

# **The Dynamics of the Chinese Business Practice and the Local Elites Behavior: The Legacy of Pseudo-Capitalism in Indonesia's Local Development**

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## **ABSTRACT**

*The evolution of the Chinese business activities in several Southeast Asian (SEA) countries such as Indonesia, The Philippines, Thailand, and Malaysia is rather difficult to separate from the influence of the state policies and the behavior of political elites. In Indonesia, the relationship of the Chinese businessmen, particularly in big business activities with Suharto regime, known as 'Orde Baru' (New Order), shows a model of patron-client behavior and crony capitalism networks. The accommodation, protection, and access provided by the regime has led to the economic capitalization of the Chinese business in Indonesia. In fact, the relationship between Chinese business and New Order's regime is mutually beneficial and very tight. After the fall of the New Order regime in 1998, the political system in Indonesia became more open and decentralized (locally known as 'Otonomi Daerah' or Regional Autonomy). This shows the important role of the local government in making decision particularly in terms of economy sector and infrastructure development's project. The paper aims at three folds: first is to discuss the pattern of the Chinese ethnic business activities in post-New Order regime and its impact to the local development. Second, to discuss to what extent the Chinese business practice particularly in real-estate or property sector influenced by the local elites behavior. Third is to discuss whether the patron-client relationship and crony capitalism behavior in the local context between Chinese businessmen with local elite occurred as in the Suharto's era or not. The findings show that the pattern of the Chinese business in post-Suharto's Indonesia in several business sectors (medium and medium-large businesses) sometimes still rely on the use of networks with local elites. The local government faced a 'complex dilemma' in term of development projects, where basically requires substantial capital from big companies,*

*then they often violated the laws to accelerate the development projects. The patron-client networks and crony capitalism vaguely occurred among the Chinese businessmen and local elite. However, the level of their closeness is not too visible as in the Suharto's era. In other circumstances, the Chinese businessmen also become superior actors, while the local elites only become inferior actor, because the companies actually seemed to be able to control the government decision indirectly.*

**Keywords:** *Chinese Business; Political-Economy; Local Politics; Asian Studies, Indonesian Politics*

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## INTRODUCTION

The Chinese in Southeast Asian countries is important and prestigious minority group (Tan, 1979). By the end of the 15<sup>th</sup> century, the Chinese migrants played an important role in industrial and business sector, as the migration of the Chinese into other areas was based on economic factors, such as survival and profit-seeking (Widyahartono, 1988). Prior to the arrival of the Dutch colonist to Indonesia, the Chinese played a role as traders in international scope, and as intermediary traders between the Chinese mainland traders and indigenous (*pribumi*) Indonesians.

Due to the Chinese aggressiveness as intermediary traders in Indonesia, they are considered to be similar as Jews in Europe, Indians in East Africa and Arabs in West Africa which refer to “middle minorities” or “middlemen minorities” (Tan, 1987). During the Dutch colonial period, the Chinese Indonesian business practice relied upon the Dutch's policy. According to Pelly (2016), the Dutch government provided the Chinese traders with a lot of facilities and political protection, and for two decades most of them became middle class businessmen.

The Dutch colonist also granted special privileges and other facilities, known as '*Pach-stelsel*', only to the Chinese. The special rights was given to some of them to monopolize the excise system on land territory with full authority on the islands of Java (Kahin, 1946), because some of them also had experience in the plantation field. The privilege rights, such as accommodation and access protection, were also given by the colonial government to the Chinese traders. From this colonial era, it could be seen that the Chinese have established relationship with the colonial government, which is regarded as an early stage of the emergence of patron-client relationship and crony capitalism In Indonesia.

Another phenomenon that could be seen from the colonial period was the Dutch strategy in utilizing the Chinese as ‘fortress’ to protect their economic interests. According to Pelly (2016), the Dutch used most of the Chinese people rather than local people as a ‘buffer’ (to be placed as middle-class business people) in securing the economic and business sector to strengthen the colonial power. It also shows the relationship between the Dutch and the Chinese, in terms of business sector, was closer compared to their relationship to the local people. In fact, the relationship among Dutch colonial government and some of the Chinese businessmen could be said as a model of oligarchy by directing material distribution and power resources to some Chinese traders.

The practice of oligarchy or even the cronyism between the colonial government and some of the Chinese businessmen has led to the Chinese business domination in Indonesia. According to Ong Eng Die, in 1930, the Chinese who ran activities as traders reached 35.4 percent. Meanwhile, the number of European traders was 13.4 percent, and the local Indonesians was only 5.4 percent.

In addition, during the colonial period, the Chinese were given permission to work as entrepreneurs and establish business networks or obtain large amounts of capital from abroad. From this part, it can be said that the pattern and development of the Chinese business activities during the Dutch colonial period depended on the economic and political interests of the colonial government that provided accommodation and access to economic resources for them. At the same time, the Chinese also utilized their position to maximize the access and accommodation in achieving their economic interests.

## **THE CHINESE BUSINESS CONDITION UNDER THE ‘OLD ORDER’ REGIME**

In the post-colonial period, there was a distinctive pattern of the development of the Chinese business in Indonesia. The earliest period of Indonesian independence was a transitional period for the Chinese businesses. This showed the transition from middlemen traders to wholesalers and as well as home traders.

According to Husodo (1985), The Chinese businessmen at that time were very quick in mastering the economic activity which previously owned by Dutch companies. This may have been influenced by the experiences of the Chinese during the colonial era who had built direct contacts with Chinese businessmen in Hong Kong and Singapore, while the experience and networks were not largely owned by the indigenous people.

Mackie (1991) added that the aggressiveness of the Chinese business activities in the post-colonial was also followed by the establishment of small private banks and textile industries owned by the Chinese. Based on data in the 1950s, there were at least 86.690 businessmen registered by the government, and dominantly 90 percent from the Chinese. During that period, the Chinese businessmen almost controlled all economic sectors except agriculture (Tan, 1979). The aggressiveness and domination of the Chinese business practice had brought negative perceptions to the Indonesian government, especially President Sukarno whose period known as 'Old Order' (*Orde Lama*). The government released the Government Regulation locally called *Peraturan Pemerintah* No.10/1959, which prohibited the Chinese people to expand their businesses outside their resident area.

The regulation was signed by the Minister of Trade Rachmat Mulum which contained a ban on foreigners seeking in retail business at the district level and other smaller territory (outside the regional capital) and shall transfer their efforts to indigenous Indonesian. This regulation became controversial because during its implementation, it brought an impact (known as *Cibadak* racial riots). As a result, a large number of Chinese people fled and returned to China.

It is believed that discriminatory regulations were established by Sukarno to protect the economic position of indigenous peoples in Indonesia. According to Hicks (2004), in 1950, the Old Order regime also introduced the *Fortress Economic Program (Program Ekonomi Benteng)*, which was the first attempt to prioritize domestic capital through direct state economic intervention. This program identified a small group of the local (*pribumi*) entrepreneurs, extended preferential loans and import licenses, effectively isolating a group of domestic businesses from competition to allow them to grow. On the other hand, according to Skinner (1963), the regulations issued by the Old Order regime caused a broad impression of the circulation of goods, and became one of the factors that led to the economic crisis in 1965.

However, the form of restrictive policy was only in terms of the economic sector, where, within the political sphere of the government structure, the Chinese ethnic were given the opportunity to participate in the political space, where there were several the Chinese people appointed as Ministers in Sukarno's administration.

## THE CHINESE BUSINESSMEN AND THE 'NEW ORDER' REGIME: THE RISE OF PSEUDO-CAPITALISM

After the fall of the Old Order regime, the government system was taken over by Suharto, known as the New Order regime. Suharto exercised power centrally, leading to a dictatorship that requiring the support of the National Indonesian Army (TNI) General and the bureaucratic elite who had a strong influence in the political arena in Indonesia (Dauvergne, 1997).

For the Chinese Indonesian, Suharto's rule also brought new implications for them. Suharto has issued various discriminatory policies that undermine the social and political life of the Chinese Indonesians. One of the controversial policies of the New Order is 'President Instruction' (Inpres) No.14/1967 on religious practices, customs, beliefs, and ways of expressing culture, especially for Chinese ethnicity.

However, despite the social and political restrictions imposed by the New Order regime, some of the Chinese businessmen at the time were given special opportunities in conducting their businesses. It implied that the New Order regime believed in utilizing the Chinese businessmen to restore economic development in Indonesia, particularly in the post-Old Order regime, because the Chinese have entrepreneurial ability and business skill (Tan, 1987).

In order to restore economic condition, the New Order regime used a 'trickle-down effect' policy to subsidize several large business firms, mostly owned by the Chinese. The New Order regime was not only provided subsidiaries, but also provided political accommodation and access to the Chinese businessmen which carried to the phenomenon called '*cukong*' system (pronounced in *Hokkien* dialect for 'master'), commonly referred to as mutually beneficial alliance in economic endeavors with political elites and/or even to high-level military officer.

In fact, as Sarnianto (in Lubis, 1995) notes, that in the 1980s, the growth of Chinese ethnic businessmen was very high compared to other groups such as government companies, international companies, and non-Chinese companies.

Actually, the '*cukong*' system, or popularly known as cronyism, has led to a loss of government ability, in which they could not be responsible and protect the national economic goals, because it led to corruptive, collusive and nepotism behaviors by a greedy regime. For instance, one of the Chinese big businessmen namely Liem Sioe Liong, or in Indonesian name known as Sudono Salim, was known as a monetary supporter for Suharto's Golongan Karya (*Golkar*) political party and contributed 30 percent of Bank Central

Asia's (BCA) shares to the Suharto's family. Sudono Salim claims, "I am a crony (of Suharto), but I am not a bad crony" (www.merdeka.com, accessed on 5 August, 2016).

Pelly (2016) added that the stronger ethnic Chinese position in the business field, the more secure and controlled interests and power of the New Order elite. There was an exchange of material and non-material interests or so-called *quid pro quo* between the New Order regime and some of the Chinese business groups to gain their personal interests. It can be argued that the form of patronage and cronies established between the New Order regime (Suharto) and the ethnic Chinese businessmen was beyond the formal limits, which according to Scott (1972) it relates to a whole personal relationship through impersonal contract, and extends to the family involvement.

According to Dauvergne (1997), patron-client links have been especially important for the Chinese. While Javanese dominate the military, bureaucracy and politics, Chinese Indonesian who only comprise about three percent of the population may account for as much as 70 percent of all private economic activity.

The rise of the Chinese business capitalization was based on '*cukongism*' is rather difficult to be said as capitalism in 'nature', but this may refer to pseudo-capitalism, where the Chinese big business groups were mostly dependent on superior decision and political connection rather than competing in a competitive business environment. Many military companies were developed generally in relations with Chinese business partners, that many of whom had long-standing relationship with the 'business' generals (Robison & Hadiz, 2004). For instance, by mid-of 1993s, there were 162 companies listed on the Jakarta Stock Exchange, and 80 percent of them were owned by the Chinese (Musianto, 2003).

The characteristic of *cukong* system in Chinese business capitalism might also refer to the 'Ali Baba system' that was practiced in 1950s. A non-Chinese state member often performed the role as a patron (Ali) while an ethnic Chinese business leader acted as a client (Baba), although some rich Chinese also diverted their function as patrons (superior) (Dauvergne, 1997) if they have more influence or powerful rather than a non-Chinese state member / *vice versa*.

In fact, the patron-client relationship between Chinese businessmen and indigenous political elites was not only occurred in Indonesia; but obviously also took place in other parts in Southeast Asia such as Thailand, Malaysia, and The Philippines, where the Chinese positions were politically weak but economically they were strong. It was allegedly because of the political business collaboration practices between them, and led to the monopoly and economic control to gain capital in large numbers.

According to Chua (2006), patron-client relationships between the New Order regime (patron) and the Chinese big businessmen (clients) was founded on a win-win situation. The political elite lacked of the capability to restore economic development. However, the regime only has a power resource that can be distributed to the Chinese big business cronies through their formal and informal authoritative decision (breaking the state regulations).

The political decisions which were granted to the Chinese conglomerates could be in the form of licenses, permits, opportunities and even credits to monopolize several economic sectors. In order to repay the New Order's 'goodness', and in maintaining a perpetual relationship with the regime, the Chinese conglomerates will support with funds, commission and bribes.

The 1997 economic crisis in Asia had led to the emergence of social reform and followed by the fall of the New Order regime in 1998. This incident had a significant impact on Indonesia's socio-political and economic environment, such as the decentralization of politics (*Otonomi Daerah*), direct election, press freedom, budget transparency, and indeed the cancellation and revision of discriminatory policies against the Chinese.

On the other hand, Yeung (2006) said that social reform and the fall of the New Order regime also had consequences to the loss of the Chinese business monopoly, crony capitalism and shows the end of the economic and political collaboration with the Suharto's regime. Unfortunately, although the alliance among the Chinese businessmen and the New Order regime has ended, but the practice of patron-client behavior and cronyism between Chinese businessmen and the government elite is remain visible.

## **FROM CENTRALIZATION TO DECENTRALIZATION POLITICS: *OLD WINE IN A NEW BOTTLE***

The study argues that the political decentralization brought to the phenomena so-called 'little kings' (*raja-raja kecil*), which refers to the local elites within the executive body such as governors, mayors, regents and also legislative body such as local parliament members and other local stakeholders. Which is like a king, kings carry a negative connotation representing the behavior of the elite who controls the government without obeying the rules.

The local executive body could have special authority to control their territory within a province, city or regency. Since the regional autonomy law went into effect, local governments in Indonesia have more power to taxes the local resident for revenue (Chong, 2015), as well as the rights to make

any specific permissions (such as license and permit) for business activities in their area.

The decentralization of politics in Indonesia in the late 1990s, politically at least brought about two major issues. First, the decentralization politics come up with the opening of a more neutral path of information channels and political participation. All of the societies that wish to enter into the political system can run directly through political parties or independent. However, there is a huge cost in this electoral system, where, the candidates who compete for parliamentary seats or heads of regions usually use their capital power to influence voters instantly, by buying their 'votes' (money politics) which has led to the emergence of the transactional politics transparently. This electoral democracy has violating the ideal system of democracy, where the candidates who can run for the elections are only several groups of people that have more capital control economically.

Second, the transactional politics is not only occurred during the general election but also in daily activities. Some says this phenomenon is a political transition process from centralization to decentralization politics, however, Malley (2000) refers it to 'protracted transition'. In October, 2016 Indonesian President Joko Widodo has enacted Presidential Regulation No. 87/2016 on the Task Force of Clean Sweep of Illegal Charges (locally known as '*Pungutan Liar*' or '*Pungli*') which aims to eradicate the practices of illegal levies in Indonesia. It has shown that the government behavior from national to local scale in every governmental body such as Executive, Legislative and Judicative involved engage in collusion and corruption practices.

In political terminology, the *Pungli* is actually derived from the practice of the clepto-cracy system, which in essence, the system is a form of state power which in its system of government runs corrupt practices, bribery, cronyism, clientelism, and nepotism. In other term, we argued that, most of the government practices in Indonesia which reflect the cleptocracy system may also refer to *Pungli*-cracy system.

In addition, the form of cleptocracy practice is usually found in countries that run authoritarian political forms, dictators such in Suharto's era, and even those controlled by the military junta. Where, the concentration of power and the sharing of power with a group of elites (oligarchs) will be controlled through repressive and authoritative approaches. The question is, does Indonesia currently run an authoritarian government system, a dictator or even a military junta? The answer is no. It is based on the end of the New Order regime under Suharto or Winters (2011) as the 'Sultanistic' regime in 1998, where at that time Indonesia was entered an era of political transformation from an authoritarian regime to an open democratic installation. However, in the reality, the regional autonomy in post-Suharto era only brought a 'new



forms' and characteristic or simply said as 'decentralization of the 'New Order' ', where the practiced of abused of power is no longer implemented by Suharto's regime, but it is structured implemented by the local elite government. For specific evidences, it is important to discuss the pattern of the Chinese business practice in post-Suharto's era, especially the Chinese businessmen relationship with the local elite.

## **POST-NEW ORDER'S INDONESIA: THE CHINESE BUSINESS PRACTICE AND LOCAL POLITICS**

This study is conducted in Medan, the capital city of North Sumatera Province, Indonesia. Based on the data from Central Statistics Agency (BPS) of Medan in 2010, the population of the Chinese (based on religion category) in Medan is 202,839 people, that is 25 percent of the total population 2,770,395.

Although there is no statistical data showing the percentage of the Chinese in doing business, but the study says that most of the Chinese in Medan carry on their daily activities as a businessmen or entrepreneur. However, many of them are also working as lawyers, bankers, doctors, dentists, or even school teachers.

There are at least three classifications of the Chinese business practices in Medan; small, medium, and medium-large businesses (Refer to Table 1). In fact, in order to obtain protection for their businesses, many well-established Chinese Indonesian business people (in medium and medium-large businesses) in Medan have utilized their social capital to establish close relationships with local government, regional military officers and even local police officers. For instance, one of Chinese businessman, is named Benny Basri has a close relationship with local power holders (regional military officers). He can purchase land previously owned by the Indonesian Air Force in Polonia, Medan, for a real estate development project (Chong, 2015).

This Chinese businessman behavior at least shows the similar character at the state level, which involved a patron-client model particularly during Suharto's era. This became a kind of 'legacy' for some of local Chinese businessmen and local elite, but the level of their closeness is quite different.

**Table 1:**

*The Classification of Chinese Ethnic Business in Medan (Based on field observation)*

<b>Size of Business</b>	<b>Business Sector</b>	<b>Number of Employee</b>	<b>Location</b>	<b>Type of Business</b>
Small	Foodstuffs, wholesales, building equipment, electronic equipment, clothing, etc.	1 – 3	Traditional shop house or and traditional market, etc.	Traditional or family business
Medium	Medium size restaurant, clothing boutique, used car shop, travel agent, distributor of goods, cars' accessories traditional and digital advertising, etc.	5 – 20	Modern shop house, Mall, office building, etc.	Professional, family and non-family business, more structured and organized
Medium-Large	Developer (housing complex, real-estate, office building, property, shopping complex), plantation, big restaurant etc.	20 – 40	Office building, Modern shop house, Mall, etc.	Well-structured and organized, family and non-family business

The political connection is one of the variables that indicates the succession of the Chinese business, particularly the one that correlates with the functions and decisions of the government institution, such as real estate and property sectors that require permit, licenses and other legal matter like the previous case. However, at the low level (small and medium size) of the Chinese businesses, they may not unconcerned or less necessity to build a close ties with the government authorities, because their business activities not require the government's strategic decisions.

According to Chua (2008), the wealth and strong Chinese big businessmen enable them to establish close relationship or political connection with national power holders. In fact, at the local context, the relationship between Chinese businessmen (in medium-size businesses) and

military institution also could be seen in some formal ties through community organizations which are affiliated to Military institution.

Some of the Chinese businessmen usually join Communication Community such as '*Satuan Komunikasi / Satkom Gajah Mada Pomdam*' (Gajah Mada Communication Unit of Military Police for Military Regional Command) formed by the Indonesian Army Division such as Military Police. This community is open for civil society who receives a recommendation from a military officer. According to Chong (2015), some of the Chinese shops are frequented visited by local gangster known as *preman* that affiliated with larger crime organization. One informant said "The *preman* come by asking for money or '*pungli*' for security services or '*uang keamanan*'".

If the owner or staff refused their request, the *preman* will threaten to damage the shop or simply said "we cannot guarantee the security of your store". According to our informant, in addition to build networks with military organization for social community purposes, some of the Chinese businessmen, who are the members of the Satkom's community, are often put a kind of the organization's sticker in front of their shop to 'warn' the *preman* or even civil servant officer who come for bribes. It is to show that they have a close relationship with local military authority. Nonetheless, it could also be functioned for 'back up' or to protect their business interest. However, sometimes it could be very dangerous to be abused by unprofessional business people especially for backed up some of illegal business practice.

On the other case, there is one major real-estate project under a well-established Chinese business company namely Podomoro Group owned by a national Chinese businessman. They have built a real-estate and apartment project without having a license or locally known as IMB (*Izin Mendirikan Bangunan*) and Environmental Impact Assessment (*Amdal*).

However, the construction has reached 60 per cent of the development. The people wonder why the company can build almost 60 per cent of the property project without possessing a license and Environmental Impact Assessment. This indicates that there is an informal dealing between the Podomoro Group and the local authority in Medan. Moreover, there is a fact that the Indonesian Supreme Court (*Mahkamah Agung*) has issued a court decision regarding the cancellation of the project ([www.medan.tribunnews.com](http://www.medan.tribunnews.com), accessed on 20 August 2017).

According to Agus Suriadi, a social observer from the University of North Sumatra (USU), the legal issue such as IMB and Amdal of the Podomoro Deli City Medan should be a lesson for the government to issue a local policy in details. He added that the local government of Medan often fulfills the

demand of large capital owners despite violating of the regulations and law. Therefore, the government has lost their rationality, as they only focus in increasing local revenue (*Pendapatan Asli Daerah*) ([www.medan.tribunnews.com](http://www.medan.tribunnews.com), 20 August 2017) without considering the legal consequences. In this case, although we cannot clarify whether there is an exchanging of interest between the local government of Medan and the Chinese businessman, we can see that it has turned into abused of power and leads to the emergence of the crony capitalism pattern between the local elite and the Chinese business company. It implies that the regional autonomy in post-Suharto's Indonesia and followed by the *premature* of local elite behavior has been exploited by the Chinese businessmen to gain their business interest.

The decision of Supremes Court is one of the evidence that the business activity runs by the Podomoro Group in Medan and the negligence (or it also can be a protection) of the local elites are against the law. On the other hand, the Podomoro case in Medan also shows an ambivalent position and dilemma by the actors involved. The local government have to develop city that require a huge amount of capital, elsewhere, the Podomoro Group also needs to cut off their budget to maximize profits, and neglected some rules, where it could be a consequences for the local government to protect their activities. It can be seen that the big Chinese businessmen played as superior actors who control the decision of the local elite (inferior).

According to Winters (2011), the political context of Democracy in post-Suharto's Indonesia is merely a game in the movement of a group of oligarchs primarily to gain power, retain power, and to enrich themselves, in particular in providing access, accommodation, building patron-client relationship and cronyism to meet and achieve the interests of the elite class among the oligarchs.

In this situation, the businessmen (Chinese or non-Chinese) often use the 'short path' in extending and protecting their business interest, and both parties are enjoying their collaboration. From the local context, particularly in the case of Medan, local elites are still trying to find a more 'subtle way' to build cronies. However, the existing behavior has indicated a desire to illegally distribute the power to unauthorizedly distribute the power to other actors for a particular interest.

## CONCLUSION

The paper concludes that, first, the Chinese business practices have shown the significant evolution from the colonial era to the post-Suharto's era. The

ability of the Chinese in business is exploited by the elite as an economic machine that sometimes moves into self-interest and certain oligarchy. This behavior was the 'legacy' that has been built in the Chinese businessmen since the colonial period and became more apparent through the New Order's accommodation.

Second, as in the social reform in 1998s, the monopolistic position and patron-client behavior of the Chinese businessmen at the state level (during Suharto's era) are moving down to the small units such as provinces, cities and regencies. This is because the well-established Chinese businessmen, especially in medium and medium-large businesses need to build a close relationship with the local elites to protect and accommodate their business activities. The establishment of the relationship between the Chinese businessmen to local elites could be formed in formal and informal condition; it is due to the lack of the elite consciousness (political will) and the failure of the regional autonomy in certain area (which only leads to another 'New Order regime' in the local context). Third, in the post-Suharto's era, the Chinese businessmen sometimes become victims of extortion by the local *preman* and civil servants. To solve this problem, the Chinese businessmen also join in several community organizations that affiliated to the Military institution.

In general, the phenomena of the Chinese business and also non-Chinese business practices in the local context are quite similar to the New Order era (the continuity), which are always associated with the distribution of the power and exchange materials among the actors, although the actors are changing. This study recommends that the role of law enforcement agencies should be enhanced and more sensitive in viewing the patterns of exchange of political and business interests. Another important thing is the elite and businessmen must have a sense of moral conscience and norms. Further studies should be undertaken in other areas as additional references and empirical data in related studies, especially the study of the Chinese business and also their relationship with political elite particularly in several developing countries.

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