Abstract

This paper emphasizes the change in business and government relations in post-Soeharto Indonesia. After the reformasi in 1998, Indonesia experienced a dramatic change in economic political atmosphere. Under Soeharto’s Orde Baru regime, business and politics cannot be separated. Most Indonesian politicians dominated economic and business sector and most of Indonesian businessmen had a link with politicians. However, although the political economic atmosphere in Indonesia post-reformasi has changed, the relationship between business and government remains the same. This means that whoever runs business still needs a close connection with authority to gain success and the politicians as well as the bureaucrats need the financial support of business to maintain their political activity and personal interest. Indonesian experience is typically occurred in developing countries. To explain this business and government in post-Soeharto Indonesia, I will try to elaborate by having a thorough understanding at the characteristic of bureaucratic politics and political culture in Indonesia. The result is although Indonesia experienced a political change but as the connection between politicians and business elites have been established for such a long time in Indonesia. Therefore this kind of relation is hard to be erased this is because a long personal network has been deeply rooted in all the aspects of business and politics in Indonesia.

Keyword: business, government, bureaucratic politics, Indonesia
The relationship between business and government in Indonesia plays a significant role in shaping the Indonesian political economy. The link between business and government was so obvious during the New Order regime under the Soeharto leadership. As Eklöf notes, the intimate connections between politics and government characterized Indonesia’s political economy under Soeharto (Eklöf in Edmund T. Gomez, 2002, p.216). Another characteristic in the Soeharto era was that the business or economic sector was dominated by Chinese business players. Under Soeharto, the state served as the central actor, therefore the major business actors were those who had a close network with the government, the bureaucracy and senior military officials. Eklöf suggests that the result of that relationship was the emergence of three groups as major politically connected companies. Those groups were the Sino-Indonesian conglomerates (Chinese Indonesian conglomerates), state-owned enterprises (SOEs) and indigenous Indonesian (pribumi) businessmen (Eklöf, 2002, p.216).

When Soeharto stepped down following the domestic political and economic instability and Indonesia entered to the new era of reformasi, which literally means reform, will there be reform in the relationship between business and government in Indonesia? What have been changed in business and government in post-Soeharto Indonesia? This essay will try to look at the change in business and government in post-Soeharto Indonesia. I shall argue that even though the political economic environment has changed, the relationship between business and government remains the same. This means that whoever runs business still needs a close connection with authority to gain success and the politicians as well as the bureaucrats need the financial support of business to maintain their political activity and personal interest.

It is indeed a difficult task to understand the politics of Indonesia under Soeharto. Most of the scholars who attempt to interpret Indonesian politics suggested that the state is the central power in politics. Andrew Macintyre (1991) attempts to compile several scholars’ works on Indonesia such as Benedict Anderson, Harold Crouch, Richard Robison and William Liddle, who articulate that the politics of Indonesia was revolved around the elite and its bureaucrats, military and business actors (1991, p. 6-17). However, related to state-society relations, Macintyre suggests that there were three basic types of linkage between society and state: patron-client relationship, corporatist channels and political input by ‘osmosis’ or absorption (1991, p.18). This linkage placed the state as the dominant actor in Indonesia’s politics. The bureaucrats served as patrons for society, the state employs their institutions to maintain their political power towards society, and the state officials play role of political actors rather than societal actors (Macintyre, 1991). During the New Order regime, Soeharto and his deputy established Golkar as his political machine to maintain their legitimate power in ruling Indonesia.

Related to business and government relations in the New Order, the political conditions where the state is the major actor created an environment where business depended on the state. With Soeharto as the centre, Adam Schwarz describes him as the president, general and king (1994, p.44). The Indonesian politics mainly focussed on him and his surroundings: the bureaucrats, the military, the pribumi, the Chinese corporations and state-owned enterprises (Brown, 2006). The relations between business and government were based on the connections between business actors and bureaucrats. The closer to the political elite and the more connected to the bureaucrats, the more successful the businesses. The intertwining relations among those actors brought Indonesia into a corrupt political economy system. This also created an ‘acute’ cronyism in all aspects of Indonesian political economy. The cronyism only allows those who stood around the political elite to gain benefits from the political or economic system. Brown suggests that

* the serious dimensions of the problem of corporate corruption and cronyism are entangled in the various institutions in Indonesia: the precidency, the first family, the bureaucracy, the military, the charitable foundations (yayasan), dominant ethnic Chinese capitalism, pribumi
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capitalism, state owned-enterprises, in particular Pertamina, Bulog and Berdikari, and the legal infrastructure, the judiciary, the courts, and the legislation relating to corporate affairs" (2006, p.954).

Faulkner (1995) points out that almost 80 per cent of commerce in the country is controlled by Chinese Indonesians. The Chinese Indonesians are well-known as very hard workers and traders like other Chinese who live in other parts of the world. Faulkner categorizes Chinese business people in Indonesia into three groups: those who exemplify the way of living and doing business in China, those who have strong Western influences and experience, and those who have been assimilated with the pribumi (1995, p.9-10). In addition to the Chinese skills in doing business, the political environment under the New Order regime encouraged a larger opportunity for Chinese businessmen to control the Indonesian economy.

Eklöf (2002) emphasizes how the Chinese conglomerates became the dominant players in Indonesian business. The policy of the New Order regime, which allows the application of liberal foreign investment and trade regimes and cut back spending on SOEs, encouraged the emergence of Sino-Indonesian businessmen. Those are particularly people who are close and well-connected with the elite. Many Chinese businessmen had a joint venture with the New Order’s military leaders; this allowed them access to state licences, contracts, bank credit and protection. The Chinese corporations also provided large amount of funds for military officials to finance military operations, political activity and personal consumption (Eklöf, 2002, p.217).

Those networks with the state’s policies which favoured Chinese corporations, encouraged the growth of Chinese conglomerates during the New Order regime. Those conglomerates include Lien Sioe Liong who dominates the food industry, William Suryajaya who dominates the automobile business, Mochtar Riady who is powerful in finance and Mohammad ‘Bob’ Hasan who controlled much of the timber industry (Eklöf, 2002, p. 218). Those tycoons achieved their success because of their close connections with the political elite, particularly Soeharto himself. They maintained their loyalty to Soeharto and built their status as Soeharto’s cronies. The domination of Chinese businessmen resulted in less opportunity for the indigenous people of Indonesia (the pribumi) to deal with the economy. Even though the Muslim and pribumi businessmen emerged during the 1980s and 1990s, their conglomerates were relatively small compared to the Chinese conglomerates. The only pribumi business players who gained success were those who had links with the Soeharto family such as his sons Bambang Triatmodjo and Tommy Soeharto (Eklöf, 2002).

The situation of the Indonesian political economy from the 1970s seemed to last forever. Soeharto successfully managed to control this country for almost thirty years. Based on a solid consolidation of his supporters (the military, the bureaucrats and the Chinese business), Soeharto seemed to be ‘untouchable’. Eklöf notes that the businesses of the Soeharto family were growing rapidly during the mid-1980s. Their businesses were supported by various politically allocated privileges and joint ventures with foreign investors or major Chinese Indonesian conglomerates. This resulted in the connections between business and politics becoming further integrated and embedded in power, which created an unprecedented politicization of the economy (Eklöf, 2002, p.222).

However, the corruption and cronyism system set a fragile base for Indonesia’s economy. When the financial crisis hit Asia in 1997, Indonesia was not well prepared for the shock. As Eklöf notes, the easy access to cheap credit, -as a result of the connection network with authority- created a high debt-equity ratio for many companies, thus making them more vulnerable to interest rate shocks and currency fluctuations (Eklöf, 2002, p.226). As the rupiah was severely depreciated, the conglomerates began to move their capital to other countries which was followed by the collapse of Indonesia’s economy. According to Eklöf, the corruption and mismanagement of the regime also led to the loss of confidence from the Indonesian people towards their government (2002). When Soeharto only focused on himself and his family, people began to attend demonstrations to bring down the New Order regime.

Following the financial crisis, which also hit other Asian countries such as South Korea and Thailand, Soeharto finally was forced to step down in May 1998. This also illustrated the end of the New Order
regime after thirty years of rule. The people of Indonesia welcomed the new era, the reformasi era. During the New Order regime, the political economy system was set up for the benefit of a small part of society. The relationship between business and government was built on connectivity between business actors and bureaucrats. This created corruption, cronyism and nepotism in all aspects of the Indonesian political economic system. With the spirit of reform, the question will be: can the new government bring about political economy reform to Indonesia? Can the new system provide a fair opportunity for all business actors not only Chinese businessmen?

Reformasi might bring a degree of political freedom for most Indonesians, but the days prior to the resignation of Soeharto were nightmares for Chinese Indonesians. Following the financial crisis, the rupiah was highly depreciated and the inflation rate was high as well. The increasing prices, particularly for basic goods, triggered unrest within society. The poor pribumi who were marginalized under the New Order regime blamed the domination of the Chinese in business. As Adam Schwarz notes, the violence and riots which occurred in May 1998 were largely directed at the ethnic Chinese community. The Chinese have long been resented by the indigenous majority for their economic dominance. Under the New Order regime, the Chinese rarely became the targets of violence, thanks to their network with the bureaucrats and the military. However, when the majority indigenous people saw that Soeharto’s power was weakened, they began to violate the Chinese (Schwarz, 1999). During the riots in May 1998, many Chinese-owned shops were robbed and burned. Many Chinese women were raped. Schwarz suggests that some Chinese believed that some of the military officers, including Soeharto’s son-in-law Lieutenant-General Prabowo Subianto, were anti-Chinese for their slow actions to stop the riots. Therefore, ethnic Chinese were a traumatized community when they entered the reformasi era, in contrast with other ethnic groups in Indonesia who marked reformasi with euphoria (Schwarz, 1999, p.2).

Focusing on democracy, Indonesia proved to maintain a relatively peaceful transition after Soeharto stepped down. McLeod emphasizes some stages in the Indonesian transition following the end of the New Order regime (2002). The first stage is the handover of power from Soeharto to the vice president at that time, B.J. Habibie, in May 1998. The second stage was involved general elections for the parliament in June 1999. This has been seen as the first democratic elections for the people of Indonesia. The election was won by Partai Demokrasi Indonesia Perjuangan led by Megawati Soekarnoputri, but during the indirect election in the People’s Consultative Assembly (MPR), the majority of members appointed Abdurrahman Wahid as the president of Indonesia. The third transition involved the dismissal of Wahid in July 2001, who was replaced by Megawati Soekarnoputri. The fourth transition was the first direct presidential election in Indonesia in 2004, which resulted in the appointment of Susilo Bambang Yudhoyono (SBY) as the president and Jusuf Kalla as the vice president (McLeod, 2005, p. 367). Kalla is one of the successful pribumi businessmen in Indonesia who had a close relationship with Soeharto and Habibie in the past. Despite Kalla’s long time in Golkar, it was a wide-spread rumour that SBY appointed him because of his wealth. This again emphasizes the linkage between business and politics in Indonesia.

The people of Indonesia expected that reformasi could bring changes in all aspects of political, economic and social life. This also includes the business sector. Can reformasi bring reform in business environment? Related to the situation of business in Indonesia during the reformasi era, Pierre van der Eng notes that despite some improvement, business in Indonesia still faces the same problem that happened in the past (van der Eng, 2004). For the last six years after the reformasi began, the government has brought about significant development at the macro level. Among other things, they restructured banks and bad loans, the rupiah was stabilised and appreciated, inflation moderated, interest rates fell and export growth was recorded (van der Eng, 2004, p.1). Since the reformasi government was formed, the government issued various reform policies which showed the good will of the government to help the economy recover. However, many observers were pessimistic about the government’s efforts; those argued that reformasi has not achieved its goal which is economic recovery. Particularly, the government has not overcome the high level of unemployment and the low rate of income (van der Eng, 2004, p.1).
Related to the political economy of Indonesia, Sadanand Dhume argues that the whole picture of the Indonesian political economy, both in the New Order regime and the reformasi era, was relatively the same (Dhume in M. Chatib Basri and Pierre van der Eng, 2004). Dhume notes that,

"...one important aspect of Indonesia’s political economy remains largely the same. The relationship between ethnicity and business –founded under Dutch rule and hardened under Soeharto- has not been shaken. The military may have lost much of its clout, the regions may have found new resources, and the press and civil society may have new teeth. But when viewed through the narrow prism of ethnicity, Indonesia’s private economy remains much the same –dominated by the minority ethnic Chinese community, with indigenous or pribumi ownership of major corporations more the exception than the rule." (2004, p.61)

Dhume suggests that the Chinese businessmen are able to maintain their positions at the central of the Indonesian economy because their connection with politics was deeply rooted. As Dhume notes, ‘many argue that the end of the Soeharto regime has not ended the traditional relationship between politics and business in Indonesia, that the relationship between political and business elites nurtured during more than three decades of the New Order have become too deeply rooted for things to change’ (Dhume, 2004, p. 64). Another aspect which supports the sustained role of Chinese businessmen in the Indonesian economy came from the political side. As happened in the past, the Chinese who have a large amount of money and resources will always be needed by the politicians. The politicians need money for their political activity whilst Chinese business needs a network for easy access to licences and contracts. Also the Indonesian economy has long depended on the capital possessed by Chinese business (Dhume, 2004).

The domination of Chinese businessmen in the Indonesian economy has always become the main issue. At the early stage of reformasi, when many Chinese fled from Indonesia, this was considered as the opportunity for the pribumi entrepreneurs to take over control from the Chinese of the Indonesian economy. Aburizal Bakrie, the chairman of the Indonesian Chamber of Commerce and Industry and the head of Indonesia’s largest pribumi conglomerates, called for the government to use the economic crisis to redistribute the property of Chinese Indonesians to pribumi (Eklöf, 2002, p. 232). Another attempt made by the government to encourage the participation of pribumi in business was established by Adi Sasono who served as Minister of Cooperatives and Small Enterprises at that time. He proposed a huge project to distribute cheap credits for 53,000 existing cooperatives in Indonesia to distribute basic commodities (Eklöf, 2002, p.233). Those policies have encouraged the emergence of the pribumi and Muslim entrepreneurs to engage in business. However, following the recovery process of the economic crisis, many of the Chinese businessmen returned to Indonesia to continue their business. Even though the pribumi entrepreneurs are growing, the Chinese continue to dominate business in Indonesia.

Another significant issue in business and government is related to corruption. Under the New Order regime, the political economic system had been characterized by corruption, cronyism and nepotism. As discussed above, corruption and nepotism were an ‘integral part’ of the relations between business and government. During the movement for reformasi, the students use the abbreviation of KKN (korupsi, kolusi dan nepotism) to address the corruption, cronyism and nepotism which were deeply rooted during the New Order regime. Even one of the reformasi goals was to eradicate those three acute diseases from all aspects of the Indonesian political economy. How is the reformasi government attempting to address those problems?

Following the demand from the people to eradicate corruption, the new government formed the Public Officials’ Wealth Audit Commission (KPKPN) to audit the wealth of the bureaucrats. However, KPKPN was criticized for being inefficient because this institution only recorded the wealth of public officials. Therefore, in December 2003, parliament endorsed Law No. 30/2002 which formed the Corruption Eradication Commission (KPK). This new institution was equipped with more power to investigate and prosecute those involved in major corruption cases. This government initiative was then followed by some domestic groups such as the Indonesian Chamber of Commerce and Industry (KADIN) who ran a national campaign against bribery (van der Eng, 2004, p.11).
However, despite those initiatives, the attempt to bring the corruption cases to court remains a difficult task for the government. This is because the corruption occurred among the bureaucrats around the elite. This is difficult because those who are involved in corruption still have significant connections in the new government. This made the people of Indonesia feel frustrated. It was obvious that Soeharto had conducted major corruption through his charity organizations, his children’s companies and his cronies’ enterprises. However, to date, the Attorney General has not successfully brought Soeharto to court. The law only touched Tommy Soeharto and Bob Hasan as the court finally jailed them for a corruption case, but most major corruption cases remain unsolved.

Another issue for the relations between business and government during the reformasi era is the privatization of SOEs. The privatization of SOEs was part of the recovery package offered by the IMF when Indonesia was hit by the financial crisis. Under the New Order regime, the SOEs had been long performed inefficiently. Even Soeharto and his cronies used SOEs as the source of their wealth which resulted in corruption practices in SOEs by public officials. One major corruption case was the one in Pertamina (the National Mining and Oil Company) under its first President Director, Ibnu Sutowo, in the 1970s. Sutowo had made Pertamina the source of wealth for Soeharto, the military officers and himself (Brown, 2006).

The process for the SOEs privatization had been initiated in the early 1990s following their poor performance. Some of the SOEs were successfully going public and improving their performance, but most SOEs continue to deal with inefficiency, overstaffing and poor productivity (van der Eng, 2004). The issue of the SOEs’ privatization has become a debate among Indonesians particularly because of its political issue. As Prasetiantono notes, Indonesia’s privatisation program is controversial, because the Indonesian people see this more as a political issue than an economic one (2004, p.155). The people of Indonesia consider that the privatisation of some SOEs will lead to the loss of state ownership and the loss of national pride.

To sum up, the transition for democracy should provide a basis for reform in business and government relations in Indonesia. Indeed, some reform has resulted from the changes in the political economy system. Those include the initiatives from the government to eradicate corruption, the emergence of pribumi and Muslim businessmen along with Chinese Indonesians and the improvement of the performance of SOEs. However, to some scholars such as Eklöf and van der Eng, the relations between business and politics are likely to continue to represent the ones during the Soeharto era. Despite the fact that the authoritarian style of leadership was no longer exists, the practice within business and government remains the same. Eklöf argues that the intimate links between business and politics are still a major hurdle in Indonesia’s transition to democracy (Eklöf, 2002).

As the connections between politicians and business elites have been established for such a long time, therefore those connections are hard to eliminate. That personal network has been deeply rooted in all the aspects of business and politics in Indonesia. The relationship between politicians and businessmen is symbiotic, which means that ‘the businesses have much to gain from influencing the political process, and the politicians often desperately need funds for their political activities’ (Eklöf, 2002, p.243). Thus it is indeed difficult to separate business and politics in Indonesia, because both are depending on each other.

For Indonesia, reformasi can be the beginning of the changes in the political economy system. Reformasi can be a basis for reform in business and government relations and at the end can eliminate corruption. However, those goals cannot be achieved in a short period of time, particularly for business and government relations and corruption, because those are already heavily embedded in the practice of the Indonesian political economy system. What Indonesia does need is good will from the government to create a fair environment of business and to create a fair and transparent bureaucracy. The government needs to provide a fair opportunity for all Indonesians —both pribumi and Chinese- in doing business in this country. And those government’s initiatives must be also supported by all Indonesians to help the reform in Indonesian political economy system.
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