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Post-Crisis Economic Reform in Indonesia:
Policy for Intervening in Ownership
in Historical Perspective

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Introduction

Economic reform in Indonesia after the Asian currency crisis is often discussed in parallel with Thailand and South Korea, which were alike hit by the crisis. It should however be noted that what happened in Indonesia was a change of political regime from authoritarianism to democracy, not just a change of government as seen in Thailand and South Korea. Indonesia's post-crisis reform should be understood in the context of dismantling of the Soeharto regime to seek a new democratic state system.

In the political sphere, dramatic institutional changes have occurred since the downfall of the Soeharto government in May 1998. In comparison, changes in the economic sphere are more complex than the political changes, as the former involve at least three aspects. The first is the continuity in the basic framework of capitalist system with policy orientation toward economic liberalization. In this framework, the policies to overcome the crisis are continued from the last period of the Soeharto rule, under the support system of IMF and CGI (Consultative Group on Indonesia). The second aspect is the impact of the political regime change on the economic structure. It is considered that the structure of economic vested interests of the Soeharto regime is being disintegrated as the regime breaks down. The third aspect is the impact of the political regime change on economic policy-making process. The process of formulating and implementing policies has changed drastically from the Soeharto time. With these three aspects simultaneously at work, it is not so easy to identify which of them is the main cause for a given specific economic phenomenon emerging in Indonesia today.

¹ This paper was originally written in Japanese, in March 2002.

Keeping this difficulty in mind, this paper attempts to situate the post-crisis economic reform in the broader context of the historical development of Indonesian economic policies and their achievements. We focus in particular on the reform policies for banking and corporate sectors and resulting structural changes in these sectors. This paper aims at understanding the significance of the changes in the economic ownership structure that are occurring in the post-Soeharto Indonesia.

Economic policies here do not mean macro economic policies, such as fiscal, financial and trade policies, but refer to micro economic policies whereby the government intervenes in the economic ownership structure. In Section 1, we clarify why economic policies for intervening in the ownership structure are important in understanding Indonesia. Section 2 follows the historical development of Indonesia's economic policies as specified above, throughout the four successive periods since Indonesia's independence, namely, the parliamentary democracy period, the Guided Democracy period under Soekarno, the Soeharto-regime consolidation period, and the Soeharto-regime transfiguration period². Then we observe what economic ownership structure was at work in the pre-crisis last days of the Soeharto rule as an outcome of the economic policies. In Section 3, we examine what structural changes have taken place in the banking and corporate sectors due to the reform policies in the post-crisis and post-Soeharto Indonesia. Lastly in Section 4, we interpret the current reorganization of the economic ownership in the context of the historical transition of the ownership structure, taking account of the changes in the policy-making processes under democratization.

1. Indonesia's Economic Policies

— Why are Policies Intervening in Ownership Important?

Initial given conditions a country had at the start of its modern nation building are considered to largely determine which economic policy area its government put the

² For this periodical demarcation, see Sato [2003].

first priority. It is well known that Japan has given a heavy weight to industrial policies. Industrial policies here mean policies for intervening in inter-industrial and intra-industrial resource allocation³. Since Japan had but poor energy and natural resources as input materials, the government had to attach great importance to selecting priority industries and to preferentially allocating the limited resources among and within the priority industries for effective improvement in economic welfare.

Indonesia on its part had different initial conditions. Though it obtained the status of a sovereign state in the end of 1949, economically it failed to have Dutch assets devolved, so that it had to embark on the path of national development with its colonial economy intact. Under these circumstances, the country's priority task was to construct an Indonesian national economy worthy of an independent state. In fact, the Indonesian government had a strong desire to foster domestic capital that would work as a counter-force to colonial capital. Indonesia had ample energy and natural resources as well as labor force, but capital and technology needed to combine the resources with productive activities were in the hands of foreigners. To accumulate domestic capital with scarce capital and technological capacity, entrepreneurship held the key. Here emerged the need for a policy choice over which potential entrepreneurs the government should emphatically promote as the driving force of economic development. The chief concern was thus what kinds of domestic capital were to be promoted to break the foreign domination. The question, which industries, was a secondary concern in the sense that it was a matter of means to achieve the aim.

As to which kinds of domestic capital to foster, there were two sets of alternatives. One set of alternatives was about whether state capital or private capital and the other was about whether *pribumi* (indigenous Malay) capital or ethnic Chinese capital. Big capital or small capital was another set, which logically had nothing to do

³ Ito, Kiyono, Okuno, Suzumura [1988: 3-4] defines industrial policies as "policies intended to influence the country's economic welfare by intervening in the resource allocation among the industries (sectors) of the country or in the industrial organization within a specific industry (sector)."

with ownership, but in reality it involved ownership in the schematic sense that big capital meant foreign, state, and ethnic Chinese capital and small capital practically *pribumi* capital.

Economic policies can be simply defined as government interventions in economic processes. If the government chooses priority capital among the above alternatives of ownership with a certain political will, it is the economic policy for intervening in the ownership structure we are discussing. Policies in this category include, among others, nationalization, private capital utilization, foreign capital restriction or utilization, ethnic Chinese capital restriction or mobilization, *pribumi* capital promotion, and small capital promotion. These policies have been playing a major role in Indonesia's development strategies since independence. In the following, we are outlining the historical evolution and achievements of these policies.

2. Historical Evolution of the Economic Policies for Intervening in the Ownership Structure

1. *Indonesianisasi* by *Pribumi* Capital — Parliamentary Democracy Period

Let us begin with the initial conditions of the Indonesian economy. In November 1949, the Hague Round Table Conference convened with the United Nations mediation agreed to transfer sovereignty over the Indonesian territory from the Netherlands to Indonesia. With this, Indonesia through four years of struggle after its proclamation of independence became a sovereign state. In this conference, the Financial-Economic Agreement (*Finec: Financieel-Economische Overeenkomst*) was signed simultaneously with the Charter of the Transfer of Sovereignty. The *Finec* provided for the preservation of Dutch assets, guaranteed the rights of foreign economic activities in the Indonesian territory, and made it mandatory for the Indonesian government to compensate in case foreign assets were nationalized (JIA [1972: 191-201]). The door was thus practically closed to Indonesia's takeover or devolution of colonialist assets. Indonesia had to begin with the bequeathed colonial economy. Euro-American

companies, centering on the “Big Five” Dutch trading companies, placed under their control the key economic sectors ranging from foreign trade, shipping, banking, insurance to plantation, mining, and manufacturing. Chinese businessmen were playing the major role in domestic trade and small and medium-scale manufacturing (Most of them did not have Indonesian nationality). Indonesia became a sovereign state, but lacked even a central bank as the symbol of economic sovereignty. Breaking this complete foreign control through *Indonesianisasi* (Indonesianization) of economy was one of the major state objectives pursued throughout the Soekarno era⁴.

How can the economy be Indonesianized? During the parliamentary democracy period of the 1950s, the government opted for policies to strengthen private capital rather than state capital. This preference for private capital was because the political elite, who shared the Western democratic political values of the 1950 Provisional Constitution, favored party politics and representative democracy on the political sphere and liberal economy based on private capital on the economic sphere as a set. State-centered governance was consciously shunned both in politics and economy. Minister of Trade and Industry Sumitro Djojohadikusomo (in Muhammad Natsir Cabinet of Masyumi Party, 1950-51) presented in 1951 the Emergency Economic Plan (*Rentjana Urgensi Perekonomian*), followed by an Interim Report of the Committee on Industrialization (*Laporan Interim Panitia Industrialisasi*). In both documents, state capital was regarded as the temporary complement to private capital,

⁴ Within the government, however, there was a debate between two groups, those emphasizing economic stabilization with accepting Dutch presence and those emphasizing Indonesianization. The representative of the first group was Sjafruddin Prawiranegara (Minister of Finance [1950-51], the first Governor of the Bank Indonesia [1951-58], Masyumi Party). He developed debate with Sumitro Djojohadikusumo (Minister of Trade and Industry [1951], Minister of Finance [1952-53, 1955-56], Indonesian Socialist Party) who took the second position. The position of Indonesianization was bequeathed to the post-1953 more nationalistic cabinets of the Indonesian Nationalist Party. This development is detailed by Glassburner [1971: 71-82]. See also Thee ed. [2003:10].

stating that investment by state capital should be limited to defense, public works and some other sectors having broad influences on the economy (Djojohadikusumo [1954: 31-32]).

The private capital component of domestic capital meant *pribumi* capital. The *Benteng* Program implemented in 1951-56 was the chief policy for Indonesianization⁵. *Benteng* means fortress. The idea was that the government built a fortress for protecting *pribumi* enterprises as a counter-force to foreign enterprises that dominated economy. In concrete, the government under this program designated a set of consumer goods as “*benteng* import goods” and the Ministry of Finance issued import licenses for *pribumi* businessmen to whom foreign exchange was preferentially allocated. Also, Bank Negara Indonesia (BNI)⁶, the first state bank set up in 1946, extended loans to the *benteng* importers, with a view to bringing them up as a viable business force. This was a strategy to use *pribumi* capital as a leverage to break a part of the Dutch oligopoly in imports and to replace a part of Chinese merchants with *pribumi* importers. The import sector was selected for this strategy as this sector was considered easier to penetrate with no accumulation of capital and technology compared with the manufacturing sector. Under the *benteng* program, the number of *pribumi* importers jumped from 145 at the start to 800 in 1953 and further to 3,500 at the end of 1954. But it turned out that most of them were mere brokers who resold import licenses to Chinese importers. In order to foreclose this broker phenomenon, Minister of Finance Sumitro (in Wilopo Cabinet of Indonesian National Party, 1952-53) limited issue of import licenses to

⁵ For the *Benteng* Program, see Glassburner [1971], Thomas and Panglaykim [1973], Thee ed. [2003], Sato [1985]; for more comprehensive history of economic policy in this period, see Sutter [1959].

⁶ Bank Negara Indonesia (BNI) was originally established to be Indonesia’s central bank. But as a Dutch bank, De Javasche Bank, was nationalized in 1951 with purchasing shares and became Indonesia’s central bank, BNI became specialized in foreign exchange business and importer financing. Together with Bank Industri Negara (BIN) set up in 1951 for financing and investment in the manufacturing sector, BNI functioned as the core of government financing.

those who satisfied certain fixed asset requirements. Conversely, Minister of Finance Rooseno Surjohadikusumo (in first Sastroamidjojo Cabinet of Indonesian National Party, 1954-55) relaxed the conditions of license issue to Chinese registered as Indonesian nationals. The *Benteng* Program helped the growth of a handful of *pribumi* entrepreneurs⁷, but the overwhelming majority of its beneficiaries ended up as bubble traders. The program was terminated in 1957, failing to achieve its expected objectives.

Separate from the *Benteng* Program, the government also set out to protect *pribumi* capital in the *batik* and *kretek* (clove) cigarette industries, both of which were traditional industries but were being taken over by Chinese capital. For this purpose, the government had two producers' associations organized, namely, the Indonesian Federation of Batik Cooperatives (*Gabungan Koperasi Batik Indonesia: GKBI*) and the Indonesian Clove Purchasing Center (*Pusat Pembelian Tjengkeh Indonesia: PPTI*). The associations were given the monopoly rights of import and distribution over raw materials, cotton cloth and clove, respectively. This case shows that protection for specific capitalists and specific producers by means of licensing was already started in the 1950s as a basic tool of government economic intervention.

There were two main reasons for the failure of the *pribumi* capital fostering policy in the parliamentary democracy period. The first was an economic reason that the import sector failed to constantly grow and so failed to serve as the booster of capital accumulation. As the Korean War Boom receded in 1952, Indonesia's exports decelerated and the government had to restrict imports. But the import restriction kicked off inflation. To restrain inflation, the government eased import restrictions, but that critically undermined balance of payments, forcing the government to go back to import restriction. Indonesia was caught in this vicious cycle. The foreign exchange

⁷ Typical examples were Sumatra merchants Dasaad and Rahman Tamin, who had started import business in the 1930s and entered small plantations and manufacturing during the *Benteng* Program period; and Masagoes Noer Moehammad Hasjim Ning and Soedarpo Sastrosatomo, originally *Benteng* importers who later successfully expanded their business into broader sectors (Robison [1986: 51-57], Sato [1985: 88-89]).

reserves to allocate for the *Benteng* Program chronically fell short. The government had to raise tariff rates to offset state budget deficits, which also pressured imports (Thomas and Panglaykim [1973:49], Mihira [1995: 195-6]). The second was a political reason. As party cabinets were all short lived and took precedence over party interests, their policies could not be effective. In fact, eight cabinets came and went in the eight years of parliamentary democracy. The PNI (Indonesian National Party) cabinets, favoring expansionist policies, generously issued import licenses for *pribumi* importers. Before the 1955 general elections, license fees informally collected from the licensees were used as PNI's election campaign fund⁸. In contrast, the cabinets of Islamic Masyumi Party followed tightening policies, making licensing conditions stricter. Thus the *pribumi* capital fostering policy in this period was marred by inconsistency

2. Indonesianisasi by State Capital — Guided Democracy Period

Pointing to the failure of the *Benteng* Program, voices became louder in the government calling for direct state intervention into the economy. At this juncture, in December 1957 Indonesia launched struggle against Holland for the recovery of West Irian, which had been a contested issue since the Hague Conference. This triggered a drive for the take-over of Dutch assets. As the struggle provoked strong anti-Dutch sentiments, employees and labor union members began to occupy Dutch enterprises on their initiative. The government *ipso facto* approved the confiscation and in 1958 officially nationalized all the Dutch assets. Nationalized were 489 enterprises in total, comprising 216 plantations, 161 mining and manufacturing, 40 trading and 16 insurance companies. Many of Euro-American companies other than Dutch were also nationalized by step by the middle of the 1960s. Eight major Indonesian trading companies, created by the seizure of 10 Dutch companies, monopolized the import of

⁸ On charge of this malpractice, then Minister of Finance, Iskak, was sentenced to five months in prison in 1960 (*Pos Indonesia* 6 July 1960, *Keng Po* 16 Feb. 1960, Thomas and Panglaykim [1973: 49]).

consumer goods, which represented 70% of the country's total import. The state objective of *Indonesianisasi* of the key sectors was thus achieved, and state-owned enterprises consequently emerged as the core of the Indonesian economy⁹. This was materialization of "Guided Economy" (*Ekonomi Terpimpin*) based on Soekarno-advocated Indonesian Socialism (*Sosialisme à la Indonesia*)¹⁰.

Using the state enterprises of foreign origin as the core, the government set out to establish new state enterprises. These included the first domestic plants of urea fertilizer and glass bottles that had been planned since the 1950s, and additional manufacturers in paper, spinning and shipbuilding. As of 1960, the total number of state enterprises reached 986. The headache, however, was the shortages of capable personnel to run these companies. Not only bureaucrats but also party politicians and military men were assigned to work. After nationalization, performance of most state enterprises apparently got stagnant or declined. Suffering from deteriorating balance sheets, state enterprises proved to be a heavy drag on the state coffers, not a source of revenue as expected. The government invested out of the scarce state funds in new state enterprises, but many of them failed to start operation as planned.

During this period, the sector of domestic small *pribumi* capital was placed

⁹ For the nationalization process and state enterprises during this period, see Thomas and Panglaykim [1973: Chapter 3], Castles [1965], Nagai [1963], Matsuo [1963]; for state enterprises up to the Soeharto period, see Pangestu and Habir [1989], Mihira and Sato ed. [1992: 103-123, 384-407].

¹⁰ Indonesian Socialism represents a broad state vision encompassing national identity, politics, economy, society and a new Indonesian personality. It is supposed to come true after the Indonesian revolution has been accomplished. As for this, refer to Soekarno's speech in 1963, "Socialism does not descend from heaven" (JIIA ed. [1973: 218-225]). As for economic aspects of Indonesian Socialism, Soekarno gave his account in his Economic Declaration (*Deklarasi Ekonomi*, or "Dekon") in 1963 (Departemen Penerangan [1965], JIIA ed. [1973: 205-216]). Kishi and Masuda ed. [1963] provides explanation on the relationship between Indonesian Socialism and Guided Democracy.

under the state control as a lower branch of the state enterprises. Imported goods and finished and semi-finished products made by state enterprises were supplied to private firms through cooperatives and business associations, while products of private firms and farmers were marketed through the cooperatives¹¹. Private importers had to sell goods through state trading enterprises. The government not only controlled the distribution channels but also appointed officials of state enterprises as managers of cooperatives to place them under state supervision.

In the *Benteng* program period, Chinese capital was regarded as a target of Indonesianization to be replaced by *pribumi* capital. But in the process of state capital taking over Dutch management, Chinese businessmen who had managerial know-how unofficially began to play the role of assistant to state capital. For instance, military men appointed state or local government enterprise managers, sometimes contracted management out to Chinese businessmen. The advance of the military into the political arena as a force substituting for political parties coincided with the advance of Chinese into the business arena. On the other hand, the policy of regulating Chinese activities was continued. Particularly Government Regulation No.10 1959 dealt a heavy blow to Chinese rural retailers. This regulation prohibited Chinese not registered as Indonesian nationals from retail trading at the sub-district and village level¹². But Chinese retailers managed to survive by working through Indonesia-born second generation or using the name of native Indonesians.

To sum up, the Indonesian dream of wiping out foreign economic domination was accomplished in the Guided Democracy period and numerous state enterprises became a chief actor in the key economic sectors. But macro economic conditions and

¹¹ See Miyayama [1963] for cooperatives in the Soekarno era.

¹² According to a report by the Director General of Domestic Trade in the Ministry of Trade, this regulation was applied to 30,915 of the approximately 90,000 foreign retailers, but those whose business was actually closed down rested at 12,479. After the regulation was enforced, 210,000 Chinese residents wished to go back to China, but only 80,000 could leave the country partly because of shortage of ships (Umezawa [1992: 65]).

management capabilities to allow the state enterprises to grow smoothly were absent. Consequently their operations stayed stagnant. Small *pribumi* capital in the private sector was drawn into the government's control system. Chinese capital, though subjected to regulatory measures, gradually expanded its influence.

3. Mobilization of Chinese Capital — Soeharto-Regime Consolidation Period

(1) Basic policies for foreign capital, ethnic Chinese capital, and state capital

Army Lt. Gen. Soeharto, grabbing power on March 11 1966, drastically shifted Indonesia's economic system from "Indonesian Socialism" to capitalism. Setting economic development, or *pembangunan*, as the state's priority objective, he virtually completed the basic strategies and institutions needed to achieve the objective by 1968. From the point of view of government intervention in economic ownership structure, following three sets of policy should be discussed.

The first was a dramatic changeover in foreign capital policy. One essential ingredient of the shift to capitalist system was opening the economy to foreign capital. The Soeharto government returned to their original owners the nationalized Euro-American companies except the Dutch. Then it promulgated a foreign investment law, the Law No.1 1967, as the first economic law under the new regime. This law opened the door to foreign capital in all areas excepting ports, electric power, shipping, airline service, railways, communication, mass media, and defense industry. Inflow of foreign capital began in 1967. The closed economy under Soekarno now turned to an open economy.

The second was a new policy toward Chinese capital. This was an epoch-making change intended to mobilize ethnic Chinese capital for economic development. Chinese capital that had been treated as foreign capital was now categorized as domestic capital irrespective of whether the Chinese had Indonesian nationality or not. As the Chairman of the Cabinet Presidium, Soeharto proclaimed the Basic Policy for the Solution of the Chinese Problem (Cabinet Presidium Instruction No. 37 dated June 7 1967). With this instruction, the government provided protection and guarantee of

status for 3.5 million Chinese residents, most of whom were still foreign nationals¹³. The policy explicitly stipulated their capital as “domestic capital” to be utilized for economic development (the exact term in the text was “foreign domestic capital” [*modal domestik asing*] meaning national assets in the hands of foreign residents) (BAKIN [1979: 64-65]). It is interesting to note that the interim report of the Policy Making Committee for the Solution of the Chinese Problem and its subcommittee’s provisional report stressed the need to dismantle Chinese economic power (Umezawa [1992: 58-60]). The Army leaders who occupied the Committee had deep-rooted anti-Chinese sentiments, backed by their anti-Communism. However, Soeharto, who had tied up with Chinese merchants in his business since the days of the Diponegoro Division in the 1950s, believed it indispensable to effectively utilize entrepreneurial capabilities of the Chinese for a success of *pembangunan*. Then, it seems that, Soeharto induced the Army leaders to vent their anti-Chinese sentiments in the committee debate and canalized these sentiments into Chinese-regulating measures in the areas of education, language and social-cultural activities¹⁴. In the economic area, however, Soeharto decided to fully utilize Chinese capital, separated it from communism. This

¹³ This estimation of the Chinese population at about 3.5 million in 1967 is from the interim report of the Policy Making Committee for the Solution of the Chinese Problem. Umezawa [1992] contains a full text of the report in Japanese.

¹⁴ The Basic Policy for the Solution of the Chinese Problem prohibited Chinese schools and restricted freedom of association for Chinese residents. Presidential Instruction No.14 1967 restricted observance of Chinese religious practice and customs to families. Presidential Decree No.240 1967 on Chinese with Indonesian Nationality suppressed the use of Chinese names. Although no law was made to restrict political participation of Chinese (see BAKIN [1979]), unlike in the Soekarno period Chinese political participation was extremely limited during the Soeharto period. In fact, there was no ethnic Chinese minister except Mohamad Hasan (alias Bob Hasan), who served as Minister of Trade and Industry of the 7th Development Cabinet in the last two months of the Soeharto period. The Soeharto government strictly regulated Chinese activities in non-economic areas while guaranteeing them freedom of economic activities.

policy indeed was a sort of Soeharto's institutional "innovation", which later enabled ethnic Chinese business capitalists to rise and prosper.

The third was the switch from the state-enterprise expanding policy to their drastic consolidating policy. The Soeharto government inherited more than 900 state enterprises spawned during the Soekarno era. The decree titled Renovation of the Basic Policies on Economy, Finance and Development (Provisional MPR Decree No.23 1966), which laid the basics of Soeharto government economic policy, emphasized deconcentration of state enterprises along with elimination of government control of economy (Mihira [1995: 203-204]). Liberalization of economy led by the private sector was in fact the key tenet of the Soeharto's policy. The government simplified the status of most of state enterprises into profit-making joint-stock companies (PT(Persero)). The jurisdiction over these joint-stock state companies was shifted from various ministries to the Ministry of Finance. By 1974, the total number of state companies decreased to 178.

(2) Changes in the basic policies after 1974

The three basic economic policies – liberalization of foreign capital, mobilization of Chinese capital, and consolidation of state enterprises – came to a turning point in 1974. That year was marked by two occurrences – an anti-Japan and anti-Chinese riot known as the Malari incident and the onset of an oil boom. Under their impact, the government switched its policy to foreign capital regulation, ethnic Chinese capital regulation, and expansion of the state enterprise sector. Of the three, the first and the third functioned, but the second not. Let us go further into this development.

As to the foreign capital policy, the policy of indiscriminate foreign capital introduction that the Foreign Investment Law of 1967 stipulated was before long replaced by selective introduction as the government adopted import substitution industrialization policy. In 1970, the government prohibited entry of foreign capital in general consumer-goods sectors where domestic production became able to satisfy domestic demand (Decree of the Minister of Trade No.314 1970). On the other hand,

the government encouraged foreign capital to come into selected promoting sectors by offering tax holiday incentive (Decree of the Minister of Finance No.94 1971). But it was the Malari incident on 15 January 1974, a riot attacking excess dependence on foreign capital, that caused the government policy totally turn to foreign capital regulation. After the incident, the government set up the Economic Stabilization Council, which announced the Investment Guideline. The main points of the Guideline were as follows: all foreign companies should be joint ventures with domestic capital; the existing 100% foreign-owned companies should list their stocks on the stock market; foreign companies should increase the Indonesian shareholding ratio to 51% within 10 years. The government also restricted employment of foreigners and levied surcharges on foreign employees staying beyond a certain period of time. These foreign capital regulations to localize ownership and employment were made into laws one after another¹⁵, and remained effective for 20 years until Indonesia went back again to the liberalization principle in 1994.

Regarding the second policy change, the official policy was shifted from mobilization to regulation of Chinese capital in favor of *pribumi* capital.

Let us briefly look back the Soeharto government's Chinese capital mobilization methods. The aforesaid Basic Policy was the only official policy the Soeharto government announced regarding Chinese capital mobilization. In addition to policy tools, the government had an unofficial tool to intervene in the private sector, that was favor or disfavor in licensing. This was unofficial in the sense that there were no explicit criteria to qualify or disqualify license applicants. Licensing decisions were left to the discretion of the issuing authorities (but, licensing can be an official policy, if explicit criteria are set openly like the *Benteng* Program). The Soeharto government, in an effort to mobilize ethnic Chinese capital, used this unofficial tool of preferential

¹⁵ Mandatory localization of foreign shareholdings within 10 years was provided for by BKPM (Investment Coordination Board) Circular B1195 1974; restriction of employment of foreigners by Presidential Decree No.23 1974 as well as by ministerial decrees from 1974 through 1978 on an industry-by-industry basis (see Jakarta Japan Club [1985: 155-158]).

licensing. Generally, private companies had to obtain licenses of various kinds, such as an investment approval, import and export licenses, forest development concession etc. If only a few companies were licensed in a certain sector, the license winners would obtain monopolistic profits and accelerate their initial capital accumulation. Licensing authorities belonged to government ministries, but when it came to crucial projects or specific entrepreneurs, it seems that the President Soeharto himself intervened. Liem Sioe Liong, or Soedono Salim in Indonesian name, who had earned Soeharto's trust as a supplier to the military in the 1950s, obtained several major licenses in 1968-71. In 1968, PT Mega owned by Liem and another company owned by Probosutedjo, Soeharto's younger stepbrother by a different mother, acquired a license on monopoly import of clove from the Ministry of Trade. In the following year, a flourmill, PT Bogasari, headed by Soeharto's nephew Sudwikatmono and invested in by Liem won a monopolistic investment license and was granted loan directly from the Central Bank. In 1971, a company owned by Liem, together with other few companies including that owned by Bernard Ibnu Hardjojo, a younger brother of Soeharto's wife, Siti Hartina Soeharto (alias Tien Soeharto), was given an investment license in the cement industry (Sato [1993]). These instances provide evidence that Soeharto himself participated in decision making, considering that Soeharto's relatives were beneficiaries together with Liem and that Liem obtained licenses from more than one authority agency, a circumstance that bespeaks a certain voice from on high¹⁶.

As a natural consequence, this unofficial license allocation created co-prosperity of high-ranking government officials as license issuers and ethnic Chinese businessmen as licensees. For instance, the said flour mill Bogasari stated in its articles of association that 26% of its profit shall be allocated to Dharma Putra Foundation

¹⁶ Soeharto's relatives who obtained licenses together with Liem were all *pribumi*. As this case shows, it was not exclusively ethnic Chinese whom Soeharto preferentially treated in licensing but his *pribumi* kin were alike given licenses. While Probosutedjo succeeded in founding a medium-sized Mercu Buana group, Bernard Ibnu Hardjojo failed to expand his business. This evidences that licensing privilege alone did not guarantee growth of business.

owned by the Army Strategic Reserve (Kostrad) from which Soeharto originally came, and to Harapan Kita Foundation headed by Mrs. Tien Soeharto¹⁷. As high government leaders frequently brokered establishment of foreign joint ventures, tripartite symbiosis developed among high-ranking officials (politicians, military officers and bureaucrats), ethnic Chinese businessmen and foreign investors. It is well known that Soedjono Hoemardani, Soeharto's close aide and a military man serving as private presidential assistant (*asisten pribadi: aspri*), played an active middleman role in getting numerous joint ventures set up by Japanese companies and ethnic Chinese partners (Malley [1991]).

But after the Malari incident directed its attack to this tripartite alliance, the government promptly hammered out Chinese-regulating and *pribumi* favoring policies. The said Investment Guideline stipulated the following: (1) foreign companies can be set up only as joint ventures with *pribumi* as partners; (2) existing foreign companies having non-*pribumi* (ethnic Chinese)¹⁸ as partners should transfer 50% of their shares directly to *pribumi* or sell them on the stock market; and (3) companies owned by non-*pribumi* should transfer 50% of their shares directly to *pribumi* or sell them on the stock market. The government also introduced two schemes of low-interest loan

¹⁷ The articles of association of PT Bogasari carried in the Official Gazette Supplement (*Tambahan Berita Negara*) No.258 1970 stipulated that 35% of the company's profit should be used for executive remuneration, employee bonus and internal reserve and 60% of the remaining 65% should go to dividends, and 40% should go to the two foundations etc. The presence of such a clause in the articles of association points to Soeharto's involvement in the establishment of this company. Incidentally *Tambahan Berita Negara* publishes the full texts of the articles of association of all joint-stock companies (PT: *Perseroan Terbatas*) at the founding time of the companies and everytime the articles are revised.

¹⁸ *Non-pribumi* includes all non-Malay immigrant population such as Chinese, Arabs, and Indians. But Muslim Arabs have been largely integrated and Indians are negligibly small in number, less than 100,000, or 0.05% of the population. So in most cases *non-pribumi* refers to ethnic Chinese, and is often used pejoratively.

exclusively for *pribumi* business, namely, investment loan for small business (KIK) and working capital loan for small business (KMKP) at an interest rate of 12% and 15% per annum respectively. As this series of policies was introduced during the first oil boom, it can be called the first *pribumi* preferential policy. During the second oil boom beginning in 1979, a Presidential Decree was issued to preferentially treat an “economically weak group” (*golongan ekonomi lemah*)¹⁹ substantially meaning *pribumi*, in relation to bidding on government projects and government goods procurement. (Presidential Decree No.14 1979, No.10 1980, and No.14A 1980). These policies were called the second *pribumi* preferential policy. Government procurement in this period was handled by the state secretariat headed by Sudharmono.

In the period from the Malari incident through the two oil booms, *pribumi* capital promotion was thus brought forward, subjecting ethnic Chinese capital to regulatory measures. It is true that the second *pribumi* preferential policy helped some *pribumi* business groups to rise and grow²⁰. But the overall effects of these policies stayed limited. The Guideline-given policy of “pribumization” of ethnic Chinese business was never made into law, while the foreign capital regulating measures in the Guideline were made into laws and enforced strictly. The regulations for pribumization were left to administrative guidance by the Investment Coordinating Board (BKPM), the government office in charge of investment licensing, and proved not to be enforced,

¹⁹ “Economically weak group” is defined as those companies which satisfy the following criteria simultaneously: (1) companies capitalized at Rp100 million or less in manufacturing and construction, and companies capitalized at Rp40 million or less in other industries, and (2) companies held by *pribumi* at 75% or more of their shares, or companies held by *pribumi* at 50% or more of their shares in the case that the majority of board members are *pribumi*.

²⁰ Bakrie Group, for instance, was revitalized thanks to the procurement by the government and by the state oil company Pertamina during the second oil boom. New *pribumi* business groups that began to grow using the momentum of this procurement policy include Bukaka Group led by Fadel Muhammad and M.Jusuf Kalla, and Kodel Group led by Fahmi Idris, Sugeng Sarjadi and their colleagues.

ending up as a mere slogan²¹. Ethnic Chinese businessmen, having accumulated power by 1974, may have conducted dealings with government officials and lobbied policy makers not to get the Guideline applied. Whatever the case, the Chinese-regulating policy in effect never hampered sustained growth of ethnic Chinese enterprises.

Thirdly, the basic consolidation policy for state enterprises evaporated with the arrival of the oil booms, giving place to an expanding policy. Jurisdiction over state enterprises, once unified under the Ministry of Finance, was again returned to various ministries in charge by their request (Presidential Decree No. 11 1973). Relying on burgeoning state oil revenue, state enterprises again began to proliferate until they came to count 222 enterprises in the peak year of 1983. They became the main promoter of state-led economic development and the core of economic nationalism that prospered in the oil booms. Also, the state enterprises emerged as the flag-bearer of the post-Malari pribumization of the economic ownership structure.

In this process, there emerged several ministers and presidents of state enterprises who, in line with President Soeharto's intentions, directly led important projects beyond the heads of the ministries in charge. They included Ibnu Sutowo, B.J. Habibie, and A.R. Soehoed. Sutowo was President of Pertamina, the state oil company that went bankrupt in 1975. He took the initiative in construction of oil refineries, LNG plants, gas pipelines, fertilizer plants, and steel mills as well as development of Batam

²¹ Examining the Official Gazette Supplements, the author could not find cases of the local partner of any existing foreign companies switched from ethnic Chinese to *pribumi* or of the local partners of any newly established foreign companies became only to *pribumi* in the wake of the application of the Guideline. Conversely, the author found counter-evidence. For instance, the Argo Manunggal group, owned and managed by ethnic Chinese businessmen The Ning King, obtained a investment license even without using a nominal *pribumi* name two days after the announcement of the Guideline. The license was on the establishment of a Japanese joint venture with Kurashiki Boseki and Marubeni Corp. Two months later the group secured another license of joint venture with Ichimura Sangyo and Mitsui Corp., and a year and two months later with Ciba Geigy. (Official Gazette Supplement, No.440 1974, No.405 1975, and No.647 1975).

Island. Habibie, serving as State Minister of Research and Technology, took charge of “strategic industries” such as aircraft manufacture and shipbuilding, concurrently assuming presidency of state aircraft manufacturing company PT Industri Pesawat Terbang Nusantara (IPTN) and state shipbuilding company PT PAL. Soehoed, serving as Minister of Industry, planned a number of large state-led projects in heavy and chemical industries including bauxite refinery producing alumina and petrochemical in the second oil boom period. They were the ones who promoted domestic production of materials and capital goods by investing state funds, all this to acquire Indonesia’s “national resilience” in order to terminate its dependence on foreign countries. But the economic technocrats (backed by the World Bank and IMF) charged that the policy of state enterprise investment in capital-intensive industries was waste of development fund. They argued that, given abundant supply of labor and natural resources, Indonesia’s comparative advantage lay in labor-intensive and resource-based industries. But during the oil booms they did not have influence to change the state capitalist course of investment expansion. This was because the technocrats were able to participate only in budget planning and allocation on the responsibilities of the National Development Planning Agency (Bappenas) and the Ministry of Finance, while financial management of state enterprises was outside of their jurisdiction. Their starting capital aside, state enterprises were able to obtain investment funds from state banks and foreign sources, which were not bound by the state budget. Nor had the technocrats much say in the budget affairs either. They could not dare revise proposed expenditure plans in defiance of Soeharto’s political will, at a time when the state revenue was expanding.

Summing up, the Soeharto-regime consolidation period saw the initial economic liberalization policy quickly phased out with the onset of oil booms. In its place came the policy of restriction on foreign capital and expansion of state enterprises. Though, with this shift, restriction on ethnic Chinese capital and preferential treatment for *pribumi* capital were sloganeered, the pribumization of ethnic Chinese capital was not enforced. Ethnic Chinese capital in fact was given ample opportunities to grow throughout the period, and accelerated accumulation by dint of

alliance with political, military and bureaucratic elite. Reviewing this process, it can be argued that the most effective among the initial basic policy related to ownership structure was the mobilization policy of Chinese capital, rather than foreign capital liberalization policy, though the latter was generally perceived as a banner of Soeharto's economic policy. With Soeharto's policy shift, Chinese capital was for the first time explicitly accepted as an actor in economic development. Soeharto himself carried out this institutional "innovation" by placating inherently anti-Communist and anti-Chinese Army leaders. Compared with this emphasis on Chinese capital, foreign capital was consistently considered supplementary to domestic capital.

4. Fostering Large *Pribumi* Capital — Soeharto-Regime Transfiguration Period

Institutionally completed in 1985, the Soeharto regime went into a period of transfiguration (Sato [2003]). One important aspect of the transfiguration was predilection for "pribumization" of the economy. Let us look at the factors behind this change and policy tools used for the purpose.

By pribumization of economy we mean full-scale efforts to bring up large *pribumi* capital into a viable economic entity abreast of, or even replacing the previous three main economic actors --- foreign capital, state capital and ethnic Chinese capital. There were at least three factors at work behind the shift of emphasis by the Soeharto government and Soeharto himself.

The first factor was the setback of the state capital expansion strategy after the oil booms came to an end. The share of oil and natural gas in Indonesia's export tumbled down after reaching the peak of 82% in 1981. The share of oil and natural gas in the state revenue also declined from the peak of 71% in 1981 to around 40% after 1986. Of the 52 mega projects in the heavy industry that Minister of Industry Soehoed had planned, 48 totaling US\$ 21 billion in investment value had to be cancelled or postponed. The state enterprise sector became subjected to a review from the point of view of efficiency and possible privatization. The number of state enterprises began to

decrease in 1985. With the state enterprise sector reduced²², the economy was sent back into a private capital-led orbit. The important point is that the dwindling of the state sector generated lucrative opportunities for private companies. In such public work projects as the highway, port, and telephone line construction that had been monopolized by state enterprises for long, private companies were now encouraged to participate on a BOT (build, operation and transfer) basis. Private companies were permitted to participate in the marketing of oil products, and in oil and gas exploitation and drilling business, long monopolized by Pertamina.

The second factor was the establishment of ethnic Chinese business groups. Some of the ethnic Chinese businessmen who continuously expanded business in the 1970s came to form their business groups by the early 1980s. These groups survived the post-oil-boom difficulties at the middle of the 1980s by shifting to export business, forming joint ventures with foreign companies, or by cutting off unprofitable business lines. They emerged as a dominant driving force of economic growth in the boom led by non-oil exports starting from the end of the 1980s. For President Soeharto, this situation signified the successful completion of the Chinese capital mobilization policy he himself had initiated. Now came the harvesting time to recycle the fruit of their success into *pribumi* society, particularly to foster *pribumi* capitalists. The public also critically saw aggressive diversification of the ethnic Chinese business groups in the boom, which was feared to widen a gap with small and medium *pribumi* capital. They called the phenomenon “*konglomerasi*” (conglomeration), an appellation used pejoratively. Voices calling for pribumization became louder.

The third factor was inauguration of new enterprises by President Soeharto’s second generation. In 1981, his second son Bambang Trihatmodjo established PT

²² The “strategic industry” under State Minister of Research and Technology Habibie was an exception. Ten state enterprises were organized under the Strategic Industry Management Agency (Badan Pengelola Industri Strategis: BPIS), an agency set up in 1989 by a Presidential Decree as the last stronghold of state-led capitalist industrialization. For the detailed on this agency and ten enterprises, see Mihira and Sato ed. [1992:384-407].

Bimantara Citra that later became the holding company of his business group, Bimantara Group. His third son, Hutomo Mandala Putra (alias Tommy) in 1984 set up PT Humpuss also as the core of his business group, Humpuss Group. Soeharto's eldest daughter Siti Hardijanti Hastuti Rukmana (alias Tutut) in 1987 founded PT Citra Marga Nusaphala Persada, a company to undertake the construction of highways on a BOT basis on contract with a state enterprise. Soeharto's second-generation kin joined business one after another with great ambitions, and Soeharto himself made all efforts to help them become influential *pribumi* capitalists. Soeharto pleaded that this was how public demand for pribumization of economy would be met, and how over-presence of ethnic Chinese capitalists would be rectified. It can be considered that Soeharto's scenario was to prepare conditions to smoothly hand down the rein of the state to his offspring, specifically the first daughter Tutut, and that he needed to prepare a firm economic base for his offspring so as to spare them the need to depend on ethnic Chinese economic power.

By the end of the 1980s, the Indonesian economy overcame dependence on oil. The country entered into a booming period that lasted until 1997, enjoying the benefit of foreign investment inflow that began to arrive torrentially in the post-Plaza multilateral currency adjustment in East Asia. The economic policies of this period were oriented to economic liberalization and private capital utilization. The liberalization policies centered on deregulation of trade and investment, such as lowered tariffs and abolition of foreign capital restrictions. In addition, the government carried out drastic financial liberalization in 1988, liberalizing entry into the banking industry. One business group after another set up its own bank. As for private capital utilization, the chief policy tool was encouraging private enterprises' participation in public work projects on a BOT basis. It should be noted here that these policies of liberalization and private capital utilization did not bring about efficient resource allocation by market mechanism as prescribed in textbooks of economics. On the contrary, they generated new opportunities for skewed licensing in the benefit of specific companies. These opportunities were immediately exploited for the benefit of *pribumi* capital fostering.

Private capital utilization projects provide good illustrations. In most cases contractors for these projects were not selected by open bidding. Even when tenders were invited, the contract winners were said to be decided by the government agencies in charge, which reflected the inclination of their superior, President Soeharto himself. Soeharto's personal involvement in the selection of contractors seems evident in the following cases: the first privatized highway project was won in 1987 by the company stated above owned by Tutut; the first private company allowed to participate in TV broadcasting business was a company belonging to the Bimantara Group; Bimantara and Humpuss Groups obtained long-term contracts in 1986 and 1990 on transport of Pertamina's LNG export to South Korea and Taiwan respectively; the Humpuss Group was the domestic private pioneer that obtained from Pertamina the concession of oil exploitation that had been monopolized by foreign oil giants up to that time.

While downstream sectors were subjected to liberalization through tariff cuts, protective measures were often strengthened in the midstream and upstream sectors in order to deepen import substitution efforts. These protective measures included not only import tariffs on intermediary goods and raw materials, but also non-tariff barriers in the form of the so-called "concentrated purchase" and "distribution control" (*tata niaga*) systems that limited the right to produce or import goods concerned to a few companies. These systems were adopted particularly in the petrochemical and steel industries. For instance, the "concentrated purchase" system was applied in 1986-88 to the Soeharto family-owned company, giving them the monopoly right to import resins as raw materials for plastics. This was done behind the lowering of tariffs on downstream plastic products.

In the 1990s this type of practice giving privileges to specific *pribumi* companies, particularly those owned by Soeharto family and their kin became increasingly frequent. It became customary that when large investment was required, state banks would provide necessary loans to the specific businessmen without proper screening procedures. While the first and second *pribumi* favoring policies in the 1970s had been only limitedly effective, the third batch was much more substantial, lubricating flow of an enormous amount of fund into specific *pribumi* enterprises.

During this period, most of established ethnic Chinese business groups came to keep distance from the Soeharto family-linked business, while some aggressive ethnic Chinese groups sought chances of government-favored projects joint with rising *pribumi* capitalists and with a large amount of privileged state bank loans.

5. Ownership Structure of Dominant Capital at the End of the Soeharto Era

Throughout the four post-independence periods of Indonesian history, it is evident that success or failure of the government intervention in the economic ownership primarily depended on whether an economic environment enabling capital accumulation was present or not. In this sense, business could not grow on a sustained basis in the first two periods in the Soekarno era. In the subsequent two Soeharto periods, Indonesia for the first time in the country's economic history stepped into an environment, thanks to Soeharto's introduction of developmentalist regime, to allow capital accumulation on a sustained basis. Throughout the two Soeharto periods, the government intervention effect was ensured more by the informal tool of license allocation than by the official policies. Ethnic Chinese capital expanded in the first period and some *pribumi* capital caught up in the second period, benefiting from this informal tool used as the leverage. The state enterprise sector inherited from the Soekarno period expanded only during the oil booms.

In the early 1990s, it became clear to everyone that the chief economic actor was no longer the state enterprises but private business groups. Ranking high among these business groups were ethnic Chinese groups that kept constant capital accumulation from the early days of the Soeharto government. Taking business group as the unit, the sales of top ethnic Chinese groups came abreast of those of major state enterprises. As Table 1 shows, the 1993 annual sales of Salim Group, the largest private business group, amounted to Rp18 trillion, a figure close to 21 trillion rupiahs which the largest state enterprise Pertamina chalked up that year. The sales of the top 10 private business groups aggregated 50 trillion rupiahs, which is about the same as the total sales of the top 10 state enterprises. If the top 20 from both sectors are taken,

the private business groups (Rp 71 trillion) outrivalled their state enterprise counterparts (Rp 55 trillion). The aggregate sales of 100 major private business groups standing at 120 trillion rupiahs not only overwhelmed those of the top 100 state enterprises, but also even surpassed the sales of 184 state enterprises which totaled only 73 trillion rupiahs. The sales of the top 100 private business groups in fact represented 21% of Indonesia's gross output in 1993, and the share increases to 25% if the sales of top 200 private groups (Rp142 trillion) are taken as the basis²³. In other words, the private big business sector as of 1993 represented a quarter of the Indonesian national economy and its size was twice as large as that of the state enterprise sector.

The stock market in Indonesia does not faithfully reflect the ownership composition of Indonesian large business sector. This is partly because not many state enterprises and foreign joint ventures are listed. Nevertheless, we can see in Table 1 that, ethnic Chinese business groups, negative about information disclosure for a long time, began to be listed after the stock market was liberalized in 1988²⁴. Of the top 20

²³ The ratio of business group sales to GDP is often used as an indicator of the weight the business groups carries in the national economy. But this comparison is not adequate as GDP represents the total of value added, not sales, of each sector. Besides, this indicator generally exaggerates the business groups' weight and can be misleading. For instance, the share of business group sales to GDP in 1993 was 40% for the top 100 groups and 47% for the top 200. We here used the ratio of business group sales to gross output, which is the total of gross outputs of the sectors taken from the input-output table. But even this indicator is not fully satisfactory as the gross output tends to go up as sector classifications are made finer. So we have to note that this ratio, too, serves only to approximate the realities.

²⁴ Before 1988 only 24 companies were listed on the Jakarta Stock Exchange. Most of them were originally 100% foreign-owned companies, which then marketed their shares on the stock exchange in line with the 1974 Investment Guideline. The number of listed companies rapidly increased after the 1988 liberalization policy including relaxed listing conditions. As of 1993 of the Table 1, the number of publicly-listed companies was 172, and increased to 282 in 1997. For the liberalization policy of stock market and market development, see IDE ed. [1989: 469-470], Sato ed. [2001: 379].

Table 1 Comparison of Scale Between State-Owned Enterprises, Private Listed Companies and Private Business Groups, 1993

Unit: Rp 1 billion

State-Owned Enterprise			Private Publicly-Listed Company				Private Business Group		
Name of company	Sales	Profits Business	Name of company	Sales	Profits Business	Name of business group	Name of business group	Sales	No.of companies
1 PN Pertamina	20,957	1,300 oil & gas	* PT Astra International, Inc.	5,887	132 holding	Astra	Salim	18,000	450
2 Perum Listrik Negara (PLN)	4,922	180 electric power	PT Gudang Garam	3,874	159 cigarette	Gudang Garam	Astra	5,887	205
3 PT Garuda Indonesia	4,009	408 aviation	PT Indocement Tunggak Praka	2,890	312 cement	Salim	Sinar Mas	**4,200	150
4 PT Bank Rakyat Indonesia	3,568	106 banking	PT Barito Pacific Timber	979	310 plywood	Barito Pacific	Lippo	**4,750	78
5 PT Bank Negara Indonesia 1946	2,876	241 banking	PT Bank Danamon	977	48 banking	Danamon	Gudang Garam	3,600	16
6 PT Telkom	2,695	361 telecom	PT Unilever Indonesia	933	79 oil & fat	<foreign>	Bob Hasan	3,400	92
7 PT Bank Dagang Negara	2,549	190 banking	PT Bank Int'l Indonesia (BII)	876	230 banking	Sinar Mas	Barito Pacific	3,050	92
8 PT Bank Bumi Daya	2,516	117 banking	* PT United Tractors	857	36 machinery	Astra	Bimantara	3,000	134
9 PT Bank Pembangunan Indones	1,835	65 banking	PT Gajah Tunggak	797	365 tyre	Gajah Tunggak	Argo Manungga	2,940	54
10 PT Pupuk Sriwijaya	1,765	123 fertilizer	PT Central Proteina Prima	757	14 animal feed	<foreign>	Djarum	2,860	25

11 PT Krakatau Steel	1,651	125 steel	PT Lippo Bank	745	42 banking	Lippo	Dharmala	2,530	151
12 PT Indosat	875	465 telecom	PT Polysindo Eka Perkasa	671	105 polyester	Texmaco	Ongko	2,100	59
13 PT Petrokimia Gresik	740	9 chemical	PT Indah Kiat Pulp & Paper	651	90 pulp & paper	Sinar Mas	Panin	2,081	43
14 PT Tambang Batubara Bukit As	658	206 coal	PT Japfa Comfeed Indonesia	649	31 poultry	Ometraco, Bimantara	Rodamas	2,000	41
15 PT Pembangunan Perumahan	646	40 housing	PT Tjiwi Kimia	616	79 paper	Sinar Mas	Surya Raya	1,975	242
16 PT Bank Tabungan Negara	637	72 banking	PT Matahari Putra Prima	592	21 retail	Matahari	Jan Darmadi	1,940	60
17 PT Taspen	634	94 Insurance	PT Hero Supermarket	561	16 retail	Hero	Berca	1,800	32
18 PT IPTN	618	18 airplane	PT Charoen Pokphand Indones	548	29 animal feed	<foreign>	Humpuss	1,750	11
19 PT Pupuk Kalimantan Timur	434	72 fertilizer	PT Bank Umum Nasional	495	29 banking	Arya Upaya	Gajah Tunggak	1,650	49
20 PT Waskita Karya	401	24 contractor	PT Bank Niaga	477	35 banking	Soedarpo	Raja Garuda Ma	1,590	66

Top 20 total	54,986	4,216	Top 20 total	24,832	2,162		Top 20 total	62,153	2,050
			those affiliated to business gr	22,594	2,040				
Top 100 total	70,988	6,100	Top 100 total	38,282	3,737		Top 100 total	119,583	4,263
All state enterprises (184 compa	72,980	6,461	All listed companies (171 compa	40,873	4,105		Top 200 total	141,652	5,834

Note: *On the basis of consolidated accounts with affiliated companies.

**Remain as the original source is.

Source: For state-owned enterprises, *Warta Ekonomi* 6(9), 25 July 1994 / for publicly-listed companies, *Warta Ekonomi* 6(5), 27 June 1994 / for business groups, *Warta Ekonomi* 5(48), 25 April 1994.

listed companies, 17 belonged to business groups. All these groups were ethnic Chinese groups excepting Texmaco of Indian origin and two *pribumi* groups Bimantara and Soedarpo. Looking at the top 20 business groups, 18 were ethnic Chinese groups and only two *pribumi* groups, Bimantara placing 8th and Humpuss 18th. The share of ethnic Chinese groups was dominant, but diminished if the top 100 groups were taken as the basis, that is, 67 Chinese groups out of the 100. It shows that the nearer to the pinnacle, the larger the share of ethnic Chinese. (Mihira and Sato ed. [1992: 136-137])

Table 2 provides the owners, size and business lines of high-ranking private business groups in terms of annual group sales as of 1996²⁵. The Table well reflects the course of capital accumulation under the Soeharto regime. While some specific *pribumi* capitalists showed a remarkable catch-up in the 1990s, a dominant force was no doubt ethnic Chinese business groups, most of which founded by the early 1970s, reflecting the initial stance of the Soeharto government. The ranking order as of 1996 did not largely change from 1993, but it strikes us that the sales of the top three made a drastic breakthrough in 1996, leaving the others far behind. This proves that the sustained boom in the 1990s worked more favorably to established big business. There were four *pribumi*-owned business groups of the top 30 groups. Of the four, three were exactly the Soeharto family; Bimantara, the largest *pribumi* business group headed by Soeharto's second son Bambang further rose on the ladder to place 6th; Nusamba Group in the 11th place was owned by yayasan (foundation) run by Soeharto; Humpuss owned by the third son Tommy stayed in the same 18th. The *pribumi* capital fostering policy from the end of the 1980s succeeded in raising the rank of some *pribumi* groups as high as the top ethnic Chinese groups that had been developed for decades. And this success was at once the success of the Soeharto family business. In this sense, the success was an extremely localized one.

Last let us examine the merits and demerits of the conglomerate phenomenon

²⁵ Indonesian economic journal *Warta Ekonomi* was publishing estimated sales ranking of business groups every year from 1989, but stopped carrying the ranking list after 1998, supposedly affected by the crisis. Table 2 is based on the latest list as of 1996 published in 1997.

Table 2 Ownership, Size and Business Lines of Major Business Groups in the Pre-Crisis Indonesia, 1996

Sales ranking	Name of business group	Major Owners	Chinese Name / Pribumi	Annual Sales		Assets		No. of Companies	Major Business Lines
				(tril.Rp.)	(bil.US\$)	(tril.Rp.)	(bil.US\$)		
1	Salim	Soedono Salim	Liem Sioe Liong	53.1	22.3	43.1	18.1	600	Food, cement, automobile, banking
2	Astra	Barito/Sampurna/Salim Groups	-	20.2	8.5	23.7	9.9	125	Automobile, plantation, banking
3	Sinar Mas	Eka Tjipta Widjaya	Oey Ek Tjhong	20.2	8.5	41.1	17.2	200	Plantation, paper-pulp, financial, real estate
4	Gudang Garam	Rachman Halim	Tjoa To Hing	9.4	3.9	5.9	2.5	39	Clove cigarette
5	Lippo	Mochtar Riady	Lee Mo Tie	9.0	3.8	21.1	8.9	70	Financial, real estate
6	Bimantara	Bambang Trihatmodjo	<pribumi: Soeharto's second son>	4.3	1.8	4.0	1.7	50	Petrochemical, TV broadcast, automobile
7	Gajah Tunggal	Sjamsul Nursalim	Lim Tek Siong	4.2	1.8	36.3	15.2	80	Tyre, chemical, shrimp breeding, banking
8	Ongko/Bob Hasan	Kaharudin Ongko/M.Hasan	Ong Ka Huat/The Kian Seng	4.2	1.8	12.9	5.4	55	Financial, real estate, ceramics
9	Djarum	Michael Bambang Hartono	Oei Hwie Siang	4.0	1.7	2.9	1.2	25	Clove cigarette, financial
10	Rodamas	Tan Siong Kie	Tan Siong Kie	4.0	1.7	5.9	2.5	40	Glass, seasoning, real estate
11	Nusamba	Soeharto's Yayasan	<pribumi>	3.9	1.6	6.7	2.8	90	Plantation, plywood
12	Karbe Farma	Boenjamin Setiawan	Khouw Lip Boen	3.7	1.6	36.8	15.4	60	Pharmaceutical, financial
13	Dharmala	Suhargo Gondokusumo	Go Ka Him	3.4	1.4	8.5	3.6	130	Trading, animal feed, financial, real estate
14	Argo Manunggal	The Ning King	The Ning King	3.4	1.4	2.1	0.9	54	Textile
15	Barito Pacific	Prajogo Pangestu	Phang Dju Phin	2.9	1.2	5.0	2.1	92	Plywood, petrochemical, pulp
16	Maspion	Alim Markus	Lim Wen Kwang	2.5	1.0	1.8	0.8	35	Aluminium products
17	Bakrie	Aburizal Bakrie	<pribumi>	2.4	1.0	8.4	3.5	76	Steel pipe, plantation, mining, telecom.
18	Humpuss	Hutomo Mandala Putera	<pribumi: Soeharto's third son>	2.3	1.0	2.1	0.9	40	Oil service, automobile
19	Danamon	Usman Admadjaja	Njauw Jauw Woe	2.3	1.0	28.4	11.9	33	Financial, real estate
20	Berca	Murdaya Widyawimarta	Poo Tjie Gwan	2.3	1.0	1.2	0.5	32	Electronics, electric appliance service
21	Panin	Mu'min Ali Gunawan	Lie Moek Ming	2.2	0.9	8.0	3.4	14	Banking
22	Jan Darmadi	Jan Darmadi	Fuk Jo Jan	2.2	0.9	6.2	2.6	50	Real estate
23	Jaya	Jakarta Provincial Gov./Ciputra	<local government>/Tjie Tjien Hoan	2.1	0.9	2.4	1.0	12	Real estate
24	Sampoerna	Putera Sampoerna	Liem Tien Pao	2.1	0.9	2.2	0.9	37	Clove cigarette
25	Raja Garuda Mas	Sukanto Tanoto	Lim Sui Hang	2.0	0.8	5.2	2.2	14	Rayon pulp, plantation
26	Texmaco	Marimutu Sinivasan	<ethnic Indian (Tamil)>	1.8	0.8	5.5	2.3	33	Textile, machinery
27	Metropolitan	Ciputra/Budi Brasali	Lie Toan Hong	1.7	0.7	2.2	0.9	45	Real estate
		Ismail Sofjan	<pribumi>						
28	Matahari	Hari Darmawan / Lippo Group	n.a.	1.7	0.7	1.6	0.7	25	Retail sale
29	Ometraco	Ferry Teguh Santosa	Kang Som Tjhiang	1.6	0.7	10.9	4.6	36	Agribusiness, trading, real estate
30	Gemala	Sofyan Wanandi	Liem Bian Khoen	1.6	0.7	1.1	0.5	81	Automobile component, chemical
34	Modern	Samadikun Hartono	Ho Sioe Koen	1.5	0.6	4.5	1.9	64	Camera, real estate, financial
36	Harapan	Hendra Rahardja	Tan Tjoe Hing	1.4	0.6	4.8	2.0	8	Financial, motorcycle
45	Citra Lamtoro Gung	Siti Hardijanti Hastuti Rukmana	<pribumi: Soeharto's first daughter>	1.0	0.4	3.1	1.3	50	Tollroad
46	Tirtamas	Hashim Djojohadikusumo	<pribumi: Soeharto's relative by marriage>	1.0	0.4	4.7	2.0	55	Financial, petrochemical
87	PSP	Triyono Gondokusumo	Go Twan Seng	0.6	0.3	3.0	1.3	7	Financial, real estate

Source: *Warta Ekonomi*, 9(27), 24 Nov. 1997, CISI Raya Utama [1990] and other sources.

of the Soeharto era. As their business lines in Table 2 indicates, a salient characteristic of Indonesian business groups was that they played a locomotive role in industrialization by actively investing in the manufacturing sector that involved long recovery periods of invested fund. This fact was their first merit. This characteristic contrasts with that of big business groups in Singapore and Hong Kong that grew by investing mainly in financial, real estates and service sectors (Inoue ed. [1987], Mihira and Sato ed. [1992: 124-156]). This was to the credit of the Soeharto government, which deliberately induced private, mainly ethnic Chinese, entrepreneurs to invest in the manufacturing sector, not only by official industrialization policies in trade and investment, but also by discretionary exercise of its licensing power. The second positive achievement was that a new stratum of professional managers having experience of practical business and strategic thinking emerged in the course of sustained growth of business groups. Typical such characters include two key economic ministers of the present Megawati government, Laksamana Sukardi, Minister in charge of State Enterprises and Rini Mariani Sumarno Soewandi, Minister of Trade and Industry. They had served as the top figure of Lippo Bank and PT Astra International (the holding company of the Astra group) respectively, and they are both *pribumi*. The third positive achievement was the business groups' contribution to the growth of local capital including small and medium enterprises. This was done through inter-firm linkages they developed to procure input goods and to distribute their final products²⁶. The Salim and Sinar Mas Groups, for instance, enabled smallholder plantations to grow by buying oil palm fruits from them as raw materials for the groups' palm oil production. The Astra group stimulated the growth of subcontractors by procuring automobile and motorcycle components from them (Sato [1995: 378-380] [1996], Thee [1997], Sato [1998]). On the other hand, business groups invited

²⁶ The general perception in Indonesia is that the rise of business groups impeded the growth of small and medium enterprises owing to the resulting oligopolistic market structures. We do not intend here to deny this view. Whether business groups impeded or promoted the growth of small and medium capital and which effects outweighed are topics to be analyzed independently.

criticisms for collusive relations they developed with political power elite and licensing authorities, for information secrecy, and for lack of accounting transparency. As the hotbed of KKN (corruption, collusion and nepotism), they became the symbol of “bad governance” in Indonesia. That was their “vice.” In the post-Soeharto *reformasi* (reform) period, it is this vice aspect that is required to be reformed.

3. Economic Reform and Ownership Restructuring in the Post-Soeharto Period

1. Reform Policies in the Banking and Corporate Sectors

On 21 May 1998, the Soeharto government that lasted for 32 years at last came to an end. In the previous year, July 1997, the Asian currency crisis spread to Indonesia, and the Indonesian government agreed to be supported by IMF on 31 October. Before long, however, the currency crisis developed into the political crisis due to President Soeharto’s health decline and his antagonism against IMF, and further into the broader social economic crisis. By the collapse of the Soeharto government, the country’s currency, the rupiah, tumbled by up to 80% from the pre-crisis value. The corporate sector, hit hard by the swelling burdens in rupiahs of repaying dollar-denominated borrowings, became unable to service debts owed to overseas creditors. Owing to sharp rises in import prices and contraction of domestic demand, most companies engaging in domestic business made financial losses and fell insolvent to domestic banks. Deteriorating solvency of borrower companies rapidly increased non-performing loans of domestic banks. Eventually banks too became insolvent, as the high interest rate policy to defend the rupiah, which jacked up interest rates to 80% a year, undermined their profits. The corporate sector and the banking sector thus collapsed concurrently.

The government set out to reform the economy in accordance with the conditionality of IMF. The IMF policies comprise macroeconomic stabilization policy and economic restructuring policy centering on the reform of the banking and

corporate sectors²⁷. The reform of banks and corporations is in practice an intervention policy in economic ownership, as it is dramatically transforming the ownership structure of these sectors. In the economic reform policies of the post-Soeharto governments led by the Presidents B.J.Habibie, Abdurrahman Wahid and Megawati Soekarnoputri, this section focuses on the banking and corporate reform and their achievements.

Indonesia's reform of the banking and corporate sectors is characterized by the strong leadership being displayed by a government agency, the Indonesian Bank Restructuring Agency (IBRA, or *Badan Penyehatan Perbankan Nasional*, BPPN). IBRA was established under the jurisdiction of the minister of finance in early 1998 in line with the IMF prescription. The main tasks of IBRA are firstly to restore banks' financial health by taking over their irrecoverable loans and to restructure the banking sector, and secondly to dispose corporate debts to domestic banks that were transferred to IBRA. This IBRA's work is not only the post-crisis reform process of the banking and corporate sectors, but also the process of dismantling the micro-economic structure formed under the Soeharto regime. This is because the ownership structure in these sectors is deeply connected to the structure of vested interests that supported the regime.

More than five years have passed since the downfall of the Soeharto government, but the process of restructuring ownership structure is still under way. Although the post-restructuring shape is not fully clear, the major changes show a decline of big private capital and its replacement with state and foreign capital. The

²⁷ As for macroeconomic stabilization policy, restoring fiscal health with reduction of state budget deficits is a major task to be tackled. Government finance is closely linked with the reform of banks and corporations. Interests on state bonds issued in large amounts for the banking restructuring are a heavy burden on the state finance while, conversely, revenue by sale of government-controlled indebted companies' assets helps fill fiscal deficits. Smooth progress of the banking and corporate reform, therefore, is a necessary condition for fiscal sustainability. As to the relationship between the government finance and bonds, see Usui [2000].

resulting structural changes that have taken place up to the moment are examined below.

2. Separation of Banks and Business Groups

The first outcome of IBRA's restructuring efforts is the realignment of the ownership structure of the banking sector. Using the capital adequacy ratio (CAR: the ratio of equity capital to risk-weighted total assets) and the number of customers as the yardsticks, IBRA classified all commercial banks into the three categories: banks to be closed, banks to be restructured, and banks to be allowed to operate as they are. There are two ways of restructuring, capital injection ("recapitalization") by the government and nationalization. In the case of capital injection, 80% of capital needed to improve CAR to 4 % was put up by the government and the remaining 20% by bank owners. The government nationalized some major private banks whose closures were feared to have the far-reaching impacts and infused capital after merging them into a few banks. All the state-owned banks, which had the lowest CAR, were also injected capital after 4 out of them being merged into one. Irrecoverable loan claims (overdue debts over 270 days) of all banks to be restructured were transferred to IBRA to allow them improve their balance sheets. By the time all these procedures were completed at the end of 2000, a total of 67 private banks were closed, 13 banks were nationalized. The government injected capital into a total of 27 banks including 7 private banks, 4 state banks, 4 nationalized banks and 12 regional development banks. The number of banks operating fell from the peak level of 240 at the end of 1996 to 164 at the end of 2000.

Table 3 shows how the ownership structure of the banking sector changed through IBRA's bank restructuring. The remarkable development shown in the table is the decline of private banks affiliated with business groups. Immediately before the crisis, banks affiliated with business groups numbered 58, accounting for as much as 40% of assets held by all commercial banks. In the private banking sector, they accounted for less than 40% in number but 77% of total assets. Of these business group affiliated banks, 28 were closed, 10 were nationalized, and 4 received the capital

Table 3 Change of Ownership Structure of the Banking Sector in Indonesia, 1997 and 1999
 --- Decline of the Business Group Affiliated Banks ---

Ownership		Before restructuring (1997.6)			After restructuring (1999.12)		
		No. of banks (unit)	Assets (Rp billion)	% of assets (%)	No. of banks (unit)	Assets (billion Rp)	% of assets (%)
Government	Total				28	613,506	78.4
	State-owned bank	7	187,085	36.9	5 2)	365,447	46.7
	Recapitalized bank				19 3)	93,487	12.0
	Nationalized bank				4 4)	154,572	19.8
Private	Total	155	263,472	52.0	70 5)	61,089	7.8
	Business group affiliated ¹⁾	58	201,939	39.8	16	13,522	1.7
	Independent bank	97	61,533	12.1	54	47,567	6.1
Foreign	Total	41	42,765	8.4	40 5)	99,358	12.7
	Foreign bank branch	10	19,247	3.8	10	63,186	8.1
	Foreign joint bank	31	23,517	4.6	30	36,172	4.6
Regional	Regional development bank	26	13,486	2.7	14 5)	8,294	1.1
Total	All commercial banks	229	506,808	100.0	152	782,247	100.0

- Note: 1) Classified by the author based on the names of shareholders in CISI Raya Utama [1999]. Panin bank is classified as independent, since Panin Group centers on the banking industry.
- 2) Composed of 1 recapitalized bank after merger of 4 banks, 3 recapitalized banks and 1 newly established bank.
- 3) Composed of 7 private banks (of these, 4 are affiliated with business groups) and 12 regional development banks.
- 4) 13 private banks (of these, 10 are affiliated with business groups) were nationalized and 9 out of these were merged with others.
- 5) Represents the number of banks which continued with no measures of restructuring.

Source: Calculated by the author based on Ekofin Konsulindo [2000].

injection. Those were allowed to continue operations with no ownership change account for only 2% of the total assets. Although nationalized and recapitalized banks are to be reverted to private banks over time, government-held equity stakes in these banks are to be sold off to third parties. So these banks will be no longer owned by a single business group.

As a result of the bank restructuring, the asset base of the private banking sector contracted. Also, the integrated ownership structure linking banks to business groups, that formed the foundation of the private banking sector, all but disappeared. The structure was traced back to the establishment of affiliated banks one after another by business groups when the entry barrier into the banking sector was lifted under the financial liberalization policy of October 1988 (called *Pakto*). This particular ownership structure caused rampant intra-group lending of group banks to affiliated companies among some major business groups in the 1990s. It was reported that the banks owned by Gajah Tunggal Group, Ongko Group, Modern Group (all banks closed in August 1998) loaned their fund to group affiliated companies as much as 90%, 78%, 63% of the total loans respectively in order²⁸. After the restructuring, most of business groups have lost affiliated banks. Private banks are now categorized into non-group independent banks, banks jointly owned by some business groups, and banks sold off to consortiums of foreign and local investors. Thus the ownership of banks and business groups was separated.

3. Reorganization of Indebted Business Groups

The second outcome of the IBRA policy is the reorganization of some business groups

²⁸ *Kontan*, 24 August 1998. But the author failed to verify the intra-group lending by Ekofin Konsulindo's database on banks. We cannot specify how individual banks make distinction between "loans to related companies" and "loans to third parties" in their dutifully disclosed financial statements. There is a possibility that the real state of the banks' loans to group-affiliated companies was not reflected in the disclosed data. See also Hamada [2003].

that depended on massive borrowing from domestic banks. During the course of the bank restructuring described above, irrecoverable loans of the recapitalized banks, together with all outstanding loan claims held by the closed banks, were transferred to IBRA. The total sum of these loans amounted to 284 trillion rupiahs (US\$ 32.5 billion) as of June 2000, or some 50% of all bank loans outstanding in Indonesia, involving some 130,000 debtor companies. IBRA classified debtor companies by shareholder that was called “obligor”. It was found that 21 largest obligors (mostly business group owners) listed in Table 4 accounted for 30% of the total debts, and 50 largest obligors accounted for 45% of the total debts. Of the top 11 obligors, eight had close ties with former President Soeharto, including his third and second sons. The eight obligors break down into four *pribumi*, three ethnic Chinese and one ethnic Indian. These heavily indebted business groups were mostly newly-emerging or rapid-growth groups. By lender, state banks accounted for 54% of all loan claims under IBRA. Thus, with numerical evidence, domestic banks proved to channel massive loans to specific business groups in the boom period of the 1990s. In particular, business group owners with easy access to the center of power in the Soeharto regime obtained large loans mainly from state banks without proper screening.

These business groups were subjected to intensive debt repayment negotiations with IBRA. IBRA basically seeks debt disposal through such methods as repayment by cash or sale of assets, debt rescheduling, debt to bond (convertible corporate bonds) swap, and debt to equity swap. In dealing with obligors “not cooperative” in repayment talks, IBRA is authorized to file bankruptcy suits²⁹, seize assets, or take obligors into ‘debt custody’ (*lembaga paksa badan*; revival of the legal

²⁹ To facilitate lawsuits on bankruptcy, the Indonesian government, following the IMF conditionality, introduced a revised bankruptcy law (Law No.4 1998) and established the commercial courts in 1998. The first commercial court started to work in September 1998. By May 2002, IBRA brought 68 bankruptcy cases to the commercial courts, and 2,125 cases to the civil courts (http://www.bppn.go.id/indonesia/pk_ru_tindakanhukum.asp). The results of judgment are not disclosed by IBRA, but the ratio of cases that IBRA won is said to be not high.

Table 4 The 21 Largest Obligor from the Domestic Banking Sector, as of Nov.2001

	Name of Business Group	Name of Obligor (Business Group Owner)	Debt value (Rp tril.)	No.of debtor companies (unit)	% of agreement with IBRA (%)	% of court dispute (%)	Main Business	Sales ranking 1996	Features of owner-manager [C:Chinese, P:priubmi, I:Indian]
1	Texmaco	Marimutu Sinivasan	17.3	17	99.9	-	textile,machinery	28	I close to Soeharto
2	Barito Pacific	Prajogo Pangestu	8.6	18	93.4	-	plywood,chemical	15	C close to Soeharto and Tutut
3	Humpuss	Hutomo Mandala Putra	6.0	19	41.9	54.3	LNG	17	P Soeharto's third son
4	Bob Hasan	Mohamad Hasan	6.2	15	99.7	-	plywood	7	C Soeharto's close friend
5	Bakrie	Abrizal Bakrie	6.1	24	71.0	-	steelpipe	20	P close to Soeharto family
6	PSP	Trijono Gondokusumo	4.2	15	13.0	76.7	real estate	79	C Dharmala's third son
7	Tirtamas	Hashim Djojohadikusumo	4.3	12	66.4	29.3	cement,chemical	44	P relative of Soeharto family
8	Napan	Henry Pribadi	3.6	16	92.4	1.1	chemical	47	C co-owner of Salim
9	Tirtobumi	Murtomo Basuki	2.9	1	-	-	tollroad	-	C
10	Djajanti	Burhan Uray	2.9	8	100.0	-	plywood,fishery	48	C
11	Bimantara	Bambang Trihatmodjo	3.2	10	65.4	19.9	broadcast	6	P Soeharto's second son
12	Raja Garuda Mas	Sukanto Tanoto	2.6	10	96.3	-	paper/pulp	24	C
13	Bahana	(State-owned enterprise)	2.9	6	98.8	-	venture capital	-	-
14	Dharmala	Suhargo Gondokusumo	3.0	29	22.8	69.3	trade, real estate	13	C born in Mainland
15	Ongko	Kaharudin Ongko	3.7	19	6.7	81.3	finance, real estate	9	C partly financed by Bob Hasan
16	Gunung Sewu	Dasuki Angkosubroto	3.4	16	89.6	-	real estate	59	C relative of Dharmala
17	Danamon	Usuman Admadjaja	3.1	17	94.3	-	finance, real estate	23	C close to Soeharto,Salim
18	Nugra Santana	Ponco Sutowo	2.2	6	24.2	75.8	real estate	35	P son of former Pertamina president
19	Kodel	Sugen Sarjadi	1.0	4	94.0	-	real estate	109	P co-investment of 8 pribumi
20	Rajawali	Peter Sondakh	2.9	11	97.1	-	telecom	43	C
21	Argo Manunggal	The Ning King	2.1	23	100.0	-	textile	12	C many Japanese joint ventures
Total of the 21 largest obligors (% of total)			91.7 (29.5)	296 (0.2)	74.5	16.6			
Total of the 50 largest obligors (% of total)			139.8 (45.0)	n.a	58.4	14.0			
Total corporate debts under IBRA			310.7 (100.0)	130,000 (100.0)	32.2	10.4			

Source: IBRA [Dec.2001], IBRA Homepage (<http://www.ibra.go.id>) and other sources.

system during the Dutch East Indies' rule under which a creditor can seek a court warrant of imprisonment of a debtor). In fact, IBRA brought before court the bulk of debts owed by Ongko Group and PSP Group that were not cooperative (Table 4). The founder of Dharmala Group and his eldest son were taken into debt custody, and some of the group's assets were seized. On the other hand, however, IBRA took a lenient measure of special debt-equity swaps and long-term debt rescheduling for several business groups that undertook big projects in the capital goods and material industries, in accordance with the decision made by the Abdurrahman Wahid government. This included Texmaco Group, the largest obligor operating synthetic fiber and machinery factories, Tirtamas Group undertaking a petrochemical project, and PT Chandra Asri, the country's first ethylene center run by Barito Pacific Group.

IBRA announced that, by the end of 2002, IBRA reached agreements on repayment of debts amounting to 240 trillion rupiahs, or 65% of the total debts that swelled to 368 trillion rupiahs on the book value basis. But, the amount that IBRA already recovered from debtors was merely 61 trillion rupiahs on the realized market value basis, or 25% of the amount agreed. Thus IBRA's efforts in corporate debt disposal have not necessarily progressed straightforward and have not yielded high recovery. However, the work at least helped dismantle the back-scratching alliance that had been developed through bank loans among the power elite, state banks, and specific business group owners as listed here during the latter half of the Soeharto era.

4. Break-up of Ethnic Chinese Business Groups with Bank Holdings

The third outcome of IBRA's restructuring work was the dissolution of some leading ethnic Chinese business groups. In addition to the bank restructuring and disposal of corporate debts, IBRA is charged with another task. The task is to make some bank owners repay liquidity support loans that they received from the central bank to cope with bank runs amid the economic crisis. In 1998, the Habibie government decided to have 9 owners of 8 banks that received the special central bank loans but were later closed or nationalized repay the loans in full within four years in cash or by sale of

assets, and concluded the repayment contracts with the bank owners concerned. These bank owners were at the same time the owner-managers of business groups. IBRA forced the bank owners to place major assets of their business groups equivalent to the repayment amounts under its control. IBRA were then to sell the assets off and to put the revenues into the National Treasury as repayments of the central bank loans.

The decision taken by the Habibie government was far harsher than measures to deal with corporate debts owed by the major obligors, which allowed for debt reductions or debt rescheduling. It was based on the thinking that the bank owners should repay the full amounts of the loans to the state within the prescribed period, in exchange for the immunity from prosecution granted for their violations of regulations regarding intra-group lending to affiliate companies. However, apparently lying behind the harsh measure was the fact that Salim Group, the largest business group and also the symbol of ethnic Chinese businessmen with “Soeharto connections”, was the largest debtor among the nine bank owners.

Table 5 lists the nine owners of the eight banks subjected to this repayment measure. The central bank loans the nine bank owners had to repay total 113 trillion rupiahs on the book value basis³⁰, larger than the total of 92 trillion rupiahs of corporate debts owed by the 21 largest obligors. The bank owners were forced to put under IBRA’s control most of the assets of their business groups in the form of shares they held in a total of 228 companies. Of the nine bank owners, seven are ethnic Chinese and two are *pribumi*. But the two *pribumi* people are the co-owner-managers of Salim Group since its establishment, and one of them, Sudwikatmono is a nephew of former President Soeharto. In short, all the nine people were involved in the ownership and management of the ethnic Chinese business groups. The business groups of Salim, Gajah Tunggal, Ongko and Bob Hasan were in the top 10 ranking of annual sales before the crisis (see Table 2). Bank Central Asia (BCA) owned by Salim

³⁰ The total amount of debts that had to be repaid by bank owners increased to 131 trillion rupiahs, as IBRA added another 35 owners of 25 smaller banks as an object of this central bank loan repayment scheme in 2000.

Group and Bank Danamon owned by Danamon Group were the top private banks, together accounting 25% of the total assets in the private bank sector in June 1997 before the crisis. These influential business groups that formed a part of ethnic Chinese dominant capital that had been accumulated during the Soeharto era not only lost the core bank units but also were to be broken up to the extent of having no trace of their original form.

Table 5 Banks / Business Groups Subjected to Repayment of Central Bank Loans

Name of private banks subjected to repayment measure	Bank owner (owner-manager of business group)	Name of business group	Debt value (trillion Rp.)	No. of companies to be sold off	Name of holding company under the control of IBRA
Bank Central Asia (BCA)	Soedono Salim	Salim	52.6	108	PT. Holdiko Perkasa
Bank Dagang Nasional Indonesia (BDNI)	Sjamsul Nursalim	Gajah Tunggal	28.4	12	PT. Tunas Sepadan Investama
Bank Danamon	Usman Admadjaja	Danamon	12.5	27	PT. Bentala Kartika Abadi
Bank Umum Nasional (BUN)	Kaharuddin Ongko	Ongko	8.3	21	PT. Arya Mustika Mulia Abadi
Bank Umum Nasional (BUN)	Mohammad Hasan	Bob Hasan	5.3	30	PT. Kiani Wildha
Bank Modern	Samadikun Hartono	Modern	2.7	10	PT. Cakrawala Gita Pratama
Bank Surya	Sudwikatmono*	Subentra	1.9	6	-
Bank Risjad Salim International (RSI)	Ibrahim Risjad*	Risjadson	0.6	4	-
Bank Hokindo	Hokiarto/ Hokianto	Hokindo	0.3	10	PT. Hoswarya Persada
Total			112.6	228	

Note: Two with the mark * are *pribumi* and co-owner-managers of Salim Group. The rest 7 are the ethnic Chinese.

Source: IBRA [2000] and other sources.

Table 6 shows how their assets were disposed of. There were a total of 39 cases of asset sales by the end of 2001, with the 31 cases related to the assets of Salim Group, accounting for as much as 98% of the sale proceeds. Salim Group has the central bank loans to repay far larger than other bank owners, amounting to 52 trillion rupiahs, or 47% of the total. The share holdings in 108 companies in the business group were submitted to IBRA for sale. These shares were and being disposed of mainly through (1) sale on the overseas stock markets; (2) purchases by foreign partners of joint ventures (U.S., Japan, the Netherlands, South Korea, etc.); (3) Asian and European businesses newly entering Indonesia through open bidding (Singapore, Malaysia, and Germany); (4) newly established domestic investment and asset management companies (most of them are partnerships between Indonesian asset managers and foreign and local investors); and (5) indirect buybacks by Salim (in PT Indofood, the Indonesia's largest food company, and the group's overseas

Table 6

Sales of Assets of Bank Shareholders Subjected to Repayment of Central Bank Loans, as of the end of 2001

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	Time of sales	Company sold off	Business group	Line of business	Buyer of assets	Rupiah equivalent (bil)	Rp (bil)	US \$ (mil)	HK \$ (mil)
1	1999	PT Pacific Indomas Plastic Indonesia	Salim	polystyrene manufacturing	Dow Chemical (US)	32	-	4	-
2	1999	PT Standard Toyo Polymer	Salim	PVC resin manufacturing	Mitsui Co. / Toso (Japan)	114	-	15	-
3	1999	PT Gatari Air Services	Bob Hasan	chartering aviation services	n.a.	20	-	3	-
4	1999	PT Indo American Ceramics	Ongko	ceramics manufacturing	n.a.	39	-	6	-
5	1999.7	PT Indofood Sukses Makmur Tbk.	Salim	the largest food company	via HK stock market to First Pacific	380	380	-	-
6	2000.3	PT Astra International Tbk.	Salim/Danamon	holding company of Astra Group	C&C Ltd.(Singapore)	2,948	-	389	-
7	2000.8	BCA building	Salim	headquater building of BCA	Keppel Land Ltd.(Singapore)	280	280	-	-
8	2000.8/10	First Pacific Company Ltd.	Salim	headquarter of overseas business	public (HK stock market)	581	-	69	-
9	2000.9	PT Karimun Granite	Salim	granite mining	PT Pendawa Sempurna (former owner)	22	22	-	-
10	2000.9	PT Salim Rengo Containers	Salim	corrugated carton manufacturing	Rengo (Japan)	204	204	-	-
11	2000.11	PT Danamon Mobil & Pembiayaan	Danamon	automobile finance	n.a.	58	58	-	-
12	2000.11	QAF Ltd.	Salim	multi-national food and retailing company	via Singapore market to QAF management (Singapore)	191	-	-	36
13	2000.11	Salim Oleochemical Group	Salim	7 companies of palm oil oleochemical	PT Bhakti Investama (Indonesia)	1,143	-	127	-
14	2000.11	Indomilk Group	Salim	2 companies of dairy products mfg.	NV Marison (Netherland)	400	400	-	-
15	2000.11	PT Indomiwon	Salim	monosodium glutamate mfg.	Daesang (Korea)	80	-	9	-
16	2000.11	Mosquito Coil Group	Salim	5 companies of mosquito coil mfg.	Reckitt Benckiser Plc (UK)	610	610	-	-
17	2000.12	Kavling Tanah Cinere	Ongko	housing development	n.a.	1	1	-	-
18	2000.12	PT Asuransi Aetna Life Indonesia	Danamon	life insurance	PT ING Insurance (Indonesia)	12	12	-	-
19	2000.12	PT Landbanks Properties	Modern	real estate development	n.a.	8	8	-	-
20	2000.12	PT Danamon Sanatel	Danamon	telecommunication	PT Gemawidia Statindo Komputer (Indonesia)	39	39	-	-
21	2001.2	PT Cilicon Griyanugraha	Modern	housing development	n.a.	6	6	-	-
22	2001.2	First Pacific Company Ltd.	Salim	headquarter of overseas business	public (HK stock market)	94	-	-	67
23	2001.3	Salim Palm Plantation	Salim	25 companies of oil palm plantations	Kumpulan Guthrie (Malaysia)	3,647	-	368	-
24	2001.3	PT Indocoal	Salim	4 companies of coal mining	PT Centralink Wisesa Int'l (Indonesia)	472	-	46	-
25	2001.4	PT Indocement Tunggul Prakarsa Tbk.	Salim/Subentra	the largest cement mfg. company	subsidiary of Heidelberger Zement AG(German)	1,080	605	44	-
26	2001.4	PT Indomarco Prismaatama	Salim	food and consumer goods distribution	Bhakti Asset Management (Indonesia)	162	162	-	-
27	2001.5	PT Indopoly Swakarsa Industries	Salim	polypropylene film manufacturing	Jefflyne Golden Holding (Singapore)	321	-	29	-
28	2001.5	Yunnan Kunlene Film Industries	Salim	polypropylene film mfg. in China	Jefflyne Golden Holding (Singapore)	158	-	14	-
29	2001.6	PT Kerismas Witikco Makmur	Salim	galvanized sheet manufacturing	PT Sentralindo Bumi Persada (Indonesia)	297	297	-	-
30	2001.11	PT Indosiar Visual Mandiri Tbk.	Salim	TV broadcasting	PT TDM Aset Manajemen (Indonesia)	755	755	-	-
31	2001.11	PT Gumindo Perkasa Industri	Salim	seaweed processing	Ridwan Soeriyadi (co-owner, Indonesia)	17	-	2	-
32	2001.11	PT Poli Contindo Nusa	Salim	oil drum manufacturing	PT Kerismas Witikco Makmur (Indonesia)	50	50	-	-
33	2001.11	Guandong Jiangmen ISN	Salim	glass sheet mfg. in China	Feature Technology Ltd. (Singapore)	286	-	34	-
34	2001.11	Riau Industrial Estate Group	Salim	3 companies of Batam/Bintang estates	PT Dwi Sinergi Utama (Indonesia)	710	710	-	-
35	2001.11	Sugar Group	Salim	2 companies of sugar mfg. and plantations	Trimanunggal-Garuda consortium (Indonesia)	1,160	1,160	-	-
36	2001.12	PT Yakult Indonesia Persada	Salim	lactic acid drink manufacturing	Yakult (Japan)	60	60	-	-
37	2001.12	PT Berdikari Sari Utama	Salim	flour milling	ATS consortium (USA)	225	166	6	-
38	2001.12	Sulfindo Group	Salim	4 companies of vinylalkali (petrochemical)	Durability Enterprise Ltd. (HK)	345	-	41	-
39	2001.12	PT Indomobil Sukses Int'l Tbk.	Salim	automobile and motorcycle mfg.	Trimegah consortium (Indonesia)	625	625	-	-
Total sales revenue						17,632	6,610	1,206	103

Source: Compiled from IBRA, *Monthly Report*, July 2001 / IBRA Homepage (<http://www.ibra.go.id>).

headquarters in Hong Kong and Singapore, First Pacific Company Ltd. and QAF Ltd. respectively). All told, foreign investors are the principal buyers of assets being sold off. The results of the asset sales amounted to 18 trillion rupiahs at the end of 2001 and slightly increased to 23 trillion rupiahs by the end of 2002, but the recovery ratio to the total debt value was only 18%. Besides, there has been little progress in asset sales of debtors other than Salim and two smaller groups (Subentra and Risjadson).

Compared with other business groups, the dismantling of Salim Group had several distinct features. First, developments that led to the central bank loans for BCA were highly political. BCA was a top private bank, leading the Indonesia's banking sector in the number of branches, computerization of operations, information technology, and management capabilities. Still, the bank had to take in the central bank loans because of a major run that started in the turmoil preceding the downfall of President Soeharto, triggered apparently by the close ties with Soeharto kept by Liem Sioe Liong, the group's founder, and the fact that Soeharto's eldest daughter and eldest son were among BCA shareholders. Second, strong opposition to the repurchase of group assets by the owners was seen particularly for Salim Group. Salim Group had to drop plans to join open tender because its participation was deemed morally problematic by Indonesia's parliament, political parties, top officials in IBRA and the central bank. The backlash can be interpreted as a display of *pribumi* nationalism against the revival of ethnic Chinese conglomerates that flourished during the Soeharto era.

5. Declining Large Private Capital, Rising State and Foreign Capital

Table 7 summarizes the restructuring of banks and companies affiliated with the high-ranking business groups. The table provides the following four points as aspects of the structural changes.

Firstly, most of the business groups have lost their bank units. Before the crisis, 28 out of the 35 groups listed in the table had one or more affiliated banks. After the restructuring, only Panin Group and Lippo Group have banking operations as one

of their principal businesses. But Lippo Bank, now under the supervision of IBRA as a recapitalized bank, may still lose a group status after government-held majority shares are sold off. Gudang Garam, Djarum and Maspion Groups also keep bank units, but these banks are only peripheral to these groups and to the banking industry as a whole. The separation of business groups and banks can be reaffirmed from this table.

Secondly, among the 21 largest obligors heavily depending on domestic bank borrowing, about half can be found in the business groups listed from 6th to 19th place in the table. These groups are under intense pressure for the disposal of their assets. In particular, the position of the Soeharto family businesses is on the decline, including Humpuss Group, which could not stay as a business group after the departure of founder and Soeharto's third son, the second son's Bimantara Group, and Nusamba Group owned by foundations run by Soeharto. Dharmala Group and PSP Group, categorized as "uncooperative" by IBRA, are finding it difficult to stay in business. Three business groups that were accorded the special measures of debt restructuring for their big projects, namely, Texmaco, Tirtamas, and Barito Pacific Groups, still continue these businesses. But even these groups are cutting back on other group business operations.

Thirdly, as higher-ranking business groups had higher dependence on overseas borrowing with lower funding costs, the varying degrees of the skill in handling external debt influenced the corporate survival. A good example of success is Astra Group. The group has managed to successfully negotiate debt rescheduling and reduction accords with a consortium of foreign creditors. On top of this, the group was able to restructure its operations and finance through the sale of non-core businesses and the sale of shares to Japanese joint venture partners in the core machinery business. On the contrary, Sinar Mas Group with highly competitive export business in paper-pulp and palm oil fell into financial difficulties, after its policy to turn the paper-pulp business into multinational operations using huge external borrowings backfired in the wake of the fall in international prices. Loans to a group paper-pulp holding company by a group bank that received the capital injection turned sour, bringing in IBRA to dispose of the bad loans. The group eventually was forced to transfer most of its paper-

Table 7 Reorganization of Major Business Groups, as of 2001

Ranking as of 96	Name of business group	Domestic debts (trillion Rp.)(unit)			External debts estimated value as of end of 1997 (billion US \$)	Restructuring measure for group-affiliated banks 3)	present situations of reorganization
		Unpayable debt from banks 1)	Repayment of central bank loans 2)	No. of co. sold off			
1	Salim	0.6	52.6	(108)	5.5	nationalized	Selling assets to repay central bank loans and external debts
2	Astra	** 0.4	-		5.1	merger after capital injection	Rescheduled external debts/capital increase by Japanese JV partners
3	Sinar Mas	** 0.7	-		3.8	capital injection	Selling assets to repay external debts
4	Gudang Garam	-	-		n.a	continue	No problem
5	Lippo	0.6	-		3.2	capital injection	
6	Bimantara	* 3.1	-		0.5	closed	A part of domestic debt repayment not yet agreed with IBRA
7	Gajah Tunggal	** 1.5	28.4	(12)	3	closed / closed	Selling assets to repay central bank loans
8	Ongko/Bob Hasan	* 2.7	13.7	(51)	n.a	closed	Selling assets to repay central bank loans/bankruptcy suit
9	Djarum	0.2	-		n.a	continue	
10	Rodamas	-	-		1.05	-	No problem
11	Nusamba/Bob Hasan	* 5.2	-		1.7	capital injection / continue	Soeharto's suit dismissed/Bob Hasan found guilty and imprisoned
12	Karbe Farma	0.2	-		n.a	-	
13	Dharmala	* 2.7	**0.2		0.65	closed	Debt custody regarded as uncooperative by IBRA/bankruptcy suit
14	Argo Manunggal	* 1.9	**0.1		3.2	closed / continue	Rescheduled external and domestic debts
15	Barito Pacific	* 8.4	-		0.45	closed	Special debt equity swap measure for a petrochemical project
16	Maspion	0.0	-		n.a	continue	No problem
17	Bakrie	* 6.0	-		1.5	nationalized	Equity swap of external debts/rescheduled domestic debts
18	Humpuss	* 5.7	-		0.4	-	Debt repayment by assets/Tommy arrested and left from ownership
19	Danamon	* 3.0	12.5	(27)	1.8	nationalized	Selling assets to repay central bank loans
20	Berca	-	-		n.a	-	No problem
21	Panin	0.4	-		n.a	continue	
22	Jan Darmadi	0.0	-		n.a	-	No problem
23	Jaya	0.1	-		n.a	closed / nationalized	
24	Sampurna	-	-		0.35	sold before crisis	No problem
25	Raja Garuda Mas	* 2.7	-		0.5	closed	Rescheduled debts/closed pulp factory due to environmental problem
26	Texmaco	* 17.3	-		1.5	closed	Special debt equity swap measure for domestic debts
27	Metropolitan	** 1.2	-		n.a	-	
28	Matahari	0.1	-		n.a	-	
29	Ometraco	0.9	-		n.a	nationalized	
30	Gemala	0.6	-		n.a	closed	
34	Modern	** 1.0	2.7	(10)	n.a	closed	Selling assets to repay central bank loans/debt equity swap
36	Harapan	0.0	-		n.a	closed	Not enabled to continue as a business group due to bank industry closed
45	Citra Lamtoro Gung	** 0.9	**0.2		0.6	closed	A part of assets seized/Tollroad BOT projects revised
46	Tirtamas	* 3.9	-		2.0	nationalized/closed	Debt equity swap for a petrochemical project/bankruptcy suit
87	PSP	* 4.9	**3.0		n.a	closed	Regarded as uncooperative and repayment not agreed with IBRA/bankruptcy suit

Note: 1) * indicates the 21 largest debtors, ** the 50 largest debtors, and - no unpayable debt.

2) * indicates groups newly added in 2000 as an object for the central bank loan repayment obligation.

3) The cases with two measures indicates that the group had two or more affiliated banks. - means that the group had no banks.

Source: IBRA [various months] [2001], articles in *Kompas* and other sources.

pulp assets under the control of IBRA. Bakrie Group also had to transfer most of profitable businesses into the hands of foreign creditors as a result of debt equity swaps.

Fourthly, the business groups required to repay the central bank liquidity support loans in full were to lose a major part of their group businesses.

Through these four major causes, Indonesia's business groups went downhill after they have flowered in the 1990s with uninterrupted growth during the Soeharto era. This represents a major setback for large private capital in the ownership structure of the national economy.

The similar trend can be detected in the changes in the ownership structure of publicly-listed companies in the Jakarta Stock Exchange. Table 8 classifies listed companies into three categories ---domestic private, foreign and state-owned companies--- by the largest shareholder and compares the ownership composition between 1996 and 1999³¹. The comparison clearly shows the shift of ownership from private capital to foreign and state capital with the progress of corporate restructuring. The composition of domestic private companies has declined in every indicator, while the composition of foreign and state-owned companies increased. Although composition of assets did not rise significantly for foreign companies, there were evident increases in the composition of sales and of the number of employees. This indicates the rapid advances of foreign companies or growing foreign shareholdings in local private companies, accompanied with increasing utilization of low-cost labor. The composition of state-owned companies is also rising conspicuously in assets, mainly because major private banks were nationalized or recapitalized.

There seem to be two categories of large private businesses that are likely to survive the present challenges. The first category is companies that are totally divorced

³¹ The data set of listed companies does not reflect the ownership composition of corporate sector, as most of state-owned companies and key foreign companies do not list their shares. So, the ratio of each ownership component itself is not significant. The argument here serves only to look at the changes before and after the corporate restructuring.

Table 8 Change of Ownership Composition of Listed Companies in Indonesia, 1996 and 1999

Ownership classification	No. of companies (unit)		Annual sales (billion Rp.)		Net profits (billion Rp.)		Assets (trillion Rp.)		No. of employees (persons)	
	1996	1999	1996	1999	1996	1999	1996	1999	1996	1999
Domestic private company	184	221	92,958	169,391	8,869	3,336	283	405	578,640	689,480
Foreign company	33	46	12,560	37,659	1,016	-5,157	19	63	60,061	417,148
State-owned company	6	12	13,002	38,412	2,752	-23,092	62	242	53,396	123,758
Total	223	279	118,520	245,461	12,637	-24,913	364	710	692,097	1,230,386
Composition (%)										
Domestic private company	82.5	79.5	78.4	68.8	70.2	-14.8	77.8	56.0	83.6	55.7
Foreign company	14.8	16.4	10.6	15.4	8.0	20.9	5.2	9.1	8.7	34.1
State-owned company	2.7	4.1	11.0	15.8	21.8	93.8	16.9	35.0	7.7	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from ECFIN, *Indonesian Capital Market Directory*, 1999 and 2000, Jakarta.

Note: Classification between domestic private companies and foreign companies depends on whether the largest shareholder is a domestic or foreign investor as of the year studied, not coinciding with the company's legal status based on the investment law, that is, domestic investment company (PMDN) or foreign investment company (PMA).

from the four causes of collapse described above, that is, with less dependence on borrowings from either domestic or external sources and with the less degree of diversification into various sectors including banking. The good example is Gudang Garam Group, the largest clove tobacco maker.

Another category is for companies that overcame the difficulties relying on their own managerial capabilities, such as Astra Group. Other than Salim Group that went down mainly because of political factors despite its solid management resources, the economic crisis put most business groups to the testing of their managerial capabilities as business entities. The boom period of the 1990s provided the favorable climate for corporate management, for instance, expanded opportunities to raise funds from the domestic and international financial markets, expanded chances to diversify business lines, growing affiliations of banks and business groups that made fund management easier, and expanded opportunities to acquire business concessions through privatization projects and deepening import substitution. In such a “too

favorable” environment, regardless of ethnic Chinese or *pribumi* capital, local big businesses weakened their managerial capabilities, or even without managerial capabilities they were able to grow, but now those businesses are being weeded out on a large scale. In that sense, the major capital realignment through the restructuring policies of the banking and corporate sectors goes beyond the dismantling of the alliance between the political power and big businesses and also means the selection of businesses on the basis of corporate managerial capabilities.

4. Key Policy Issues on Economic Ownership

In the five years of the post-Soeharto period, Indonesia’s economic ownership structure has gone into a change characterized by a decline of big private capital and its replacement with state and foreign capital. This phenomenon is considered to have arisen from the conflux of two processes, the implementation of the IMF-recommended reform policy and changes in the economic structure induced by the political regime change. The government agency IBRA is implementing bank and corporate restructuring policy, trying to meet the impact of both processes.

IBRA is at once a political agency, for its policy-making processes are intervened in by a number of actors struggling to get their own interests reflected to IBRA decisions. In this sense, IBRA policies are a political product. Policies drafted by IBRA and the Minister in charge³² must be approved by the Financial Sector Policy Committee (FSPC, or *Komite Kebijakan Sektor Keuangan*, KKSK), President, the IBRA-monitoring institutions, the House of Representatives and political parties, and finally IMF’s approval. The post-Soeharto policy making process is far more complex than at anytime in the past.

³² The jurisdiction of IBRA was transferred from the Minister of Finance to the State Minister for state-owned enterprises in the Megawati government starting from August 2001. The State Minister now in charge is Laksamana Sukardi, one of the leading members of the party in power, Indonesian Democratic Party of Struggle (PDI-P) led by Megawati herself.

The first key issue in economic ownership restructuring led by IBRA is utilization of foreign capital; to what extent Soeharto-time big private capital, once transferred to state control, should be sold off to foreign hands. The actors affecting IBRA policy making are generally divided over this issue into a pro-foreign capital faction and a nationalist faction. The former argues that banking and corporate sectors should be strengthened by introducing competent foreign capital equipped with managerial capabilities and expertise. The latter stands against the former's idea that would increase Indonesia's dependence on foreign capital in the key industries. But both seems agreed on the point that *reformasi* in the economic sphere should be carried forward by wiping away the previous structure of vested interests held by the Soeharto family and Soeharto-linked capitalists.

The opposite choice to foreign capital is *pribumi* capital. *Pribumi* capital in turn is divided into two segments --- state capital and private *pribumi* capital. The choices here are whether the former big private capital now under IBRA should be kept controlled by state or sold off to private *pribumi* asset management companies. It is interesting to note that this state-or-*pribumi* alternative itself was constituted during the Soekarno era. Whichever the choice, this framing of alternatives reflects chauvinistic economic nationalism bearing the birthmark of Indonesian economy. Conversely, if policy decisions are to be made to utilize foreign capital on a large scale as the spearhead of the bank and corporate restructuring efforts, Indonesia then would be doing something unprecedented in its history.

Located in between the two extremes is the formula of reutilization of ethnic Chinese capital, the main body of capital accumulation in the Soeharto era. How far ethnic Chinese big capital is reutilized is the second key policy issue. A realistic choice may be to let emerge a mix of ethnic Chinese, foreign, and private *pribumi* capitals, inviting the participation of those ethnic Chinese entrepreneurs which have not been too seriously hit by the political change and economic crisis and so have surplus to invest. Also those ethnic Chinese business groups that have overcome their plights through their own managerial capabilities can be effectively utilized as the main source of Indonesian industrial competitiveness. This last will certainly be a crucial element in

the Indonesian economy's new growth scenario.

The economic environment surrounding Indonesia is far more competitive than in the Soeharto period. Regional economic integration has progressed, corporate activities are globalizing, and the economic power of China is rising remarkably. From the point of view of industrial competitiveness, one recommendable scenario of Indonesian economic ownership reform would be to invite foreign companies with high expertise and competitiveness as much as possible, to activate around them ethnic Chinese business groups that have overcome the crisis as well as private *pribumi* capital including medium and small enterprises, and to promote their collective activities through mutual linkages. The state support for banks and corporations should be a temporary measure. In adopting new ownership intervention policies, the Indonesian government faces a crucial ordeal where its capability for public governance is tested. Whether the Indonesian government can control influences of short-term political interests and economic nationalism, whether it can make policy judgment on the basis of economic rationality, and whether it can opt for policies with corporate capabilities as the criterion so as to acquire competitiveness and productivity in long-term perspectives are of critical importance.

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