cendana deal. Even after the crisis, Soeharto's half brother, Sudwikatmono, remained a major shareholder of the conglomerate (*Laksamana.net* 7 December 2002).

However, the increased market focus as well as the strategy of regional expansion was seen as complimentary to the political patronage Salim enjoyed and, moreover, provided the group with the option of reducing its dependence on political connections in the long run. This was made possible because the Liem family had gained enough economic clout that 'it could no longer be regarded as client or comprador hanging onto the coat-tails of Indonesian generals and foreign banks' (Robison 1986: 297). The group was thus relatively well equipped for a time when the old dictator, Soeharto, would no longer be around.

Liem Sioe Liong's success before the crisis was based on three elements. First, undoubtedly, he was a good entrepreneur with enormous adaptability to changing political environments. He thus managed to select the right projects and partners at the appropriate time and seized every kind of opportunity that arose, often before others realised the potential of certain markets. Second, he had immense capital resources which made him economically indispensable and structurally powerful to the extent that he – as it was widely believed or rumoured – became the only person who did not have to make an appointment before meeting the president. Third and most decisively, he had the right political connections. They were the necessary condition for his success without which the other factors would not have been as important. Anthony Salim emphasised this himself:

> Soeharto is a friend of my father for a long time. So being friends, of course, you have advantages, at least an information advantage. And number two, you can see different things on different levels, if you are high, you can see more things. But whether we capitalised, as in utilised, the position of Pak Harto, has yet to be defined by other people.
>
> (Anthony Salim, interview 13 April 2005)

'Connections', he added (*ibid.*), 'are very important, because connections mean you can see opportunities, you are able to identify opportunities faster'. Without them the Salim Group would not have been able to become a big business group, let alone Indonesia's leading conglomerate. If the patronage was taken away from the group, what was left? Was Salim mature enough to sustain itself in a less protectionist and more market based economy?

As the crisis began and the New Order ended, not many would have given a positive answer to this question. Liem Sioe Liong, as Soeharto's main *cukong*, was a major symbol of KKN and Chinese economic dominance. Therefore, during the riots preceding Soeharto's demission, he had to take most of the blame and anger of the people who ransacked and scorched his house in Jakarta, demonstrated against him by shouting and displaying anti-Salim slogans, and burnt his portraits. After the family fled and sought shelter in Singapore, these sentiments were taken up by politicians who envisioned an economic future without cronies in general and the Salim Group in particular. The end of the New Order was seen by detractors as a perfect opportunity to dismantle the conglomerate that was now regarded as one of the 'most dangerous threats to the Indonesian economy' due to its closeness to Soeharto (*Laksamansa.net* 7 December 2002). Burdened by debts and without political protection, economists and politicians demanded a redistribution of Salim's assets through fire sales (Solomon 2000), obviously supported by the new president Habibie who was eager to take the lead of the rising populist wave. His government's target, according to *Swa* (17 September 1998), was to dissolve Salim. For Anthony Salim, who took sole control of the group from his father in 1998, nothing was left to do than to pay the debts or to cease operations. Many expected the latter: 'The Salim Group is finished', as the *The Wall Street Journal* (Solomon 2000) proclaimed, quoting another Indonesian tycoon after Soeharto's resignation. Data Consult's (1998: 166) assessment in October 1998 was a little bit less devastating but still explicit: 'With the vulnerability of the conglomerate to corruption and collusion charges because of its long connection with the Soeharto family, the Salim Group is predicted to shrink badly in performance and its position as the largest conglomerate may become a legend.'

Indeed, the enormous obligations of Salim's flagship BCA alone made the survival of the group seem rather unlikely. The demise of BCA started with a run on the bank as the crisis reached its climax in May 1998. Ironically, the company had earlier been praised by the 'Review 200'-ranking of the *Far Eastern Economic Review* as an 'example of financial soundness' (McBeth 1995). But, following the anti-Chinese riots from 14/15 May 1998 and Soeharto's resignation on 21 May, depositors withdrew about Rp4 billion in only 10 days, fearing a collapse of the bank because of its closeness to the president's family (Mahmud 1998). Eventually the government had to take over the bank, thereby discovering that almost 70 per cent of BCA's loans went to other companies inside the Salim Group. This constituted a breach of the 20 per cent legal lending limit. Anthony Salim thus not only owed Rp52.7 trillion in debts to the new government – about the amount of the whole conglomerate's annual sales in 1996 – but also faced imprisonment. To prevent this, he started to negotiate and cooperate with the new government, which itself was pressured by the IMF's US$43 billion rescue package that was conditional on the termination of cronyism and the settlement of payback agreements by November 1998.

However, the Salim boss still had sufficient leverage to prevent the worst. Indonesia in crisis could not afford to forgo the Salim Group's economic role. In 1996, 210,000 people worked for the business group's companies, as many as for the next 20 largest conglomerates put together. Therefore, Salim's threat that 'if you want to kill us off, fine, but you'll lose 100,000 jobs' (cited in Solomon 2000) had its impact, as the conglomerate was too important to be dismembered. Further, he was needed by the government to convince Chinese capital to return to Indonesia; a fine line balance between reform and pragmatism, as Dasa Sutantio, IBRA Vice President, characterised the government's treatment of Indonesia's main private employer (*ibid.*).

Salim could thus take issue with the Habibie government. In order to repay the Rp52.7 trillion worth of debt, he agreed to transfer shares in 78 companies to a holding company, PT Holdiko Perkasa, that belonged to the government but left the respective managements to the Salim Group. As soon as the debts were repaid, he was to be exempted from all criminal charges (*Tempo* 6 October 1998). Habibie, who did not like this deal as he doubted the veracity of the value and wanted Salim to use his offshore capital to fully repay the loans in cash, initially refused to sign the agreement and demanded that 'if the companies are worth that much money, then they should just give us cash' (cited in Solomon 2000). He gave Salim two years to settle his debts. However, as an 'unexpected ally' the IMF came to the rescue, asking for 'some flexibility' in the repayment schedule to prevent 'serious disruptions' to the economy (Solomon 2000). Habibie thus had to accept the unclear, manipulable complexity of the collateral and was forced to grant a four years repayment period and Salim's immunity from criminal prosecution.

Habibie's hesitation was not unjustified. After a re-assessment of the group's assets under IBRA's control, it turned out that the value was much lower than stated. Therefore, Salim had to add 30 more companies to Holdiko (Sato 2004: 33). Furthermore, in 2000, Anthony Salim, through foreign funds manager Citicorp, tried to buy back his assets from IBRA in bulk for only Rp20 trillion (*Kontan* 31 July 2000), thus openly admitting the actual market value far below the obliged amount. President Wahid and then-IBRA Head Cacuk agreed, thereby acknowledging the fraudulence of the asset sales by accepting a loss for the state of more than Rp33 trillion and allowing the former owner to buy back his companies at a discounted price. Eventually, Salim failed to proceed with this plan because Coordinating Minister of Economy Kwik Kian Gie – backed by public outrage – objected (*Kompas* 13 November 2000).

However, the group was – under the prevailing circumstances – in a good position to recoup its losses. Even though former shareholders were banned from repurchasing their old assets, there were manifold ways to bypass this Financial Sector Policy Committee (KKSK) declaration that failed to specify sanctions (*Tempo* 18 December 2001). The main method was to use proxies in pyramidal structures through which the real buyer remained unknown, as Djisman Simandjuntak (Director Prasetiya Mulya, interview 27 February 2004) revealed. The sale of TV station Indosiar and car producer Indomobil illustrated this clearly. The former was officially bought by TDM Asset Management, while the other by Trigemah Securities. However, there were five reasons to suspect that Salim was behind this 'questionable transaction', as *Tempo* (18 December 2001) called this deal. First, the tender period was much too short. A divestment in only two weeks did not leave any time for due diligence. The buyers thus had to buy 'a pig in a poke' without knowing the real value and contents of the deal. Second, the successful bidders had no relevant experience in the respective business fields. Third, the assets were actually way too expensive for investors such as Trigemah and especially TDM, which was only set up a few months before. Fourth, the management of Indosiar and Indomobil remained completely unchanged, which is very unusual after a takeover. Lastly, in relation to the supposed value of the companies, the price at which the assets were sold off was significantly below expectations because the 25 per cent recovery rate for the sale of Indomobil would mean a 75 per cent loss for the government (*ibid.*). Faisal Basri (Commissioner KPPU, interview 11 September 2004) maintained that the anti-monopoly commission KPPU could prove price-rigging in the bidding for Indomobil as well as the involvement of Salim in the process. However, these two transactions were relatively easy to see through, and Anthony Salim himself was not too cagey about it.[42]

More difficult to disclose were purchases through nominees that were well established businesses. Here, the Djarum Group played an important role. According to Faisal Basri (*ibid.*), Djarum's Hartono family owed the Salims a personal favour. Thus, Djarum took over

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[42] For the first interview that was scheduled with him, he sent Indomobil President Director Gundadi Sindhuwinata as his representative, whom I met in Salim's own office in Wisma Indocement, Jakarta.

the role as buyer of Salim's stakes, as it was the case with Salim Oleochemicals, which again did not result in a single replacement of top management (*Tempo* 18 December 2001). In a consortium with the American based investment company Farallon Capital Management, Djarum was involved in another spectacular purchase, that of BCA. Indonesia's most important private bank was thus sold to companies without any experience in the banking sector at all (Sato 2004: 35). Even though BCA's actual President Commissioner Eugene Galbraith (interview 8 September 2004) claimed that Salim had nothing to do with the new owners (and offered to resign should I prove him wrong), the press suspected that the whole deal was masterminded by the Salim boss himself (*Laksamana.net* 30 January 2002). Another indication was that the Salim family never wanted to give up its 7.19 per cent stake in the bank, although this was explicitly demanded by Bank Indonesia, as the Salims were included in the DOT black list (*Kontan* 16 July 2001). This minority stake was obviously the foothold to get back this 'jewel of Salim's business empire' (*ibid.*), while the Djarum/Farallon deal served as 'first masterstroke' for a comeback in all his old business areas (*Laksamana.net* 7 December 2002). 'We lost our bank, but one day we'll be back, when, I am not sure, but not in a far distant future. We'll be there!', Anthony Salim (interview 13 April 2005) revealed the next possible steps of the plan. As soon as there exists a legal and moral chance to claim back his bank officially, he would not hesitate to replace his proxies and again operate as the rightful owner of BCA.

For Indofood, another of Salim's cash cows, the conglomerate applied yet another strategy. Its Hong Kong based investment arm, First Pacific, acquired 40 per cent of Indofood, thus bringing the company back under Salim's control, and at the same time out of Indonesia, thereby safeguarding it against confiscation. This move was justified by Salim as a rational step of consolidation (Aji & Suprapto 2000). Indeed, while the group still had to repay its enormous debts in Indonesia, it was busily expanding overseas. First Pacific bought Philippine Long Distance Telephone (*Tempo* 1 December 1998), while Salim's Singapore proxies acquired his former shares in the bread producing company QAF from IBRA. Economists such as Didik J. Rachbini demanded that Salim should be sued for not paying his debts to the state, despite buying back his companies. Emil Salim, the chairman of the National Economic Council, asked why he did not pay his debt first, if he had the money (both cited in *Kompas* 8 November 2000). Then-Economic Minister Rizal Ramli labelled Salim as untrustworthy and threatened him with imprisonment for such practices, but as he turned to Attorney General Marzuki Darusman to take the accused to court, he was given the answer by the Attorney General that Anthony Salim in fact was the most cooperative debtor (*Kontan* 20 November 2000). On 26 November 2002, finally, IBRA announced that the Salim Group settled its debt completely and was thus free of any barriers (*Laksamana.net* 7 December 2002).

Since then, the conglomerate has been on its way back to the top, although the formerly diversified business group henceforth had to face competition and the loss of privileges. It also had to adjust to a transformed political economy and concentrate on certain business fields. However, Anthony Salim was very content with the situation of his group in the post-Soeharto economy (interview 13 April 2005; see also Chapter 6.1). Many new characteristics of the regime that initially seemed hazardous for the Salim Group turned out to be the opposite. They enabled the conglomerate to streamline its activities. The forced reconstruction came during an appropriate period, in which Soeharto's former client was already sufficiently strong and independent to endure the financial crisis. In the long run, the restructuring even was the necessary step Salim needed to survive in further globalised markets. Thus, Anthony Salim successfully regrouped and realigned his conglomerate. From Holdiko, he only bought back the most lucrative companies, thereby trussing his interests. In Indonesia, these were the automotive and food industries. The latter was controlled by its Hong Kong First Pacific Group, which also owned several telecommunications and real estate ventures in the Philippines. Salim's Singaporean KMP Group focussed on food related industries and on property mainly in Singapore and China. Sato (2004: 41) interpreted this as a 'shift from one extreme of a high degree of diversification to the other extreme of concentration on a core business' and 'the most radical case' of a 'transformation from conglomeration to concentration'. The Salim Group was thus losing some typical traits of a conglomerate.

The group adjusted to the changing environment not just structurally, but also in its strategic methods. The crisis triggered the long needed shift from cronyism towards professionalism, as Gunadi Sindhuwinata (interview 23 September 2004) claimed. According to Anthony Salim (interview 13 April 2005), his group was already geared up for this during the New Order, but the political environment did not allow for this. Therefore, the collapse of the regime together with old style-KKN caused, in a sense, a 'normalisation' of the Salim Group that continued to receive protection, but could not count on it anymore. On the contrary, serious opponents, who were longing to see the end of the Salim Group, arose after Soeharto's personal patronage ceased. Thus, the group had to be able to survive on its own. The fact that Anthony Salim (interview 13 April 2005) had no problems in stating that nowadays, after the crisis, only 50 per cent of his business activities were domestic, clearly proved that Salim has emerged as an established, highly developed business group that considerably decreased its dependency on Indonesia and was no longer cautious about admitting this openly. Indeed, it adjusted very well to the grey areas of the post-authoritarian but not yet fully democratic Indonesia, grasping all kinds of opportunities that were offered. The ways Anthony Salim managed to recoup his losses illustrated his finesse in handling the endless possibilities the new regime provided for him to fight against great odds.

To conclude, the Salim Group boss succeeded in five ways. First, by decreasing the degree of diversification of his conglomerate, he concentrated on certain, profitable business sectors. Second, Salim gradually converged with international corporate governance practices. Third, he increased the group's global expansion and thus became independent from Indonesia. Fourth, Salim turned to the market and was mature enough to remain in existence without political help. Last, he still operated with tricks on the fringes of legality, where usually, besides rumours and insinuations, there was nothing to prove. However, despite all irregularities in the debt settlement process, the group had indeed succeeded in cultivating a reputation for professionalism, purgation, and presentability in order to continue operating in post-Soeharto Indonesia. In fact, Salim could claim to be one of the first big debtors who had settled his debt completely and in a relatively short period. This will help the group to re-emerge as Indonesia's largest conglomerate and its boss to become the most powerful tycoon in the footsteps of his father, with the difference that – in the long run – politicians will be going to him to tender themselves as patrons who, however, will increasingly lose their usefulness for the Salim Group. While Liem Sioe Liong was dependent on 'business as privilege' (Anthony Salim, interview 13 April 2005), his son was about to free himself from such constraints, making his group sustainedly stronger than it had ever been before.

5.4 Capitalist consolidation, consolidated capital

As the case studies demonstrated, there were several ways for the conglomerates to survive in post-authoritarian Indonesia. Lippo, on the one hand, applied a more defensive strategy that resembled the corrupt methods the conglomerates used before in the New Order. It was still very dependent on patronage and connections with the political decision makers, which eventually brought them through the crisis. In comparison to the Soeharto regime, democracy was considered to be a more difficult environment that immensely restricted the range of Lippo's activities. The Salim Group, on the other hand, embarked on different tactics. It progressively adjusted to the changes. While the group still reverted to KKN whenever it was deemed possible and profitable, it realised that there were indeed a lot of benefits to gain from democracy, decentralism, and deregulation. Salim was mature enough to survive without President Soeharto as major protector.

The resilience of these two groups – and the many more that are still alive and kicking – revealed the nature of the new regime. Even though many new conditions emerged through *reformasi*, which at first sight seemed to inhibit the continuation of the old elites, a fundamental break with the past failed to take place. Democratisation merely modified the workings of the predatory arrangements without fundamentally transforming them. The basic structures of power were not altered significantly because post-*reformasi* powerholders have merely tried to capture rather than overcome the old system. The changes that have occurred, however, were adequate to please and appease international observers and creditors, as well as the few credible internal voices of *reformasi*. Still, the restructuring of the new regime was by far too inconclusive to overturn the position of those that had been incubated within the New Order oligarchy.

In this chapter, I identified capital's indispensability as the basic cause for structural continuance. As demonstrated, the crisis resulted in a mechanism that turned out to be very advantageous for the conglomerates: The more money they pulled out of Indonesia, the more the economy needed them. As long as the old system was in the process of revitalisation, the capitalists knew that they were the oxygen any post-Soeharto regime required to stay alive. This gave them the opportunity to recover and recoup many losses – as the case studies showed – and further increased their importance. Moreover, they managed through these processes to resist unpleasant reforms.

Here, I analysed the reactions of the capitalists to *reformasi*. They were substantially responsible for many of the continuities between the New Order and the post-Soeharto regime. Beyond this, they could soften the consequences of the changes. Their capital was the basic condition for this, without which politicians could not run for elections in the new parliamentary democracy. It also gave them the opportunity to make use of the many avenues of civil society. The end of the centralised state offered grey areas, provided new possibilites, and simplified the access to regional decision makers, who were easier to bribe than the former powerful gatekeepers in Jakarta. Through corruption, co-optation, or infiltration, the decentralisation of power as well as the emergence of new watchdogs posed few serious difficulties for big business to pursue their strategies of survival in more deregulated markets. However, we cannot evaluate the conglomerates' response to the demise of the New Order as strictly reactionary. The cases of Lippo and Salim elucidated that the new regime allowed the simultaneity of reactionism and professionalism in corporate behaviour. Moreover, they also indicated the potential future course of big business in Indonesia, making clear that the political system was no longer the main variable that determined the options of the conglomerates. On the contrary, the capitalists were ready to determine politics. They realised that they indeed could influence the outcome of democratisation, decentralisation, and deregulation and what was left of *reformasi* in accordance to their requirements. The post-Soeharto environment provided conditions particularly beneficial for the Chinese conglomerates that did not only let them survive, but substantially decreased the authority of the state over business. The following chapter will explore actual and possible scenarios of Chinese capital's accommodation in an initially unfamiliar, post-authoritarian environment that they moulded in such a manner to pave the way for the establishment of an increasingly plutocratic regime.

6
CAPITAL UNLIMITED: TOWARDS A NEW ACCOMMODATION

The economic and political crisis in Indonesia ended the New Order regime, leaving one of its main pillars, the Chinese conglomerates, damaged but not destroyed. I have demonstrated how and why Chinese business groups emerged and flourished (Chapter 3) and how the end of the New Order disrupted the predatory arrangements and endangered the continuing existence of big business (Chapter 4). However, I have also shown how the new regime turned out to be less inhibiting for the tycoons than widely expected (Chapter 5). Indeed, they managed to survive the crisis. But where did they go from there? In what ways did they cope with the dismantling of the old patronage networks? How did they attempt to thrive in a democratised, decentralised, and deregulated post-1998 Indonesia?

Most big businessmen were initially afraid of Indonesia's democratisation, because, as Pharos boss and chairman of the Indonesian Chinese Association INTI, Eddie Lembong (interview 21 October 2004), remarked, 'democracy is unfortunately related to numbers, and the Chinese are very small in numbers'. Ufen (2002: 187) pointed out that the capitalists – as ethnic Chinese – had to fear a loss of their good relations with state officials which would leave them unprotected against anti-Chinese groups and sentiments. Amy Chua expected a similar outcome:

> In the numerous countries around the world that have pervasive poverty and a market-dominant minority, democracy and markets […] can proceed only in deep tension with each other. In such conditions, the combined pursuit of free markets and democratization has repeatedly catalyzed ethnic conflict in highly predictable ways, with catastrophic consequences, including genocidal violence and the subversion of markets and democracy themselves.
>
> (A. Chua 2003a: 16)

She concluded that 'market-dominant minorities do not really want democracy' due to its potential to be inimical to their interests and to cause ethnic hatred (A. Chua 2003a: 259), an analysis and prediction shared by many Indonesian experts. Almost all my interviewees knew and mentioned her book in which she explicitly discussed the case of the Chinese in Indonesia, showing that the question of economically powerful minorities and democratisation is a very relevant and timely one in the post-Soeharto era.[43]

However, I offer a different interpretation of *reformasi*. Here I suggest that the capitalists were well represented by the new regime. Indeed, the democratic transition strengthened their stance in Indonesian society and resulted in a more beneficial political economy for the corporate world that would eventually lead to the emergence of a relatively autonomous capitalist class. I argue that the regime change removed the social limitations of the Chinese tycoons, empowered them politically in relation to the politico-bureaucrats, and secured their economic revival. This set the stage for an increasingly plutocratic Indonesia, in which these capitalists dominate the state unambiguously and assume the characteristics of a 'ruling class' (see Chapter 2.2).

Therborn (1978: 203) proposed that 'how far it [the bourgeoisie] is prepared to accept liberalization will depend on the availability of modes of transition to other, equally good or better, formats of representation'. The aim of this chapter is thus to observe the 'modes of transition' through a micro-level analysis of old, revised, and new patterns of political business prevalent in contemporary Indonesia and disclose capital's corresponding 'formats of representation', thereby providing empirical evidence that the tycoons – while still in hibernation – were quietly forging a new form of state–business accommodation, in which their dominance would be firmly established.

[43] Financial analyst Lin (2004), for instance, based a *Tempo* article on the 'Chinese role in Indonesia' on A. Chua's propositions. In the interviews I conducted, he as well as other respondents (such as Sjahrir, Faisal Basri, Anton Supit, Alvin Lie) repeatedly referred to A. Chua's hypothesis to substantiate their arguments.

6.1 Capital in post-Soeharto Indonesia: Un-limiting Chinese big business

With the end of the Soeharto era, the New Order form of accommodation between the ruling politico-bureaucrats and the Chinese capitalists was terminated as well. Capital, however, was needed for a reconstruction of the Indonesian economy and could thus prevent significant changes to the system that were detrimental to its interests. The modifications related to the sudden impracticability of authoritarianism, centralism, and KKN badly impaired the politico-bureaucrats, but failed to neutralise the capitalists. On the contrary, as shown before, the structural continuities as well as the modest moves towards the objectives of *reformasi* were helpful to let Chinese big business survive and hibernate until a more stable form of accommodation emerged.

This new arrangement between the state and capital is well on its way. Its point of departure was the democratised, decentralised, and deregulated regime without the limitations set by the authoritarian New Order state. It provided a basically amicable environment in which the conglomerates were socially, politically, and economically better positioned than before. I will focus on the most significant consequences of *reformasi* for Chinese capital. Through them, Chinese big business was elevated to a new social status, which constituted the precondition for the overall political emancipation of capital.

Democracy: Social de-marginalisation

The capitalists in Indonesia have always been in an ambivalent position due to their precarious societal status, which prevented a fusion of their high economic capacities with direct political power. As explicated previously (see Chapter 3), this particular position secured them a co-optation in the politico–business oligarchy. With the fall of Soeharto in May 1998, anti-Chinese discrimination abated through the abrupt disruption of authoritarian rule and the advent of democratic reforms. The concerted state-led instrumentalisation of Chinese ethnicity, through which the New Order marginalised, discriminated, and stigmatised the Chinese minority (Chua 2002), was currently not viable and enforceable anymore. On the contrary, the shock of the anti-Chinese riots and the encouragement of the liberal Abdurrahman Wahid presidency (1999–2001) saw the Chinese revive their cultural traditions on the basis of new anti-discrimination and human rights regulations. Celebrations of Chinese New Year, Chinese characters, and political and social groups of ethnic Chinese became legal, while most of the racist laws were abrogated (Lindsey 2005).

Besides President Wahid's genuine respect for minority rights (interview 17 September 2004), the indispensability of Chinese capital also led to a shift in government policies. The World Bank Vice President for the Asia Pacific, Jean-Michael Severino, warned the new government that 'the Chinese are the issue in Indonesia [...]. How they fix [the Chinese problem] is up to the Indonesians, but the economic impact if they do not fix it will be huge' (cited in Purdey 2005: 20). As a symbolic measure to reverse the capital flight, Habibie eliminated the legal distinction between *pribumi* and *non-pribumi* per decree in September 1998 (Cohen 1998b: 15). Wahid, as one of the most eminent Muslim leaders, even proclaimed that he was of Chinese ancestry, went to China on his first official state visit, and appointed Kwik Kian Gie to his cabinet (*Indonesian Observer* 1 December 1999). He emphasised that 'the Chinese act in tandem with the interests of the nation, not in their own interest. [...] Yes, there has been a purposeful construction of ordinary Chinese [under Soeharto]. But now, there is no site anymore to do that' (interview 17 September 2004). This signified the considerable shift in official government policies towards the Chinese minority. In post-Soeharto Indonesia ethnic Chinese were seen, for the first time in Indonesian history, as legislatively equal members of the nation and were finally regarded as a *suku*, a domestic ethnic group.

Elsewhere, I pointed out how the Chinese capitalists were used by the government to stigmatise all Indonesians of Chinese origin as rich (Chua 2004b). The marginalised social status of *orang Tionghoa*, in turn, diminished the power of the capitalists. Therefore, even though 'Chinese' capitalists had nothing in common with small 'Chinese' shop-owners except the ethnic label, the change in minority policies had tremendous effects on *all* people categorised as ‘Chinese’. Thus the big tycoons also benefited from the opening of societal spaces for Sino-Indonesians, who could now become regular participants in politics and civil society. These developments finally liberated the capitalists from being categorised as aliens and removed the basic foundation of the New Order patronage networks: the pariah status of the limited Chinese capitalists that used to be incapable to challenge the absolutist rule of the politico-bureaucrats.

The formerly much needed political protection henceforth became unnecessary, offering the tycoons a new, independent sense of security that boosted their self-confidence and let them proclaim that the Chinese ‘are in a very good shape, contrary to what people say’ (Anthony Salim, interview 13 April 2005). However, businessman and INTI Chair Eddie Lembong was still very cautious, believing that the ethnic label of capital will not vanish: ‘It won’t be like in Thailand; people won’t forget that you are Chinese’, he said (interview 21 October 2004). Gemala Group boss Sofjan Wanandi (interview 8 June 2004), in contrast, predicted optimistically that ‘there will be no more tension in the future. […] Chinese big business will be national business, not Chinese anymore.’ The President Director of Indomobil, Gunadi Sindhuwinata (interview 22 September 2004), made a similar claim, suggesting that ‘the identity of a company, what belongs to whom, won’t be important in the future. Salim, for instance, will become a real Indonesian company, although it is run by an ethnic Chinese.’ The threat of confiscation of ethnic Chinese property, demanded by some demagogues and feared by many capitalists in the beginning of the post-Soeharto regime, therefore paled into insignificance.

Certainly, the sudden diminution of Chineseness as an important, demarcating boundary was not uncontested. On the one hand, the Chinese tycoons themselves selectively made use of their Chinese ethnicity whenever they deemed it beneficial. The Chinese Indonesian association INTI with its successful lobbying efforts is one such example (see *Jakarta Post* 14 August 2002), demonstrating the new political weight the Chinese as a group have achieved. INTI Chairman Eddie Lembong (interview 21 October 2004) – as most other entrepreneurs –

was still thinking in Chinese/non-Chinese terms: ‘Business requires attitudes that *pribumi* don’t have. It’s still the Chinese that will dominate the economy even in the distant future’. Anthony Salim (interview 13 April 2005), who identified ‘the upcoming of the Chinese and mainland China’s strength and […] a lot of interaction inside ASEAN between [ethnic] Chinese people’ as the major economic trends for Indonesia, had a more instrumental view on ethnicity: While maintaining that he is an ‘Indonesian businessman’, he also stressed how important it is to be identified as Chinese – the reason why all his business cards had to be bilingual (*ibid.*). The increasing economic importance of China will thus reconfigure local ethnicities and foster the tycoons’ Chinese identity.

On the other hand, some prominent *pribumi* competitors used populism to raise their economic and political profiles. The new system based on elections and popular vote, through which *pribumi* capitalists such as Jusuf Kalla and Aburizal Bakrie emerged as Vice President and Coordinating Economy Minister respectively, was a latent danger for Chinese tycoons. The disquiet amongst Chinese Indonesians was immense when vice presidential candidate Kalla suggested affirmative action for *pribumi* (see Wibowo 2004). However, it was obviously their knowledge of history in which *pribumisasi* affected only small Chinese businesses that kept most tycoons calm over this issue. With their capital, connections, and friendships, they were not afraid of the Kallas or Bakries, as Artha Graha Group boss Tomy Winata (interview 27 September 2004) proclaimed: ‘There is no worry of protectionism for native Indonesians since Indonesian economy is still dependent on Chinese businesspeople.’

However, it cannot be ruled out that, in the future, further attempts will be made to redefine ‘indigenous’ in order to justify *pribumi* protectionism. If populist nationalist policies gain importance, they will be most probably based on anti-Chinese sentiments, as they used to be before. As long as the Chinese in general are seen as rich, big businessmen, this perception will remain useful as a tool to mobilise the masses and other interests. No indigenous power bloc would voluntarily relinquish this instrument of authority. Thus, the ‘Chinese problem’ is likely to reappear. That the conglomerates still feel vulnerable towards such threats can be seen by the actual eagerness to reconcile their ethnic identity and stress their solidarity with the people and the country: ‘I love Indonesia. It was where I was born, where I grew up. I have my family here. I have a lot of friends, and I believe in the future prospects of Indonesia. And I do believe the Indonesian people are among the nicest people in the world, genuinely so’, James Riady (cited in *Business Week* 7 June 1999) rhapsodised. Similarly, Gunadi Sindhuwinata (interview 22 September 2004) emphasised: ‘As entrepreneur it is important to invest in Indonesia – as long as you do this for the people, you do this for the country’, underlining that his boss, Anthony Salim, ‘is staying in Indonesia because he loves this country, because he is committed to the development of this country. […] He will stay here although he is facing all these difficulties, all these problems, but he is trying to solve and overcome them.’ Tomy Winata (interview 17 September 2004) declared that his Artha Graha Group ‘grew in Indonesia, stayed in Indonesia during the crisis and is investing in Indonesia now after the crisis. Artha Graha is a truly patriotic enterprise.’ He added that he is ‘purely Indonesian, loyal to this country and socially responsible’ (*ibid.*). However, it will still take some time until his self-ascription corresponds with the way others see him, for, as Budiman (2005: 95-6) reported, ‘people felt that Winata’s actions were “typical Chinese” behaviour, especially for Chinese businessmen. They felt that the Chinese “always” bribed state officials, particularly the police and the military.’ As long as these traditional anti-Chinese sentiments remain prevalent in Indonesian society, *pribumi* capitalists would exploit them in their fight for market shares, thus preserving the century old demarcation between Chinese and non-Chinese further.

However, these instrumentally used ethnic boundaries will never be as strong as those constructed by the state. In fact, the strengthening of Chinese identity was, momentarily, more beneficial than detrimental, fitting the conglomerates into Indonesia’s more inclusive diversity and – simultaneously – linking them up to the emerging markets in China. Democracy, eventually, largely de-marginalised the capitalists and liberated them from their social chains, thereby placing the Chinese tycoons irreversibly at the centre of the Indonesian nation.

Decentralism: Political strengthening

It was not possible to uphold the large-scale patronage networks between the leading politico-bureaucrats and the most eminent tycoons after the fall of Soeharto. The new decentralised regime was incompatible with the former system of KKN that required centralised decision-making, exclusively allocatable businesses, and potent investors. The absence of all these factors required a reorganisation of the mutually beneficial politico–business relations. This was, at the beginning, a major set-back for both parties involved.

First, the once powerful top officials in Jakarta either lost the command over the huge gatekeeping institutions that presided over business opportunities, or the institutions' authority was considerably reduced or even eliminated. The politico-bureaucrats had thus comparatively little to offer, which diminished their capacity of extracting rents and bribes from the capitalists as they used to do for decades. Second, the entrepreneurs were deprived of their influential partners and had to learn to get by without the reliability and the clarity of the traditional KKN process. The old oligarchy in the way it was constituted, obviously, was considerably weakened.

However, although the situation of both allies deteriorated, the politico-bureaucrats' status was more irreparable. While, there was no way of doing big business during the New Order without the Jakarta gatekeepers, most of them were replaced by a new set of relatively small scale bureaucrats in regional bodies that did not possess the same kind of authority. These political actors, with whom the conglomerates henceforth had to deal with, were thus less powerful than their former colleagues in Jakarta. With them, the tycoons replicated the networks far away from Jakarta in the provinces.

Initially, this was merely an emergency solution, meant to quickly rehabilitate the forfeited connections with the abdicated authorities, as the conglomerates could not imagine surviving without political patronage at all. However, they quickly adjusted to the new situation, in which 'you cannot do KKN anymore because everybody can', as Angky Camaro (interview 17 September 2004) remarked, referring to the elapsed exclusivity of KKN. Monopolies on huge projects and the respective exorbitant profits were a thing of the past; but on the other hand, the end of the unconstrained power of the bureaucrats had significant positive effects for the conglomerates, enabling them to become relatively independent from the political elite. The projects in the aftermath of the tsunami in Aceh, where Artha Graha submitted a blue print for the reconstruction of Meulaboh before and without the endorsement of the central government (*Tempo* 8 February 2005), disclosed the newly gained sovereignty of the business groups.

Sofjan Wanandi (interview 8 June 2004) asked candidly, 'why do you need to be close to the government if there are no facilities there?' The tycoons could detach themselves from the politico-bureaucrats, who had no leverage anymore to coerce the businessmen to pay. Not even the president was considered to be crucial anymore. Gunadi Sindhuwinata (interview 22 September 2004) stated: 'If you stand beside Megawati or whomever, people will think that you are recognised also in that level. This is important. It is the emotional touch, but it does not necessarily mean that you are supporting her'. As the politicians could not deliver anymore, they became rather irrelevant for the conglomerates, which were increasingly able to acquire their businesses themselves. They were given direct access to the markets, and, if still required, they could refer to the respective authorities at the regional level. The Chinese capitalists were thus positioned favourably *vis-à-vis* their former political patrons and would be the main beneficiaries of the centralised regime's weakening. While the bureaucrats' power faded, Chinese big business gained political strength that they henceforth applied in their daily interactions with the authorities.

Free markets: Economic resurgence

The overall effects of the new, more deregulated economy on big business continued to be disputed. Sato (2004: 42), who studied Indonesia's business groups, especially the Salim Group, in detail, suggested that 'the golden age of conglomerates in Indonesia has come to an end'. Sofjan Wanandi (interview 1 July 2003) shared this allegation: 'Chinese big business?

Don't waste your time. They are all bankrupt', he told me after I mentioned my research project to him. BCA President Commissioner Eugene Galbraith (interview 8 September 2004), however, suspected that Wanandi was 'probably on drugs' as he proclaimed the death of the business groups. In fact, Wanandi's statement was in stark contrast to perceptions of other tycoons who considered the business climate in post-Soeharto Indonesia to be tremendously positive.

Due to the ongoing restructuring process and a lack of relevant figures and rankings, it remains – on the one hand – impossible to substantiate the economic resurgence of the conglomerates with sufficiently reliable data (see Chapter 1.3). The persons who ought to know the actual state of the business groups, the owners themselves, refused to reveal their knowledge, as it would make them vulnerable to further demands and weaken their leverage in the ongoing debts negotiations. Indeed, there was a trend to understate the size of their own enterprise. For instance, Artha Graha, Salim, or Sampoerna were each mentioned by different respondents as one of the largest groups in post-crisis Indonesia. Nevertheless, Tomy Winata (interview 17 September 2004) averred that his Artha Graha Group might be solid, but not 'big': 'There are a few giant business groups in Indonesia such as Sampoerna, Djarum, Salim, and Lippo. We are not comparable since our size is much smaller'. Anthony Salim (interview 13 April 2005), as well, asserted that he did not know whether the Salim group was still the biggest conglomerate in Indonesia, and Angky Camaro (interview 27 September 2004) of Sampoerna emphasised that 'Sampoerna is only a company, not even a conglomerate'.

On the other hand, however, it is not necessary to measure the degree of consolidation quantitatively. Instead, it is sufficient to analyse the tycoons' subjective perception of the business climate after the New Order. Significantly, most businessmen were very content with the actual situation, declaring that 'nobody wants to have the New Order back. Chinese big business is psychologically and technically prepared to deal with democratisation and democracy' (Eddie Lembong, interview 21 October 2004). Others such as Sindhuwinata (interview 22 September 2004) stated that 'we cannot turn the wheel reverse and we have to look forward'. Even the conglomerate of Soeharto's major crony Liem Sioe Liong, the Salim Group, did not go bankrupt because of the regime change. On the contrary, its boss, Liem's son Anthony, was enthusiastic about the post-New Order situation: 'The total product [...] now is more than before, [...] in fact, it increased by many percent compared to pre-crisis' (Anthony Salim, interview 13 April 2005). He further claimed that, generally, 'most of the businesses that are basically market related or with market orientation, they are in fact not only not affected, but thriving because of the new conditions' (*ibid.*).

There was obviously no longer a need to fight the post-Soeharto regime. The current economic conditions were indeed very favourable for the capitalists. Their well-being indicated that the conglomerates consolidated socially, politically, and economically, and made themselves comfortable in the new Indonesia, best prepared to defend and expand their empires in a democratised country.

We are well positioned to take advantage of a more open Indonesia.[44]

6.2 Modes of transition: Patterns of political business

What did the conglomerates do politically? How have the Chinese capitalists modified their ways of doing business in post-Soeharto Indonesia? If we were to believe the assertions of leading tycoons, the corporate world simply adjusted to the new democratic order. 'Businesses adapt to whatever political or social situation is prevailing. That's what I call a healthy attitude. Businesses should adapt', Anthony Salim (interview 13 April 2005) stated, while his friend and Indomobil executive Gunadi Sindhuwinata (interview 22 September 2004) confirmed that 'Pak Anton, whatever politics or government [...], must also comply with the situation every time. That's why, after Soeharto, Habibie, Abdurrahman Wahid, he is able to

[44] A high-ranking member of the Salim family, cited in Solomon (2000).

survive, he is able to master the situation as business enterprise and businessman regardless who is controlling the country.' Tomy Winata (interview 17 September 2004) concurred: 'Whoever will be in power, I am loyal to the government.'

Indeed, the conglomerates have proven their flexibility in times of fast changing governments; otherwise they would not have survived the transition from the New Order to the post-Soeharto regime. However, the myth of apolitical business that the tycoons tried to foster with these statements did not correspond with practice, as the following observations of modified and new business patterns will reveal. They indicate a steady shift of power in favour of the capitalists that they translated into more efficient representations of their interests.

The restoration of KKN

According to Alatas (1999: 6-7), corruption, collusion, and nepotism denote 'the subordination of public interests to private aims involving a violation of the norms of duty and welfare, accompanied by secrecy, betrayal, deception and a callous disregard for any consequences suffered by the public'. Its Indonesian version, KKN, expressed the New Order oligarchy's predatory, instrumental, and unrestricted use of the state apparatus, based on mutually beneficial arrangements in which the Chinese conglomerates channelled huge sums to the authorities as bribes, as commissions for business opportunities, and as protection money for political shelter. This accommodation collapsed in May 1998. After the fall of Soeharto, many of these old practices have thus become different, some of which were impractical due to the new openness and institutionalised checks and balances. However, a new regime does not mean the eradication of the predatory appropriation of the state and its apparatus by economic and political elites. Democracy provided no barriers against KKN. On the contrary, more opportunities emerged, revealing that the capitalist oligarchy survived and still held the state firmly under control. However, as I will point out, the patterns of political business in post-Soeharto Indonesia were different from the ones before the crisis, demonstrating that the hierarchy of politico–business relations became massively deranged.

Money politics

In the New Order, corruption involved a semi-formalised process of channelling back some gains from the conglomerates to the politicians as required rewards for shoving profitable business facilities off on to them. During, and immediately after the crisis, this not only became more difficult because of the increased public awareness, but also lost its applicability, as new business opportunities and the possibility to share profits were rare. However, corruption had not at all ceased in Indonesia, which was still perceived to be one of the most corrupt countries in the world (Castle 2004: 76). The rationale behind corruption, though, had changed. In the immediate post-crisis period, it was for the pure survival of the business groups that were dependent on leniency and preferential treatment of the decision-makers, who resided over the assessment of their obligations, the allocation of financial injections, and the conditions of a continuing existence. The past theme of corruption was economic expansion; in and after the crisis it was the settlement of debts.

Due to the more decentralised structure of post-Soeharto Indonesia, the new political powerholders were less influential, but because of this also less demanding and, in general, more receptive for money. Hence, it was much easier to reach and bribe the respective persons in charge than before. This was the breeding ground for money politics (i.e. politics determined by money) that spread out from the top – where ICW (2004) discovered more than Rp14.5 billion of unreported and thus illegal funds for the presidential candidates – down to the bottom of the parliamentary system with 'systematic approaches to members of parliament' to vote in favour of certain business groups, as MP Alvin Lie (interview 7 September 2004) reported. He experienced the wily way in which tycoons were able to use the new institutions of Indonesia's democracy. In one case, where the DPR had to decide about the sale of Indosat, 'material gains and favours' were offered so abundantly and constantly that even some of the initiators of the parliamentary fraction against the sale finally supported the opposite position.

Instead of separating money and politics, as most reforms explicitly intended, the two became even more intertwined. The new Indonesian democratic system with its decentralised, more diffuse power structure, capital intensive campaigns for votes, support, and posts, and power hungry politicians and bureaucrats desperately looking for financiers, offered manifold hunting grounds for capital to reach an even higher return on investment than was possible before. They could rely on a seamless transition in personnel and mentalities from the New Order to the post-Soeharto era in which many Indonesian institutions, such as the central bank, still resembled a ‘den of thieves’ or ‘nest of crooks’ – in the words of former Bank Indonesia Senior Deputy Governor Anwar Nasution (*Laksama.net* 10 May 2003).

After the consolidation of the conglomerates was achieved, the tycoons returned to the traditional objectives of corruption and again focussed on the facilitation of business opportunities, although the money was spent to expedite the process rather than to accrue certain concessions (Faisal Basri, interview 11 September 2004). However, the application of the same pattern took place under opposite signs. The politico-bureaucrats were no longer decisive and could not count on a permanent flow of money. On the contrary, the conglomerates were free to decide whom to bribe and were aware that it was often not necessary at all to use money to reach the wanted goal. Hence, the former hierarchy was turned upside down with politics that was determined by capital. Money politics became the main characteristics of Indonesia’s political economy and would be increasingly omnipresent in the future as integral part of patronage and infiltration.

Patronage

The character of patronage underwent significant changes as well. Most traumatic for the capitalists were the experiences of the riots in May 1998, where the authorities exposed the Chinese tycoons ruthlessly to a hostile social environment. The businessmen drew two conclusions. First, they could not rely on the politico-bureaucrats anymore and had to take care of their safety themselves. Second, they were forced at the same time to seek new patrons to get by the turbulent times of transition and political instability.

James Riady was the corporate mogul who was most active in establishing himself as the main partner of the new political leaders. As Soeharto’s authority faded and the military was expected to intervene, Riady set up direct contact with General Wiranto. He never wanted to experience the same kind of insecurity again, as he told *Far Eastern Economic Review* correspondent Jeremy Wagstaff (interview 11 June 2004). This also meant that he had to be flexible. In fact, as Wiranto did not turn out to be the new president, he shifted his allegiance to Habibie, joining his team as 'business ambassador' (Shari 1999). As major 'Habibie crony' (*ibid.*) he intended to be the new Liem Sioe Liong of post-Soeharto Indonesia. For this he could revert to his experiences in the United States, where he 'wanted to be known as main importer of best American values to Indonesia, but became main exporter of corruption to America', as Lippo critic Lin Che Wei (interview 22 September 2004) declared, referring to the funding scandal (see Solomon & Holloway 1996) in which Riady proved his strength to tie the right political relations.

James Riady was the indisputable 'czar of Indonesia's new money politics' (Shari 1999), but others tried to catch up. Habibie's successor, Abdurrahman Wahid, claimed that no tycoon attempted to establish links with him while he was president, because they knew about his integrity and were afraid of him (interview 17 September 2004), although there were strong indications that he sought to have his own group of cronies. This would explain why he, without any substantiation, intervened in the judicial processes against Marimutu Sinivasan of Texmaco, Prajogo Pangestu of Barito Pacific, and Syamsul Nursalim of Gadjah Tunggal, and demanded the delay of the three tycoons' prosecution (*Bisnis Indonesia* 20 October 2000). He himself only admitted that he was close to Putera Sampoerna, who used to take him on his private plane to Singapore and discuss economic issues with him (interview 17 September 2004). However, the former head of state observed that during the Megawati years, the 'black conglomerates' (as examples, he mentioned James Riady, who 'likes to cater to the needs of high officials and throw money away', Anthony Salim, 'a bad guy who lives through cronyism', and Tomy Winata, who owns a bank that is 'controlled by the armed forces and by hooligans') succeeded in finding their partners (interview 17 September 2004).

These ad-hoc partnerships, though, could not replace the patronage relationships of the New Order that grew over decades. Before the crisis, the combination of patrons and clients was inherently habitual. Every politico-bureaucrat matched up with a compatible business-man, and it was clear that the most important decision-maker, i.e. Soeharto, could gather the most decisive tycoons, such as Bob Hasan and Liem Sioe Liong, around himself. In post-crisis Indonesia, political positions were uncertain and transient, as were many of the tar-nished businesses. The high complexity and unreliability of the new power constellation was not conducive to an arrangement that required consistency. Patronage, as the efforts of James Riady revealed, was, for the short term, still useful. Indeed, it helped the conglomerates to survive, as I showed in the case studies (see Chapter 5.3). Furthermore, it secured them pref-erential treatment deemed impossible in a democratic country. One ‘open secret’ in Jakarta was that electronic goods in Electronic City or cigars and other luxury goods in a shop of the Borobudur hotel were substantially cheaper because Tomy Winata as the owner did not have to pay the respective taxes (Chatib Basri, interview 12 May 2004). Political connections were therefore still advantageous, and groups such as Lippo continued to rely on them, as the con-stellation of its new board disclosed. This included influential persons and politicians such as former Minister of Domestic Affairs Suryadi Sudirja, former Minister of State-owned Enter-prises Tanri Abeng, and former IBRA Deputy Farid Haryanto, who were co-opted as directors (*Trust* 24 May 2004).

To balance the diminished effectiveness and reliability of patronage, the conglomerates started to spread their risks, knowing the price of every party. The politico-bureaucrats could henceforth not count anymore on exclusive patron–client relationships. On the contrary, the former dependents were able to choose among a number of power brokers. Hedging thus be-came a common practice, making it difficult to identify a distinct affiliation of the financiers. The political environment of elections further complicated the patronage process, as it was too uncertain to put all the eggs in one basket. Angky Camaro (interview 17 September 2004) remarked: ‘If we choose one party then we limit our market’. Hence, almost no tycoon revealed his favourite candidate before the first round of the presidential elections in 2004, as well as in the second round, where only a few supported one of the two remaining candidates openly (see *Tempo* 30 August 2004). The sometimes contradictory assumptions of observers portrayed the same situation: If one claimed that, for example, Tomy Winata was close to Megawati through his business connection with her husband Taufik Kiemas (e.g. Kevin O'Rourke, political analyst, interview 6 September 2004), he was as correct as another person emphasising Winata's link to the other candidate, Susilo Bambang Yudhoyono, through one of his closest associates and former President Commissioner of his Bank Artha Graha, T.B. Silalahi, who became the key advisor of the latter (e.g. Lin Che Wei, economist, interview 22 September 2004). Winata was also suspected of financing Yudhoyono's campaign, while others believed he funded Megawati. All allegations were probably true, as Faisal Basri (interview 14 September 2004) suspected, who asserted that Winata had his money in every party. Significantly, the Artha Graha boss himself admitted:

> Up to now businessmen don't want to be seen as supporting just one party. […] It will be the end for many businessmen who supported the wrong person. You cannot put all money on one horse, because the uncertainty of winning is too high. Besides this the president now changes at least every 10 years.
>
> (Tomy Winata, interview 17 September 2004)

Often, family members carefully split their political loyalties, such as the Wanandis, where Sofjan was favouring Susilo Bambang Yudhoyono (Sofjan Wanandi, interview 8 June 2004) while his brother Jusuf used the *Jakarta Post* to secure support for Megawati (J. Wanandi 2004). For the Riady family, James sided with the actual powerholders, while his father, Mochtar, was 'hedging the family's bets by courting opposition leaders' (Shari 1999). For businessmen, it was quite problematic not to be certain where to put their money. However, for politicians, it was *devastating* not to have a stable cash inflow. To stay politically alive, they permanently had to make sure that their fountains did not run dry.

What we observe in post-Soeharto Indonesia is thus a modified way of collusion, where the traditional patron–client relationship has been turned upside down. It became the job of the politicians to seek new partners, although they had nothing much to offer in return. In the immediate post-crisis years, they could still provide social protection and secure the economic survival of the conglomerates. In the medium term, however, the capitalists would be able to unhitch from their former patrons.

Infiltration

Nepotism in Indonesia used to refer to the appropriation of the state and economy of the extended Soeharto clan. Certainly, this lapsed as the patriarch stepped back. However, it was replaced by the informal links between certain persons inside the political or bureaucratic system and Chinese big business that were stronger than normal patronage relationships. In order to reduce the risk of wasting money, tycoons started a long time ago to identify potential politicians and establish relationships that went beyond material interests. These included people like Laksamana Sukadi, former CEO of Lippo Bank and later Minister of State-owned Enterprises, and several young military staff – supported by Tomy Winata – who were groomed since their youth. When they became powerful, it was almost impossible to separate the ties with their sponsors, as Member of Parliament Alvin Lie (interview 7 September 2004) observed. This replicated the virtual family bonds between Soeharto and Liem Sioe Liong, or General Gatot Subroto and Bob Hasan. The significant difference was that the generals no longer adopted a businessman, but – the other was round – the tycoons chose their personal politicians and bureaucrats, seeking to 'find someone whom they can groom for the next 10 years' (Tomy Winata, interview 17 September 2004).

To prevent uncontrollable interference from potentially hostile new regulators the moguls tried to bring in and further the careers of close, sympathetic people or those who could be easily bribed in order to influence the composition, orientation, and arbitration of many institutions. The secretive nature of this procedure meant that it was difficult, if not impossible, to produce evidence for it, unlike cases of corruption. However, the incidents that made it to the press, recurring allegations in Jakarta's rumour mills or among competitors, as well as suspicious outcomes indicative of collusion provided sufficient proof for such endeavours of the business groups. There are numerous examples illustrating how capital market institutions were especially dominated by big business proxies. Bapepam was said to be in the hands of the Riadys' conglomerate, Lippo, as were several IBRA chairs (Roland Haas, former President Director Lippo Investments, interview 31 August 2004). Previous IBRA Deputy Chairman Farid Haryanto, for instance, used to be Lippo advisor before he worked for the agency, and has resumed this post again after he left the office. Several Bank Indonesia officials were suspected by prominent observers of being on the payroll of the Riadys. These included Aulia Pohan, Deputy Governor, or Miranda Goeltom, Senior Deputy Governor, whose election was supposedly secured by bribes to members of parliament. Lippo and other conglomerates expected them to hinder unfavourable investigations and to help them retrieve their assets (Faisal Basri, interview 11 September 2004). Others assumed that Tomy Winata supported Goeltom so that she would assist him to get hold of Bank Permata, which she actually – but in the end unsuccessfully – did by lobbying for him at the state-owned asset management company PPA, IBRA's successor and the overseeing agency for the sale of the bank, as its Vice President Director, Raden Pardede (interview 17 September 2004) confirmed.

There were rumours that Salim was behind the 'sudden and instantaneous selection of three BI Deputy governors' that gave rise to 'strong suspicion that the selection of the BI Deputy Governors was expedited to make it easier for the Salim Group to get back into BCA' (*Tempo* 18 December 2001). One of the governors was Bun Bunan Hutapea, the husband of Eva Hutapea, then-President Director of Indofood, who was put in charge of the fit-and-proper test for the BCA investors. According to Rizal Ramli (*ibid.*), this was an intentional positioning to 'make it easier for Anthony Salim to buy back BCA'.

This revealed that compliant, reliable people inside the institutions that presided over the future status of the conglomerates were still essential for the capitalists and their efforts for sustenance in the new regime. At the same time and increasingly so in the future, the moles were and would be needed to open up new business opportunities. For this, as Faisal Basri (interview 11 September 2004) reported, some big tycoons tried to influence the outcome of elections by supporting certain candidates or installing their own men as district heads, in one case even a relative – nepotism in its literal sense. The latter attempt was unsuccessful, but this is likely to be different in the future or in other elections, thus showing that the political system became very manipulable and susceptible to interventions of the conglomerates. Politics and institutions, the former exclusive domains of the politico-bureaucrats, thus became a playground of the capitalists.

The politicisation of business

These rather indirect interferences of capital in the political system were only part of the whole equation. Through their new status in Indonesian society as well as the possibilities the post-Soeharto regime provided, the Chinese conglomerates were able to steer politics in a more direct way than ever before, making use of legal and extra-legal means.

Political activism

The new framework gave businessmen the opportunity to get actively involved in politics. During the Soeharto period it was expected that the Chinese restrict themselves to business and leave the state to the *pribumi*. Thus, no ethnic Chinese made it into higher military or political positions (Heryanto 1999: 327). With the exception of Soeharto's favourite crony, Bob Hasan, in the former president's last officiating cabinet (which lasted for only two months), there has never been a minister of Chinese descent. Only a few, selected Sino-Indonesians became members of parliament after 1965, of which the Wanandi brothers and Harry Tjan Silalahi – 'conceivably be likened to the "court Jews" of an earlier era in Europe' (Coppel 1983: 168) – were the most eminent Chinese politicians, without ever reaching cabinet rank. With this effective, one-sided separation of politics and economics, the politico-bureaucrats succeeded in decreasing capital's potential to interfere in political decision-making.

Since 1998, things have changed. The new authorities could not uphold their arbitrary and instrumental use of the state apparatus and had no means to hinder the emergence of Chinese Indonesian politicians. Symptomatic for the changed environment was the foundation of the ethnic Chinese pressure group, INTI, led by businessman Eddie Lembong, that lobbied effectively for the rights of the Chinese minority. It encouraged the *orang Tionghoa* to become politically active. Human rights lawyer Frans Winarta proclaimed at one of INTI's conferences that 'Chinese Indonesians should not merely concentrate on business, but must also consider entering politics. By entering politics, they could gain significant bargaining power in the decision making process in the country' (*Jakarta Post* 29 April 2002). This was already pursued by some well-known Chinese with business backgrounds, who started to be involved in party politics, such as Alvin Lie in PAN or Murdaya Poo in PDI-P. According to James Riady (cited in *Business Week* 7 June 1999), there was 'an increased level of awareness in the business community of politics. We see a number of political parties that have as their official leaders people from the business community.' In the provinces, as Hadiz (2004: 713-4) reported, many entrepreneurs began to take advantage of the new avenues of power and ran for the posts of *bupati*.

Property mogul Ciputra (cited in *Straits Times* 20 April 2000) emphasised that 'it is a drastic change from the past that we now have important figures in essential positions within the government'. Legally, all political posts were opened up for Indonesians of Chinese origin, including the presidency. While the highest office was confined to '*asli*'/original Indonesians (i.e. *pribumi*) before, the 2002 amendment of Article 6 of the 1945 Constitution stated that all citizens born in the country were eligible (Lindsey 2005: 58). Although this was merely a political symbol – albeit not an unimportant one – Anthony Salim, for instance, self-confidently proclaimed that an ethnic Chinese could indeed become president in today's context:

> It is still some time to go [for a businessman of Chinese origin to become president], but we are closing the gap. We have a Chinese to sit [in government] as Coordinating Minister of Econ-

> omy. This is close to the Vice President already. Below the Vice President's rank is the Coordinating Minister. It's one of the highest.
>
> (Anthony Salim, interview 13 April 2005)

Sjahrir (interview 24 September 2004) contradicted him, maintaining that this is still not realistic in Indonesia: 'Anthony Salim can become very strong, but he can never become president.' In fact, the label of Chinese would still be a barrier, but their material background as businessmen was not.

On the contrary, among the post-Soeharto politicians to claim important offices were two of the most successful *pribumi* entrepreneurs: Jusuf Kalla, who became Vice President and Head of Golkar, and Aburizal Bakrie, Coordinating Minister for Economy under President Susilo Bambang Yudhoyono. This revealed that an own capital base was indeed very conducive to assuming decisive posts. Chinese businessmen, who do not yet have the same kind of political standing like Kalla and Bakrie and were thus still not very comfortable with being so open to the public eye, will follow this trend with a certain time lag. They are, essentially, only one step away from becoming politicians themselves. The case of Thailand, for instance, has shown how Chinese tycoons became actively involved in politics and assumed leading roles in parties and governments (Hewison 1989; Handley 1997). With the absence of official restrictions, the involvement in political affairs obviously turned out to be a possible and effective way to further business interests and underpin their claim to power.

Premanism

While political activism was within the legal limits and the reinvention of KKN at least inside the traditional, partly accepted boundaries, *premanisme*/gangsterism was definitely outside the given rules. Formerly, the government itself often made use of such extra-legal measures to intimidate its citizens. For example, in the beginning of the 1980s, petty criminals were executed or, in the last decade of Soeharto's dictatorship, pro-democracy leaders were attacked by thugs (Aditjondro 2002: 45-9). In post-Soeharto Indonesia, the weak state no longer had such capabilities anymore and gave capital the opportunity to subdue and replace it where it could not exert its influence.

One basic condition was the incapability, ignorance, or goodwill of state institutions. As shown before, through bribes, patronage, or infiltration, the conglomerates succeeded in influencing the judicative, legislative, and executive massively. Without the backing of an independently functioning legal system, opponents of the capitalists had problems in bringing cases to the court, pushing through their views, or defending themselves. The conglomerates relied on corrupt judges (see Indonesia Corruption Watch 2004), as one example clearly illustrated: Through judgements that appeared to be bought, the courts turned the anti-monopoly commission KPPU into a paper tiger by regularly ruling in favour of business interests, as it happened in the case of Indomobil. Despite evidence that the process of bidding for Salim's former car manufacturer was massively manipulated by collusion between the bidders to keep the price low and enable Salim to recoup his company (Faisal Basri, Commissioner KPPU, interview 11 September 2004), the ruling of the anti-monopoly commission was rejected first by district courts and finally by the Supreme Court. The latter stated as justification for its decision that the KPPU, not being a legal body, had presumptuously used the words 'for the sake of justice, based on the belief in one Supreme God' in its decree (*Jakarta Post* 17 Januar 2003). Such miscarriage of the courts was due either to 'gross incompetence or because of tremendous financial lobbying by the business parties' as *Jakarta Post* (30 July 2002) suggested. Both possibilities were not meant to inspire confidence in the legal system, which was, apparently, under the control of big business.

The absence of rule of law has, in many cases, helped the conglomerates to flourish again. Most significant is the alleged success of Tomy Winata in the illegal sectors of prostitution, gambling, and drugs. According to his critics, he had dominated organised crime in such a way that it became the basis of his growth into one of Indonesia's most eminent businessmen. He himself, of course, denied these allegations: 'If I have a casino, you can take it for free. […] Whatever we do, we follow legal procedures' (cited in Borsuk 2003). However, the point is that, with or against the law, capitalists were free to do whatever they wanted to do in post-Soeharto Indonesia.

Not surprisingly, Tomy Winata was purportedly closely linked to groups such as *Pemuda Pancasila*, ‘Indonesia’s largest organisation of political thugs’ (Aditjondro 2002: 37-8), and *Pemuda Panca Marga*. Through these connections, he had his own vigilante groups at his command. One interviewee told me that banks sold their open loans to Winata’s Bank Artha Graha, as only BAG had the means to make defaulting debtors pay. Mobs were also hired in the provinces to terrify the local politicians to subordinate them to private interests (Lindsey 2001). Indeed, the influence of the tycoons was even greater far away from Jakarta. For instance, Winata was given the relatively exclusive opportunity to do business in regions such as Aceh or West Papua, for which he was admired as a ‘real nationalist’ by the President Commissioner of BCA, Eugene Galbraith (interview 8 September 2004). The husband of former President Megawati, Taufik Kiemas, as well eulogised that ‘the country needs more “crazy men” like Winata willing to invest in Indonesia’s remote provinces’ (cited in Borsuk 2003), concealing that only the latter could go into conflict areas because of his close ties with the military. Therefore, other observers disclosed a different motivation for these engagements, reporting that Artha Graha, in tandem with the army, grabbed most of the funds meant to rebuild the regions destroyed by the tsunami, drafted blueprints for the development of Meulaboh/Aceh even before the government, and terrorised the local population to relocate (e.g. *Tempo* 8 February 2005; *Kompas* 28 January 2005; confidential interview with an Aceh volunteer, December 2005). The ‘prominence of money and intimidation in Indonesia’s more decentralized and democratic politics’ (Hadiz 2004: 714) was a major indication for the way some of the conglomerates wielded their power after the crisis.

These new possibilities revealed that collusion with existing officeholders was probably only the second best option for the capitalists. A more ideal proposition was to fill the power vacuum themselves, including through premanism. Especially where an alternative hierarchy of authority was yet to be established, the conglomerates filled the gaps with extra-legal activities. On both fronts, from the inside and outside of the system, capital was actively claiming its rightful place at the apex of power in a state whose personnel was partially paralysed.

6.3 Formats of representation: The rise of an autonomous capitalist class

With the end of the New Order the configuration of power was reorganised. This continues to be an ongoing process. Even one decade after the crisis, the post-Soeharto regime was still in the process of being re-moulded. James Riady (interview in *Business Week* 7 June 1999) commented: 'The new political system and the new order of politics would start to be formed. The old political system is not completely gone, but the new system is not formed'. Tomy Winata similarly stressed that Indonesia's democracy is still in its embryonic stage:

> Democracy in Indonesia has to be done step by step. At this time it has been progressing too fast, as the country itself is still underdeveloped. More than 50 per cent of the citizens are still underpaid, uneducated and unemployed. You can compare Indonesia only with Europe and the US 100 years ago.
>
> (Tomy Winata, interview 27 September 2004)

The same controversial tycoon, who has yet to prove his democratic credentials, maintained that, 'as an Indonesian, it is part of my responsibility to help the country to democratise. […] We [Bank Artha Graha] are built to become the main engine of democracy in Indonesia.' (*ibid.*). Many observers, understandably, did not accept these statements at face value. However, I suggest that the capitalists' stance on democracy should indeed be taken seriously. It indicates their confidence in being able to shape the new regime to align with their interests.

I will demonstrate how they started to achieve dominance in some spheres. The corporate moguls were in the process of replacing the politico-bureaucratic elite as the dominant fraction of the 'ruling class', as the observed political business patterns illustrated. They alluded to three major trends: A detachment from their former patrons, the reversal of dependencies, and a more direct access to power. While capital only wielded indirect authority during the

New Order, mediated and limited by the politico-bureaucrats (see Chapter 3), the new regime provided the tycoons with an autonomous, dominant, and immediate stance towards the state. I will show that we can observe a plutocracy in the making, in which Chinese big business has found a favourable context within which it ‘ensures, by numerous different means, that the reproduction of its positions is represented’ (Therborn 1978: 203).

Autonomy

During the Soeharto regime, the capitalists were effectively dominated by their senior partners in the bureaucracy who held quasi absolutist power through the appropriation of the state apparatus. The socially marginalised tycoons were limited to an economic role. However, both parties involved fared very well with this type of accommodation, as I demonstrated in Chapter 3.

Nevertheless, since the 1970s, businessmen have tried to make use of their economic liberties, not only to maximise profits, but also to safeguard their precarious societal position. The politico-bureaucrats widely tolerated their endeavours as they themselves partook in the profits, but they had the means to deterring excessive capital accumulation that would have decreased the tycoon’s dependency on them. Through the stigmatisation of the conglomerates as ‘Chinese’ and thus non-Indonesian, Chinese big business’ economic success was defined as undeserving and unfair to the ‘indigenous’ population. With such discourse, the politico-bureaucrats set the capitalists’ thumbscrews that they tightened at times to keep them at bay.

The pursuit of anchoring Chinese capital globally – particularly in China – was an especially delicate undertaking that could be politicised and used against them. Hence, whenever the authorities deemed it necessary, they publicly questioned the loyalty of the entrepreneurs, as, in the case of Anthony Salim in 1994, when he stated that more than 30 per cent of his group’s operations were overseas. Politicians accused him of capital flight and regarded overseas activities as proof for his lack of patriotism. The tycoon tried to assure the public that these were merely rational business decisions meant to enhance the Salim Group 'while still keeping 70 per cent of its assets in Indonesia' (cited in Solomon 2000), concealing the beneficial side effect of securing the group's existence in times of political turmoil or transition. In fact, the expansion beyond Indonesia was one of the factors that helped Salim to survive the economic and political collapse in 1998, although, during the crisis, it became even more inconvenient for the capitalists to be questioned about their offshore assets, because they had to pay back their obligations to the state. After the debts were settled, however, it was very revealing that, for instance, Anthony Salim (interview 13 April 2005) did not have any problems to admit that the ratio of his operations overseas has risen to 50 per cent, denying that this issue was still a sensitive one. He even proclaimed that the main reason to still invest domestically was 'not because our attention is fifty-fifty, but because Indonesia is cheaper. You buy with the same dollar, but we are able to get more things here' (*ibid.*). The attitude that the Salim boss displayed in his comments symbolised the economic self-confidence the entrepreneurs gained and highlighted their new autonomy in relation to the politico-bureaucrats.

This exuberance became possible through the new liberalised framework. Democratisation, decentralisation, and deregulation did not turn out to be detrimental for big business, but enabled the conglomerates to emancipate themselves from the authority of the state managers. Their social, political, and economic limits vanished, allowing them to seek their own, independent bases of power in the domestic and international markets. On the one hand, this made them rather unassailable. While their global investments were generally out of reach for the Indonesian state and thus secure from confiscation, domestic capital was safeguarded against expropriation through the stock market. On the other hand, the unrestricted devotion to markets multiplied the prospects for huge returns and increased the tycoon's capital even more. Therefore, these independent fields of capital accumulation were not just symptoms of the new environment but they were the very material basis of their increased economic autonomy. The times were over in which the Chinese tycoons could still be contained, as they became 'ordinary' capitalists who generated power out of the neo-liberal markets and did not have to rely on the politico-bureaucracy and a state-controlled economy. Thus, the most significant enhancement of Chinese big businessmen's power was simply their 'normalisation' as capitalists-proper.

Dominance

Through the reforms the politico-bureaucrats lost their firm hold on some of the levers of power. This enabled the Chinese conglomerates to liberate themselves from the Babylonian Captivity of the political powerholders. While politicians were previously the decisive force that treated Chinese business 'like concubines – to be enjoyed but not recognized' (J. Wanandi 1998), the capitalists in post-Soeharto Indonesia turned the tables.

The authorities no longer had the means anymore to secure the proximity of their former protégés. According to one of my respondents (interview September 2005), Megawati's husband Taufik Kiemas, for instance, was upset that Tomy Winata did not contribute enough to his wife's campaign. He thus ordered the police to attack some gambling dens of Winata. The Artha Graha boss, however, could easily ignore such idle threats. Megawati's presidency came to an end shortly after this, while Tomy Winata's power continued to grow.

The changing role allocation inside the collusive relationships could best be illustrated by the modifications to the old networks of patronage. During the New Order period, Chinese big business could not exist without sufficient political protection. After the crisis, conversely, politicians were not able to survive without adequate funding. The shift of power was slowly taking place. As former Minister of Finance Bambang Subiyanto (interview 16 September 2004) maintained, politicians were still the ones who forced the conglomerates to donate. Some tycoons whom he knew left Indonesia for a while before the presidential elections, escaping from the pressure to make campaign donations. James Riady rejected such claims:

> I get the sense that there has not been a lot of fund-raising targeted at the business community, for the simple reason that the economic crisis has paralyzed and crippled a lot of business

> groups. And I think there is also a general reluctance by the business community to give when they can ill afford to, when they can just barely meet the daily need of payrolls and paying suppliers.
>
> (James Riady, interview in *Business Week* 7 June 1999)

Tomy Winata agreed with him, firmly contesting Subiyanto's assertion. He stated that

> Politicians don't go around, ask for money and use the businessmen. It is the politicians themselves who get misused, not the other way round. Business groups approach politicians and not vice versa.
>
> (Tomy Winata, interview 17 September 2004)

While Riady's statement in 1999 of businessmen's 'general reluctance' to be the cash cows of the politicians was already remarkable – and unimaginable only two years before – Winata's allegation demonstrated that the capitalists had already taken the initiative. Moreover, the latter emphasised his patronising role towards the political sphere, applying the same concept of organic statism that the New Order used to legitimise its own existence and authoritarianism (see Hadiz 2001b: 273), except that the former protégées now emerged as the new godfathers:

> The new democracy needs businessmen like me. I see the country as a big family. Politics in Indonesia at the moment are out of control, as much as the politicians that went wild, comparable with children that suddenly reach puberty and just go wild. I look at them like kids with myself taking over the role as a father who has to take care that the children grow and things don't get too wild.
>
> (Tomy Winata, interview 17 September 2004)

The hierarchy of government–business relations was massively. In an economically sound and socially safe environment, the capitalists not only detached themselves politically from the bureaucrats and politicians, but also began to dominate them and turned them into their clients, thereby creating new dependencies that helped the tycoons to determine the outcomes of *reformasi* and the future of the Indonesian state in relative autonomy from their former patrons.

Immediacy

During the New Order, the Chinese entrepreneurs undoubtedly exerted influence, but only via the politico-bureaucrats. As capitalists, they had structural power, but as members of a marginalised ethnic group, they were ultimately dependent on the state apparatus, which was completely appropriated by the political elite. The power that the corporate elite wielded during that period was, at best, indirect. With the end of the old regime, the formerly crucial mediators and their gate-keeping institutions vanished or became less necessary for the tycoons, who, additionally, reconciled their social stigma, so that more immediate modes of representation became feasible. The patterns in Chapter 6.2 revealed this new situation of business, in which the corporate moguls could henceforth beget political power *through* the bureaucrats, *inside* the institutions, and *instead* of the state apparatus.

The first means of securing capital's positions was rather traditional through the given state apparatus and the politico-bureaucrats therein. The new institutions and selection procedures for the state's personnel were very money-intensive and enabled the capitalists to become sponsors, thus being indispensable for the parties and politicians of parliamentarianism. However, it was not a mere continuation of the New Order coalitions between the political and economic elites. The hierarchy had been reversed, with the ability of capital to dominate the bureaucrats and take advantage of them as their proxies inside the institutions. Through money politics and the restoration of KKN, Chinese big business thus exercised effective control over the state.

Second, the social de-marginalisation of the capitalists gave capital the opportunity to represent itself inside the reformed political system. Ethnic Chinese as well as other businessmen were no longer rarities in the political landscape of post-Soeharto Indonesia, in local institutions up to the national government. Indeed, recognised as an indigenous ethnic community, the Sino-Indonesians, who were approximately 3 per cent of the whole population, constituted an own pressure group and an important electorate that could no longer be easily overruled. In the near future, a bourgeois party that exclusively embodies capital's interests might as well be possible, replacing, supplementing, or taking over actual parties. With the existing groups' clumsy efforts to be attractive to the broad masses, the distinctions in programmes and aims between the major political parties had evaporated, thus they became potential vehicles for well-heeled business interests to hijack. Alternatively, entrepreneurs could opt to establish their own parties, as the Sino-Thai tycoon and former Prime Minister Thaksin did before in Thailand.

The third way to exercise power became possible through the weak state that allowed capital to replace it. The *Tempo* case illustrated this very well. The mob that ransacked the magazine's headquarters, the police that interrogated the attacked instead of the attackers, as well as the courts that acted on behalf of Tomy Winata appeared to be on the payroll of this particular businessman. An analyst of the *Washington Post* (29 August 2004) said that 'what sets Tempo's case apart is that the state took up a criminal prosecution on behalf of a private citizen'. It proved that capital had the potential to appropriate executive and legislative powers and could thus steer the state. Moreover, where the state apparatus was not yet entirely established, the capitalists were able to fill those gaps of power. Premanism was the most spectacular option, where certain capitalists took the law in their own hands. With thugs, whom they employed as their private mercenaries, they infringed upon the state's monopoly of coercive force.

Capital in Indonesia, therefore, was given a more immediate access to state resources. Nevertheless, the Chinese capitalists were still far from being a ruling class in the traditional sense. However, considering their ostracised status until 1998 as well as their impending bankruptcies in and after the crisis, it was rather remarkable that they became widely autonomous and independent from the politico-bureaucrats in a matter of only a few years after the end of the New Order. Hence, it is merely a question of time for a more plutocratic regime to become fully entrenched.

6.4 Plutocracy in the making

The aim of this chapter was to disclose the characteristics of the new form of accommodation between the state and capital that had been on its way after the politico-bureaucrats as the predominant part of the New Order ruling class abdicated. The alterations in the power configurations of post-Soeharto Indonesia were an immediate consequence of the regime change. For the conglomerates, democracy, decentralisation, and deregulation brought about social de-marginalisation, political appreciation, and economic recovery. These were the preconditions for an overall emancipation of capital.

The observed modes in the initial phases of transition provided empirical references for this claim. The patterns of political business, such as money politics, patronage, and infiltration, signified a different application of these practices, with a role-reversal between business and politico-bureaucracy. Moreover, the politicisation of business enabled the capitalists to be politically active – inside and outside the given laws. These new arrangements that were hardly feasible before disclosed an extension of capital's possibilities to exercise power.

The events and processes reported here elucidate an advantageous modification to state–business relations in favour of the capitalists. They ceased being pariah entrepreneurs with, at most, only indirect ways to determine the outcome of politics. The new foundations of capitalist rule were autonomous and even dominant positions of business *vis-à-vis* the state managers. They were adequately and immediately represented in the new regime. Therefore, there was no longer a need for the capitalists to fear democracy, because it facilitated their emergence, ensured their influence, and secured the legitimisation of their rule. The post-Soeharto regime thus provided an ideal shell for capital to work slowly but steadily on a plutocratic organisation of power in Indonesia.

Any particular organization of capitalist wealth […] can be challenged, even wrecked, but the capitalists involved can simply restructure their wealth, restore their profits in another form, and resume their destructive activities.
(Wood 2003: 13)

7
CONCLUSION:
THE STATE OF CAPITAL

Democracy, literally, means the rule of the people. In theory, it connotes a system of governance in which 'the lawful rule of the many in the true interests of the whole community' is most efficiently realised (Corcoran 1983: 13), therefore constituting the antonym of oligarchy, the rule of a few. It is an idea that often inspires optimistic expectations about the consequences of regime change once authoritarianism meets its demise.[45] In Indonesia, the advent of the new *reformasi* regime raised hopes about the termination of the oligarchic power structures that had underpinned the authoritarian New Order. There were anticipations that free markets would reinforce democracy and vice versa.

However, democracy can be manifested in many forms. The case of Indonesia illustrates that there is no predestined correlation between liberal markets and liberal societies as envisioned by many neo-liberal theorists of social change (e.g. Sen 1999). It also challenges the contrasting hypothesis that democracy and free markets in combination fundamentally endanger the Chinese capitalists (A. Chua 2003b). On the contrary, I demonstrated that, even though *reformasi* in Indonesia entailed a regime that formally adhered to the principles of democratisation, decentralisation, and deregulation, important elements of the old oligarchy have prevailed and took part in the constitution of an institutional framework that would safeguard their interests quite well. This has important consequences for understandings of possible changes in state–business relationships in post-authoritarian situations.

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[45] For instance, Magnis-Suseno (1999: 228) enthusiastically proclaimed right after the crisis: 'There is now a real chance, our real chance, to realise the central ideal of our founding fathers: to realise the sovereignty of the people!'

The main objective of this research was to assess the current situation of Chinese capital in post-Soeharto Indonesia and explore how the regime change in 1998 affected the conglomerates as one of the main pillars of the New Order oligarchy. The financial crisis in 1997 terminated the Soeharto regime, and with it the features considered to be essential for the success of Chinese capital. Therefore, reforms were advanced that were thought to be prohibitive of the re-emergence of the old big business groups. Actual developments, however, have been rather different. The unravelling of the New Order did not entail the collapse of the oligarchy, but it did facilitate a change that saw a rearrangement of the respective positions of state managers and capitalists. As I pointed out, democracy provided even better conditions for capital in Indonesia than the former authoritarianism. *Reformasi* thus endowed the Chinese tycoons with a very conducive political shell that first resulted in their liberation from some of the limitations imposed by politico-bureaucrats and, in the long run, is likely to lead to a more plutocratic form of capitalism with a relatively autonomous Chinese business class that is able to increasingly exert direct power on the state and its officials. By pointing out the emergence and growth of Chinese capitalists, their survival and successful reorganisation despite the breakdown of the political regime, and the advantageous reconfiguration of power relations, this study has highlighted the major indicators of this trend.

To understand these developments, it was necessary to first focus on the ethnicity of the capitalists. Private capital in Indonesia is largely Chinese. Indeed, 26 of the top 30 groups before the 1997/1998 crisis were owned by Sino-Indonesians. This was no coincidence, but to look solely at cultural explanations to account for the economic predominance of Chinese capitalists is hardly helpful. However, we still have to take the constructed and instrumentalised – albeit not primordial – character of ethnicity into consideration, which was for the most part determined by state policies. In New Order Indonesia, the capitalists were restricted and did not comprise the dominant element of the ‘ruling class’. More central throughout the New Order have been the politico-bureaucrats – many of whom also transformed themselves into capitalists – who held nearly absolute state power and were able to subordinate even the large Chinese corporations to their broader interests.

Politico-bureaucratic elements, in other words, dominated the oligarchic capitalism that was predicated upon the specific role of Chinese businessmen, which had its antecedents in economic and social structures of colonialism. Their intermediate position between rulers and ruled already existed in pre-colonial times, but it was the Dutch that economically functionalised and ethnically segregated the Chinese minority as non-indigenous middlemen, more intensively from 1800 onwards. This later led to their exclusion from the nation-building process and the corroboration of their status as necessary, but disliked outsiders. Throughout Indonesian history, the Chinese contributed significantly to the economy and even became an indispensable part of it, but their political weakness remained and was further aggravated. As economically strong but politically limited capitalists they could fulfil crucial functions that were useful for all regimes, enabling the state officials to prevent the emergence of a potentially too powerful indigenous business class and effectively distance money from power, which is usually more closely interrelated.

The New Order took over and even expanded these colonial policies, reinforcing the Chinese status as pariahs through policies aimed at the marginalisation, discrimination, and stigmatisation of the Chinese minority. Chinese capitalists – some of whom the new powerholders already had long lasting business contacts with – were subject to the same limitations. They were ultimately subordinate to and dependent on the political elite, regularly harassed by populist rhetoric and measures, and subject to extortion. In this way they constituted perfect clients for bureaucratic patrons. Of course, they as well benefited tremendously from these arrangements, which provided them with endless opportunities to economically exploit. In the 1970s and 1980s, the previously loose alliance was consolidated in the form of an oligarchy underpinned by politico-bureaucratic authority. Among the main beneficiaries of these arrangements were also the state elites themselves, who succeeded in filling the vacant position of indigenous capitalists. Besides the facilities and opportunities provided by the state –

which they completely controlled – they relied on the money and business knowledge of their Chinese partners. The two decades from 1980 onwards witnessed a further expansion of a capitalism that was still dominated by the bureaucrats, but in which the business element became more prominent, as expansion took place in domestic as well as regional markets. Selective deregulation policies enabled predatory raids on the economy – especially the opening of the financial sector – thus equipping the conglomerates with a massive capital base through which they could develop a stronger bargaining position in relation to the politico-bureaucrats. However, until the financial crisis in 1997, the basic hierarchy of governing state bureaucratic and business relations was still maintained, even as the conglomerates began to internationalise.

The breakdown of the New Order regime in 1998, finally, provided a breakthrough for the emergence of a more plutocratic form of capitalism. In my study, I focussed on three consecutive processes to illustrate the transformation of state–business relations: first, on the financial crisis at the end of the old regime; second, on the survival of the conglomerates in a new regime, revealing the continuity of the structural underpinnings of the system; and third, on the vibrant development and reorganisation of big business groups in post-Soeharto Indonesia.

The success story was at first situated in a most dire setting. Indonesia was devastated by the financial crisis. The conglomerates were hurt tremendously, especially Soeharto's clan and major cronies. More pertinently, with the collapse of the New Order, the old accommodation between the capitalists and the political powerholders was not feasible in the fashion in which it had existed for decades. The Chinese conglomerates had to face the unknown terrain of *reformasi* that required endurance and new strategies in a hostile political setting. In particular, the end of authoritarianism dispersed power and obliterated the formerly state guaranteed protection the conglomerates had enjoyed. Anti-Chinese populism, mirrored by general resentments against big business, became a new threat. As this antipathy could be channelled through parliamentary democracy, the latter too was perceived as potentially dangerous by many businessmen. Civil society, including many NGOs and the free press with new facilities to control and impede the conglomerates and their collusive activities, made it difficult for the capitalists to maintain their close links to government officials. The end of centralism further eradicated the easy, straightforward process of corruption and replaced it with more complex procedures of doing business. Economic reforms, geared to curb KKN and rid Indonesia of monopolies, threatened the conglomerates to the very core. The unravelling of the New Order thus marked a point of no return for Chinese capital insofar as the old practices were concerned. Many business groups were indeed close to collapsing. The crisis was therefore a serious test of their survival and adaptation abilities.

Most conglomerates passed this test. In fact, their reactions to the crisis showed their maturity as capitalists. Contrary to how the situation may have looked at first glance, a closer analysis of the immediate post-crisis period revealed that they were given the leeway to reconstitute themselves from a rather advantageous position, being able to count on their economic indispensability as well as on certain prevailing structural continuities. The focus of post-Soeharto governments and their international creditors was on a quick revival of the economy, not on a thorough restructuring. Therefore, due to a lack of alternatives, Chinese capital was needed to prop up the ailing economy. Most changes they had to bear were, as it turned out, not at all prohibitive for them, because the reforms only affected the legal and political superstructure of the system. These were problems they could deal with, allowing them to adapt and even influence the scope and outcomes of *reformasi*. In all three battlefields in which the struggle for the new regime was fought out, they proved to be enormously resilient: Democratisation, for instance, facilitated a relative de-marginalisation of Chineseness, which gradually removed the capitalists' ethnic limitations. This observation alone is important in terms of understanding the possible changing social position of economically dominant ethnic minorities. A more open society, in the long run, provides more opportunities for Chinese businessmen to participate in politics or the civil sphere, as shown in the case of Alvin Lie, for example, but also a number of other Chinese politicians – albeit still quite limited. On the institutional side, the money politics dominated system of electoralism increased the importance of wide-ranging alliances between business and capital, even at the local level. Decentralisation may have cut off the links to the formerly important gate-keeping institutions in Jakarta, but liberated the capitalists from the major politico-bureaucrats that used to preside over them. Moreover, regional autonomy gave the conglomerates many new opportunities in the provinces and regions. Economic reforms induced freer markets that were – despite the loss of many privileges – particularly beneficial for already established capitalists, who managed to quickly gain new market shares. As the two case studies of Lippo and Salim illustrated, there were many possibilities for the capitalists to carry on and reorganise. On the one hand, they could still count on the remnants of the former regime that continued to occupy important offices and oversaw the debt settlements and the restructuring of businesses. On the other hand, they had already internationalised their interests to a sufficient degree so that a national crisis would not result in their complete annihilation. On the contrary, the political and economic regimes forged after *reformasi* gave them the chance to rebound in conditions that were less antagonistic for them than initially feared. This environment allowed them to reconstitute as part of the overall process of resuscitating the Indonesian economy.

Post-authoritarian Indonesia did not only guarantee the survival of the Chinese capitalists; it further allowed them to elevate their position *vis-à-vis* the politico-bureaucrats significantly. They established new modes of political business that tied in with traditional patterns, but indicated a considerable difference from the New Order relations of power. First, there was the restoration of corruption, collusion, and nepotism. These practices reappeared but adhered to the modified hierarchy between business and government. The proliferation of money politics, new configurations of patronage, as well as an instrumental grip on institutions that were infiltrated with willing helpers and loyal representatives of big businesses signified a new dependence of politicians on owners of capital. Further, some capitalists became politically active themselves, either inside the formal political framework as politicians in parties or as leaders of pressure groups, or outside the law as *preman* (gangsters) or their initiators who were immune from prosecution, monopolising activities out of reach for the state. The cases in which struggles between civil society and corporate interests were overtly carried out, demonstrated not only the weakness of the state, but also its crude appropriation on behalf of particular capitalist interests.

Ultimately, there was no mere return to old modes of patronage politics. Instead, three major modifications characterised the post-New Order political economy: (1) greater autonomy of the Chinese capitalists from the state apparatus, (2) their new-found dominance over old politico-bureaucratic partners, and (3) their more direct access to political power. The changed political environment thus strengthened capital enormously *vis-à-vis* the state. The corporate elites could still refer to old methods that they used successfully under the bureaucratic capitalism of the New Order, but they were more than ready to face free markets and democracy, as their rapid adjustment to conditions imposed by *reformasi* showed. Therefore, Indonesia can be seen as moving towards a plutocratic form of capitalism in which the Chinese tycoons as capitalists-proper have gained leverage – other than their *pribumi* counterparts that had less to benefit from a weaker state. The new regime has thus turned out to be at least as favourable for Chinese big business as the protectionism of the New Order.

By observing, interpreting, and presenting data on the development of capital in this crucial historical intersection from boom to crisis to recovery, this study has demonstrated that there is not necessarily a conjuncture between regime changes and a disruption of the underlying structures that underpinned the preceding political system. Instead, I have shown that, particularly, the capitalists have remained resilient, making use of their economic power to refashion state–business relations in ways that reflected their importance. Further studies on Indonesia as well as on democratic transitions in general should take these significant modifications to the prevailing power relations into consideration.

Will the capitalists be able to maintain the momentum towards their emancipation? The requirements of the Indonesian economy, and the way in which it is linked to the global capitalist economy, guarantee a conducive environment for big business. A backlash against capital is hardly possible due to structural constraints of the capitalist system and will not be tolerated by the international community with its manifest interests in a stable business environment in Indonesia. Thus, in spite of continuing pressures to regulate business activities based on predatory alliances with state officials, a return to the New Order regime will be obviated. Even in the unlikely event of a re-establishment of military-dominated rule, it will not be possible to downgrade the position of the conglomerates significantly. However, the metamorphosis of capital, and its dominant Chinese element, into an assertive social force is not all that extraordinary in the context of broader global historical processes. Whatever the future brings, Chinese big business is currently in a quite comfortable position in the twilight zone between the dusk of the New Order and the dawn of more thorough *reformasi*. The state of capital in post-Soeharto Indonesia thus indicates that the Indonesian state will become, increasingly, the state of capital.

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APPENDICES

Table 1: The 30 largest conglomerates in Indonesia before the crisis (1996)

	Conglomerate	*Main owner*	*Chinese name*	*Established in*	*Annual sales (tril. Rp / bil. US$)*
1	**Salim**	Soedono Salim	Liem Sioe Liong	1969	53.12 / 22.3
2	**Astra International**	P. Sampoerna/Prajogo Pangestu/Bob Hasan	Liem T.P./Phang D.P./The K.S.	1969	20.20 / 8.5
3	**Sinar Mas**	Eka Tjipta Widjaja	Oey Ek Tjhong	1970	20.19 / 8.5
4	**Gudang Garam**	Rachman Halim	Tjoa To Hing	1958	9.44 / 3.9
5	**Lippo**	Mochtar Riady	Lie Mo Tie	1976	9.03 / 3.8
6	**Bimantara**	Bambang Trihatmodjo	—	1981	4.29 / 1.8
7	**Gajah Tunggal**	Sjamsul Nursalim	Lim Tek Siong	1970	4.20 / 1.8
8	**Ongko**	Kaharuddin Ongko	Ong Ka Hwa	1971	4.18 / 1.8
9	**Djarum**	Robert Budi Hartono	Oei Hwie Tjhong	1951	4.03 / 1.7
10	**Rodamas**	Tan Siong Kie	Tan Siong Kie	1967	3.97 / 1.7
11	**Nusamba**	Bob Hasan	The Kian Seng	1981	3.89 / 1.6
12	**Kalbe**	Franciscus Bing Aryanto	Khouw Lip Bing	1966	3.66 / 1.6
13	**Dharmala**	Soehargo Gondokusumo	Go Ka Him	1970	3.43 / 1.4
14	**Argo Manunggal**	The Ning King	The Nin King	1961	3.36 / 1.4
15	**Barito Pacific**	Prajogo Pangestu	Phang Djoen Poen	1975	2.87 / 1.2
16	**Maspion**	Alim Husein	Lim Wen Kwang	1971	2.46 / 1.0
17	**Bakrie**	Aburizal Bakrie	—	1942	2.45 / 1.0
18	**Humpuss**	Hutomo Mandala Putra	—	1984	2.32 / 1.0
19	**Danamon**	Usman Admadjaya	Njauw Jauw Woe	1976	2.32 / 1.0
20	**Cipta Cakra Murdaya**	Murdaya Poo	Poo Tjie Gwan	1970	2.25 / 1.0
21	**Panin**	Mu'min Ali Gunawan	Lie Mo Ming	1968	2.24 / 0.9
22	**Jan Darmadi**	Jan Darmadi	Fuk Jo Jan	1968	2.23 / 0.9
23	**Pembangunan Jaya**	Jakarta Govt, Ciputra	— Tjie Tjien Hoan	1961	2.12 / 0.9
24	**Sampoerna**	Putera Sampoerna	Liem Tien Pao	1913	2.09 / 0.9
25	**Raja Garuda Mas**	Sukanto Tanoto	Tan Kang Ho	1973	1.97 / 0.8
26	**Texmaco**	Marimutu Sinivasan	—	1970	1.78 / 0.8
27	**Metropolitan**	Ciputra, Budi Brasali	Tjie Tjin Hoan, Lie Toan Hong	1962	1.71 / 0.7
28	**Matahari**	Mochtar Riady	Lee Mo Tie	1972	1.69 / 0.7
29	**Ometraco**	Ferry Teguh Santosa	Kang Som Tjhiang	1971	1.64 / 0.7
30	**Gemala**	Sofjan Wanandi	Liem Bian Khoen	1973	1.63 / 0.7

Source: *Warta Ekonomi* 24 November 1997: 32; Data Consult 1998: 44-6; Sato 2004: 25.

LIST OF PEOPLE INTERVIEWED

Onghokham (Historian, LSSI), 11 September 2002

Hadi Soesastro (Executive Director, CSIS), 11 September 2002, 2 July 2003 and 23 September 2004

Eddie Lembong (Pharos Group boss/Chairman INTI), 12 September 2002 and 21 October 2004

Mely Tan (Sociologist, LIPI), 12 September 2002

Thung Ju Lan (Sociologist, LIPI), 30 June 2003

Thee Kian Wie (Economic Historian, LIPI), 30 June 2003 and 19 April 2004

Sofjan Wanandi (Gemala Group boss/Chairman APINDO/Chairman National Economic Recovery Committee), 1 July 2003 and 8 June 2004

Klara Juwono (CSIS), 1 July 2003

Yasmin Sungkar (LIPI), 03 July 2003

Alexander Irwan (Economist, Partnership for Governance Reform in Indonesia), 3 July 2003

Hans-Dieter Evers (University of Bonn), 23 July 2003

Solvay Gerke (University of Bonn), 23 July 2003

Djisman Simandjuntak (Director Prasetiya Mulya/Commissioner Lippo Bank), 27 February 2004

Marcus Mietzner (Australian National University), 3 March 2004

William Wiriawan (Chinese Chamber of Commerce), 6 April 2004

M. Chatib Basri (Economist, FEUI), 12 May 2004

Jeremy Wagstaff (Indonesia Correspondent, *Far Eastern Economic Review*), 11 June 2004

Harry Bhaskara (Managing Editor, *Jakarta Post*), 14 June 2004

Teguh Santosa (Executive Editor, *Rakyat Merdeka*), 14 June 2004

Derry Habir (Senior Advisor on Governance, UNSFIR), 15 June 2004

Anton J. Supit (KADIN), 15 June 2004

Roland Haas (former President Director, Lippo Investments), 16 June 2004, 10 August 2004, 31 August 2004, 21 September 2004

Farid Haryanto (Commissioner, Lippo Group/former Deputy Chairman IBRA), 21 June 2004

Shin Yoon-hwan (Sogang University Seoul), 31 July 2004

Agam Fatchurrochman (Partnership for Governance Reform in Indonesia), 2 September 2004

Leanika Tanjung (Journalist, *Tempo*), 1 September 2004

Ahmad Taufik (Journalist, *Tempo*), 1 September 2004

John McBeth (Indonesia Correspondent, *Asian Wall Street Journal*), 3 September 2004

Kevin O'Rourke (Principal, *Reformasi Information Services*), 6 September 2004

Umar Juoro (CIDES/Commissioner BII/former advisor President Habibie), 6 September 2004

Alvin Lie (Member of Parliament, PAN), 7 September 2004

Danang Widoyoko (Vice Coordinator, ICW), 7 September 2004

Ibrahim Fahmy (Investigation Division, ICW), 7 September 2004

Eddy Suprapto (Journalist, *Kontan*/President AJI Indonesia), 8 September 2004

Eugene Galbraith (President Commissioner, BCA), 8 September 2004

Faisal H. Basri (Economist FEUI/Commissioner KPPU), 11 September 2004 and 14 September 2004

Bambang Subiyanto (former Minister of Finance/Partner Ernst & Young), 16 September 2004

Joel S. Hellman (Chief Governance Advisor, The World Bank), 16 September 2004

Henny A. Nangoi (Vice President Director, Bank Artha Graha), 16 September 2004

Aloysius Etjun (Senior Manager, Bank Artha Graha), 17 September 2004

Inge S. Purwita (President Commissioner, Bank Artha Graha), 17 September 2004

Tomy Winata (Artha Graha Group boss), 17 September 2004 and 27 September 2004

Raden Pardede (Vice President Director, PPA), 17 September 2004 and 22 October 2004

Yudy Rizard Hakim (Head Public Relations, Sampoerna), 17 September 2004

Angky Camaro (Managing Director, Sampoerna), 17 September 2004

Abdurrahman Wahid (former President of Indonesia), 17 September 2004

Harry Tjan Silalahi (Board of Trustees, CSIS), 22 September 2004

Lin Che Wei (Economist/Director, Independent Research & Advisory), 22 September 2004

Gunadi Sindhuwinata (President Director, Indomobil), 23 September 2004

Sjahrir (Economist/Chair Partai PIB), 24 September 2004

Anthony Salim (Salim Group boss), 13 April 2005

ABBREVIATIONS AND GLOSSARY

AJI: Aliansi Jurnalis Independen (Alliance of Independent Journalists)

APINDO: Asosiasi Pengusaha Indonesia (Indonesian Employers Association)

APP: Asia Pulp & Paper

AYDA: Aset yang diambil ahli (foreclosed assets)

BAG: Bank Artha Graha

Bank Indonesia: The central bank of Indonesia

Bapepam: Capital Market Supervisory Board

Bappenas: National Development Planning Agency

BCA: Bank Central Asia

BDNI: Bank Dagang Nasional Indonesia

BEJ: Bursa Efek Jakarta (Jakarta Stock Exchange)

BII: Bank Internasional Indonesia

BKMC: Badan Koordinasi Masalah Cina (Coordinating Body for the Chinese Problem)

BLBI: Bantuan Likuiditas Bank Indonesia (Bank Indonesia Liquidity Support)

BPPN: Badan Penyehatan Perbankan Nasional (see IBRA)

Bulog: Badan Urusan Logistik Nasional (National Logistics Board)

Bupati: District head

CAR: Capital Adequacy Ratio

Cendana: Soeharto family business groups

CIDES: Centre for Information and Development Studies

Cukong: Master, boss (Chinese business partners of political elite; hokkien)

CSIS: Centre for Strategic and International Studies

DOT: Daftar orang tercela (list of banned people)

DPR: national parliament

Golkar: Golongan Karya (functional groups); the state party under the New Order

IBRA: The Indonesian Bank Restructuring Agency

ICW: Indonesia Corruption Watch

INDRA: Indonesian Debt Restructuring Agency

INTI: Perhimpunan Indonesia Tionghoa (The Chinese Indonesian Association)

Kabupaten: District parliament

KADIN: Kamar Dagang dan Industri (Chamber of Commerce and Industry)

KKN: Korrupsi, kolusi dan nepotisme (corruption, collusion, and nepotism)

KKSK: Komite Kebijakan Sektor Keuangan (Financial Sector Policy Committee)

KPPU: Komisi Pengawas Persaingan Usaha (Commission for the Supervision of Business Competition)

LIPI: Lembaga Ilmu Pengetahuan Indonesia (The Indonesian Institute of Sciences)

LPEM-FEUI: Lembaga Penyelidikan Ekonomi dan Masyarakat, Fakultas Ekonomi Universitas Indonesia (Institute for Economic and Social Research, Faculty of Economics University of Indonesia)

LPKB: Lambaga Pembinaan Kesatuan Bangsa (Institute for the Promotion of National Unity)

LSSI: Lembaga Studi Sejarah Indonesia

Malari: Malapetaka 15 Januari; the anti-government and anti-Chinese riots in January 1974)

Masyumi: Majehlis Syuro Muslimin Indonesia (Consultative Council of Muslims in Indonesia)

MPR: Majelis Permusyawaratan Pakyat; the convention which, until 2004, elected the president

NPL: Non-performing loans

Orang Cina: Derogatory label for Chinese Indonesians

Orang Tionghoa: Chinese Indonesians

PAN: Partai Alamat Nasional (National Mandate Party)

Pancasila: The state ideology

Partai PIB: Partai Perhimpunan Indonesia Baru (New Indonesia Alliance Party)

PDI-P: Partai Demokrasi Indonesia (Indonesian Democratic Party)

Pertamina: The national oil company

PP10: Peraturan Presiden No. 10; presidential decree by Soekarno (1959) that forbade foreign businesses outside the cities

PPA: Perusahaan Pengelola Aset (State-owned Asset Management Company)

Preman: Gangster

Pribumi: ‘Indigenous’ Indonesians

Sekneg: State Secretariat

UNSFIR: United Nations Support Facility for Indonesian Recovery

Yayasan: Charitable foundations used for political funding and rent extraction