Anatomy of a disaster: the IMF’s war on corruption in Indonesia and the effects of structural adjustment

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NOTE

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Chapter 4

The Emergence of KKN in Indonesia: Suharto’s New Order to 1979

Historically, the Indonesian republic has been characterised by political violence and fear instilled within the population by Suharto’s New Order government. Patronage and clientelistic relationships have however many a time been overlooked when it comes to understanding authoritarian rule and the way the political and social elite within these countries was able to emerge. In fact, a system of privileged relationships was an essential means by which authoritarian rule was retained by Suharto. In this period we may argue that although corruption was pervasive, it could be understood as functional. This is evidenced by the sound rates of economic and human development during the period. Furthermore, we see that the regulatory nature of government economic policy that evolved alongside systems of patronage did not deter FDI in the following decades of the 1980s and 1990s, when the opportunity was presented for outsiders to invest. Therefore, this chapter will outline Indonesia’s colonial and post-colonial political economy up until the 1980s in order to provide a background for the next chapter that will examine just how corruption, patronage networks and political-business relations emerged within that framework and were managed by the New Order government.

As with other countries in the region, including Malaysia, Thailand, Korea and Vietnam, Indonesia’s development was subject to the impact of regional and global activities (essentially, world oil prices and the rise of Northeast Asian and Japanese foreign direct investment) and was challenged with a mix of domestic issues. The governments of all these countries were also confronted with a plethora of social issues, ethnic tension, ethnic related riots, party divisions, economic challenges, and an array of pressures from national and international bodies. Yet for all the obvious similarities between these countries, they all posses characteristics that are both subtly and overtly unique to each of them. As Robison puts it, any given country’s position at any given point in time is “the outcome of a specific history of social and political conflict”. And MacIntyre asserts that it is virtually impossible to portray a simple or compact picture of

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business-government relations in Southeast Asia, as, for all their similarities, the countries are also decidedly diverse.\(^2\)

Indeed it is difficult to present an all-encompassing analysis of such an intricate web of relations and activity even within a single country. There is also little point in attempting to isolate a specific industry sector when discussing the issues at hand, as the main domestic business groups under discussion are conglomerates, which, because of their very nature, virtually always span multiple sectors.\(^3\) Thus to gain an understanding of changes to business-government relations in Indonesia as a result of the IMF program, and the impact that this had on foreign business sentiment, the approach of the thesis will not be sector restrictive, but rather it shall examine the overall trends.

Although much discussion revolves around patronage and patrimonialism, Indonesia was not a *patrimonial state*. While broader society was dislocated from politics to a degree, it may be argued that it was also somewhat politicised.\(^4\) The government attempted to appease the *prihumi* (the indigenous Indonesian population) through the establishment of State Owned Enterprises (SOE’s) to compensate for the lack of private sector wealth held, so subsequently SOE’s became “an important locus of power, patronage and rents-seeking”\(^5\) for Indonesia’s *prihumi*. It was anticipated a stop would be put to such activities when the SOE’s were downsized during the mass privatisation of the 1980s, but this was not the case. As we shall see in the following chapter, networks of patronage repositioned themselves in the private sector, new relationships between business and government were evident, and pre-existing relationships between the two sectors became increasingly pervasive, and Schwarz contends that “privatisation in many cases has been little more than a transfer of assets to Indonesia’s political elite, with only a modest increase in competition”.\(^6\)

4.1 Overview

It is particularly useful to consider the Suharto regime in the four distinct eras as periodised by Hall Hill, that is Rehabilitation and recovery; (1966 to 1970); Rapid growth, (1971 to 1981); Adjustment to lower oil prices (1982 to 1986), and Liberalisation and recovery, (1987 to the present [1997]). As the leader of the New Order, Suharto endeavoured to establish and consolidate Golkar’s dominance and set about engineering a new post-colonial political economy for the country to address the virtual collapse of the national economy towards the end of Sukarno’s presidency. Before rehabilitation and recovery took place, the economic circumstances of the country and tensions between and amongst the government and social formations were bleak. Sukarno had severely mismanaged the economy, rendering the civil population hungry and in poverty, and fostered animosity between the Partai Komunis Indonesia or Indonesian Communist Party (PKI) and the Angkatan Bersenjata Republik Indonesia or the Armed Forces of Indonesia (ABRI) in an attempt to keep both sides in check. Besides promising relief from the parasitic regimes of the Dutch, British and Japanese empire, independence augured greater autonomy, prosperity, and growth for the whole population. The 1950s and early 1960s were an era of relative discontent as Indonesia’s economic situation failed to improve and the Sukarno government was increasingly the target of popular resentment. The major industry for Indonesia at that stage was agriculture, which had a low output and was primarily the industry of the poor, who also comprised the bulk of the population. The Guided Democracy and Guided Economy strategies, under the guise of socialism, failed to achieve the results intended by Sukarno, which was that of self-sufficiency through industry. Indonesia descended into virtual chaos in the mid-1960s due to the disastrous state of the economy and the

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8 The military dominated political organisation, Golkar, was effectively controlled by Suharto during his time in power and was a political vehicle for the legitimisation of military rule in Indonesia.
country suffered from poverty and malnutrition.¹¹ So when Suharto took power in 1965, economic development was a central component of the New Order’s agenda. The stability and rise in living standards afforded by economic growth would in turn serve as the basis of the initial legitimacy Suharto set out to establish, and later consolidate, into authoritarian rule. Later in 1997-1998, the IMF’s attempt to reduce Suharto’s power also undermined a number of the economic policies which had afforded the rise in the standards of living, such as the cut to subsidies on rice and kerosene.

During the second part of the 1960s, although Import Substitution Industrialisation (ISI) remained the principal strategy to deliver development, Suharto partially opened up the economy in order to attract foreign investment as domestic capital appeared insufficient to deliver the planned economic expansion. Aside from contributing capital to the domestic economy, the entry of foreign direct investment, it was argued, would serve in a training and advisory capacity to domestic business in weaker sectors. This approach is common to other developing economies in Southeast Asia, in different periods, such as Malaysia where onsite training for national labour was required as part of some foreign companies’ government-approved contracts.¹² However, discontent still rippled through the national population, with particular resentment growing towards Chinese business. Although a Chinese capitalist or entrepreneurial diaspora is evident throughout Southeast Asia, Indonesia and Malaysia are perhaps the two countries where ethnic tensions and resentment by the indigenous populations towards their Chinese counterparts is most noticeable. Subsequently this ever-present tension has manifested into sporadic incidents of ethnic violence with racial targeting directed towards the Chinese population as a reaction to frustrating economic conditions, in particular, the riots of May 1969 in Malaysia, and January 1974 in Indonesia. Ethnic conflict pre-dates the modern post-independence era, but displays of such large-scale violence had not previously occurred, nor were they common. Evidently, ethnic Chinese commercial dominance was a major catalyst for the subsequent prabumi oriented policies of the 1970s economic nationalist phase of


¹² The Mahathir government in Malaysia in particular placed much emphasis on this technique. See for example, R. Marsland, ‘Malaysia: High Tec or no Chance’, *Director*, 50(2), September 1996, p. 24.
development. This reflected a genuine shift in Indonesia during the 1970s away from the political struggles that accompanied the previous decade and towards the national goal of equitable development.

The rise in world oil prices throughout the 1970s allowed the economies to once again become more inward looking and provided the means by which the governments could focus an increase in spending upon infrastructure, industry, and other areas of the economy that in the previous decade were open to private investment. A set of inward looking ISI policies were employed in an effort to build up the domestic economy and stem international competition, and policy favouring the aforementioned economically disadvantaged *prabumi* groups was expanded. The role of the state was increased further with the promotion of numerous SOEs, including *Industri Pesawat Terbang Nusantara* or the national aircraft company (IPTN, later renamed *PT Dirgantara Indonesia* (DI)), *Industri Kapal Indonesia* or the national shipbuilding company, *Perusahaan Listrik Negara* or the national electricity company (PLN), *Perusahaan Gas Negara* or the national gas distribution company (PGN), and most importantly the state owned oil company (and cash cow) *Perusahaan Tambang Minyak Negara* (Pertamina), to accommodate and support the new approach of the 1970s. During this period, the SOEs were controlled primarily through Golkar by various members of the military and other political associates close to Suharto, such as BJ Habibie. Despite these close political-business associations, the Suharto administration delivered economic growth and stability to Indonesia during this decade (See Table 3 p. 79 and Table 7 p. 183). However, the collapse of world oil prices in the mid 1980s, alongside criticisms that the ISI initiatives were suffocating development, provoked a reassessment of the favoured economic framework.

The protective measures implemented in the 1970s were eased as the region faced recession and an aggressive labour-intensive, EOI approach was adopted throughout the 1980s. The domestic response to the reorientation of Indonesia’s economic framework was divided along two distinct lines with one faction advocating the economic reform and the other arguing against any significant changes to the ISI arrangement. Ultimately, the Suharto cabinet decided to discard some protectionist policies as Indonesia sought to become more outward looking. This was primarily achieved through the opening up of some sectors to foreign investment and a relaxation
of some import controls. Indonesia’s so-called liberalisation phase of the 1980s and early 1990s was manifested in the vigorous deregulation and liberalisation programmes implemented by the Suharto government. The presence of pervasive corruption occurred alongside high levels of FDI during this period. The trend continued up until the financial crisis in 1997, when the reaction of nervous investors caused capital to flow out of the region as quickly as it had so eagerly flowed in over the last decade.

4.2 Independence to 1965

The politico-business relations that were established and flourished under Suharto were not simply a product of the system that was the New Order. Patronage and oligarchy existed under the socialist system of Sukarno, and in turn, during colonial rule. For example, a number of indigenous capitalists who emerged from the Benteng program of the 1950s (discussed below), were well known politico-business figures during the New Order era. However, it is the nature and function of politico-business relations, coupled with the state of the political-economy and the impact that this had upon development, which is of interest.

4.2.1 The Late Colonial Era – Independence

In 1830 the ‘Cultivation System’ was implemented in Java under the auspices of Governor-General Johannes van den Bosch as a means of revenue both for the colonial administration in Indonesia and for the Netherlands economy, which was flailing after the Napoleonic Wars and the civil war involving Belgium. The ‘Cultivation System’ entailed the compulsory production of prescribed export crops by Indonesian farmers, who were obligated to surrender a discretionary amount of the harvest to Dutch officials. This system was highly exploitative as Houben illustrates:

> Under the Cultivation System the Javanese peasant population was required to produce cash crops, such as coffee, sugar cane and indigo, on their fields and to deliver them to government warehouses scattered throughout Java. In return the peasants received crop payment, an arbitrarily fixed compensation in cash that bore no direct relation to the value of produce on the world market.13

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However, from around the beginning of the twentieth century Indonesia’s economy under the Dutch had taken a somewhat decisive turn. As the so-called ‘Cultivation System’ was dismantled, Indonesia was affected in the 1930s by global depression, yet its abandonment did not result in economic industrialisation, rather the economy remained predominately agricultural. The Netherlands shipping enterprise allowed for the production and export of tropical crops that were largely owned by private enterprise, thus between 1900 and 1930 sugar and tea production increased four and ten fold respectively. Other major commodities that were for the most part privately owned by Dutch and other western interests, included tobacco, coffee, tin, copra, pepper, and importantly oil and rubber. At the turn of the century oil production also increased dramatically, with around 85% of oil operations by carried out by the Royal Dutch Shell company. Rubber production too became an important part of Indonesia’s economy and, according to Ricklefs, Indonesia supplied around 50 per cent of the world’s rubber by 1930.

However, there were very few Indonesian-owned enterprises and in 1900 the Netherlands formulated an ‘Ethical Policy’, based upon the idea that the exploitation of the region obliged the Dutch to provide welfare for their indigenous counterparts. The Ethical Policy however remained somewhat piecemeal, with only limited success for many of the infrastructure and irrigation schemes if they were completed at all. Subsequently, Ricklefs notes, “the Dutch colonial government failed to produce policies which might have encouraged industrialisation in Indonesia” and in 1930 the ‘Ethical Policy’ was abandoned with the onset of the Great Depression. However, Kingsbury maintains that one of the benefits of the ‘Ethical Policy’ was the rise in education levels for the indigenous population and also the onsite training received for plantation related work. Furthermore, he argues that

One main consequence of the rise in educational levels among indigenous peoples was the increasing numbers and influence of Western-educated local people. These

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14 Coffee was the last commodity to be released from compulsory production in 1917.
16 M. C. Ricklefs, A History of Modern Indonesia Since c. 1200, p. 194.
18 M. C. Ricklefs, A History of Modern Indonesia Since c. 1200, p. 197.
individuals began to question and rebel against the Dutch East Indies government when it implemented a legal caste structure, which made distinctions between Dutch, mixed-race, and indigenous Indonesians. Thus Indonesia’s independence movement was born.20

From 1933 in response to the Great Depression, the Dutch administration focused its attention in Indonesia towards utilising the copious amount of cheap labour available and thus developed trade based upon manufactures and production of rice for domestic consumption.21 This approach was fostered largely through the implementation of protectionist policies, which strictly limited the amount of Japanese imports that were undercutting Asian exports globally.22 Dick asserts that the protectionist policies of the Dutch administration were something of a success, reflected in the economic indicators which showed:

the manufacturing share of GDP jumped, from 8% to 12% between 1931 and 1939…By 1938 the Netherlands Indies was almost self-sufficient in cigarettes, frying pans, paint, toiletries, beer, shoes and confectionery; there was also significant local production of business, margarine, batteries and bicycles…Under the quota system, much of these gains had been at the expense of Japanese imports.23

However, the intended development of heavy industry that began in 1940 failed to eventuate due to the impact of war and more importantly the Japanese occupation of 1942-1945.

In 1945 Sukarno faced the challenge of leading a country that had just undergone war and a relatively violent independence period resulting in social, political and military disunity.24 Indonesia’s newly independent economy stood in ruins, infrastructure was virtually non-existent, and the country was bound to a number of economic agreements with the Dutch. The most crippling of these were $1.1 billion of

Dutch debt, a substantial proportion of which was in foreign currency, and two years of ongoing salaries of $17,000 a piece to Dutch seniors. Political and social tension had only been exacerbated by the frequent succession of immediate post-independence leaders. These existing problems in addition to deficient overall economic management and political tension throughout the 1950s, led to commentators at the beginning of the 1960s to dub Indonesia a ‘basket case’.

On 27 December 1949, Sukarno formally became president of the Republik Indonesia Serikat (the Republic of the United States of Indonesia or RUSI), and Dr Hatta was appointed as prime minister. Again on 15 August 1950 Sukarno became the president of the new Republik Indonesia (Republic of Indonesia or RI). Up until Sukarno’s working cabinet, under Djuandana in 1958, Indonesia’s governments all advocated various economic positions that were essentially variants of economic nationalism, where the goal was self sufficiency through the generation of domestic capital, supported by industry, and led by the state. This was also in part an effort to diminish the disproportionate amount of wealth held by Chinese capitalists. Robison argues that the intervention of the state in the economy, to 1956, was heavily influenced by the idea that the state would provide the infrastructure for the development of a domestic capitalist class, operate enterprises that were necessary but beyond the capacity of national capital, and directly finance and protect a national (and by national was generally meant indigenous) bourgeoisie.

Indonesia’s immediate post-colonial economy was foreign dominated, and based largely upon the export of estate crops, hence the need to change to industrial production. The (PKI) argued for state ownership, while the Partai Nasionalis Indonesia, or Indonesian Nationalist Party (PNI) felt private ownership was more appropriate on the proviso it was held by pribumi (indigenous) Indonesians. The Benteng initiative of 1951 included the allocation of import licences to the pribumi. However, the program failed in its original purpose because the indigenous business people who held the licences

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acted generally in the capacity of so-called ‘briefcase importers’, to Chinese-Indonesians and foreigners. The licenses were on-sold to Chinese-Indonesians and foreigners, so a prihumi entrepreneurial class failed to eventuate.

Despite the various economic programs and initiatives by the government to engineer a national (or more to the point, indigenous) capitalist class and to create a self-sufficient industrial economy through the provision of state finance (which was sorely lacking), the parties and their policies failed. Robison notes that industry “declined from 12% to 11% of national income between 1953 and 1958, and even export crops declined from 12.4% to 6.8%”. The only areas that appeared to grow were the government sector and peasant agriculture. Private capital in the hands of Chinese and foreigners did not decline at any significant rate, but indigenous capital remained mostly state, rather than private, capital. With a stagnant industrial sector, contracting domestic capital, and diminishing foreign reserves, Sukarno stepped up to take direct charge.

At the resignation of Prime Minister Ali Sastroamidjojo, Sukarno proclaimed martial law on 14 March 1957, in a move to pre-emptively counter the Pemerintah Revolusioner Republik Indonesia or the Revolutionary Government of the Republic of Indonesia (PRRI-Permesta) movement in Sumatra and Sulawesi. In April of that year, a working cabinet was appointed by Sukarno with Djuanda as Prime Minister. From 1957, Sukarno sought to replace the democratic system of the previous post-colonial years with an authoritarian system of power in which the President and Army stood at the apex. The army’s role in politics was consolidated through the establishment of General Nasution’s Middle Way (Jalan Tengah), the precursor to dwijingsi (dual function). In 1958, Nasution formalised the Middle Way concept, emphasising the military’s role, not just in defence and security, but also in politics and in concert with society. Yet in the same instance, the President sought to control the extent of the

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32 The CIA-supported anti-Sukarno and anti-communism revolt took place in Sumatra Sulawesi 1958. It was led by civil and military personnel, who for various reasons demanded a change of Indonesia’s government and in the style of governance.
33 Dwijingsi refers to the military’s dual function in a martial and political capacity.
army’s power by requesting that both the (PKI) and the (PNI) “hold the army in check”.\footnote{35}

4.2.2 1957-1965: Guided Democracy and Guided Economy

In order to marginalise competing political rivals and establish his own political supremacy, Sukarno drew upon the Pancasila doctrine as a tool through which he sought to bring unity to the fragmented archipelago under the banner of the Republic of Indonesia. Kingsbury translates the five principles of Pancasila as “social justice, a just and civilised humanity, belief in one god, Indonesian unity, and government by deliberation and consent”.\footnote{36} The Guided Democracy and Guided Economy period signalled the demise of both foreign and domestic private capital. Sukarno’s Guided Economy rejected the capitalist system of commerce and pursued a socialist agenda, which hinged upon the predominance of state-owned enterprise and industry. A concerted effort was made to sever ties with the capitalist world, specifically the Western capitalist world. Sukarno oversaw Indonesia’s removal from the IMF and World Bank, and further made his stance on aid and international finance more than explicit, when he told the US ambassador, “Go to hell with your aid”.\footnote{37} In 1958 Sukarno announced the nationalization of all Dutch enterprise and ejected any remaining Dutch nationals from the country.\footnote{38} For the remainder of Sukarno’s tenure, Indonesia virtually ceased to have a relationship with the international business community.

Robison outlines the main aims of Guided Economy as, one, the “co-ordination and regulation by the state of all sectors of the Indonesian economy”, two, the “destruction of imperialism and the subordination of foreign capital to national social and economic goals”, and three, the “replacement of the colonial import/export economy with a more self sufficient and industrialised economy”.\footnote{39} At the beginning of Guided Democracy, Indonesia’s economy was still largely foreign dominated, and the capital held domestically was owned mainly by the Chinese. The military played an integral role in the nationalisation of Dutch enterprises between 1957-1958 as part of

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36 D. Kingsbury, \textit{The Politics of Indonesia}, p. 35.
the state’s need for capital formation, and in preventing unions and workers from taking them over. As per General Nasution’s orders in December 1957, all Dutch property was to be placed under the auspices of military control.40 This contributed to the demise of foreign capital in Indonesia, and conversely served to further extend the military’s control, to the detriment of the Chinese capitalists and traders. By April 1958, there were eight state trading corporations, two of which had existed during the colonial era, and six that were established out of the newly-acquired Dutch trading houses. Effectively then, the state controlled imports, pricing and supply, and had a new source of state revenue.41 Dutch manufacturing and services-oriented enterprise was also incorporated by the state, the operations of which were eventually controlled directly by a single supervisory board.42 In the same year, all forms of private enterprise and investment came under increasing regulation and supervision by the state, including the introduction of a ‘Foreign Investment Law’ in 1958.43 This was compounded by the mass seizures of British, US and other foreign firms by PKI/trade union groups during the early 1960s. By the end of 1965 foreign investment had become virtually non-existent in Indonesia as it had been acquired by the state.44 The only foreign interest to remain in any capacity was that related to oil and a handful of other singular enterprises. The only way in which foreign capital could enter into Indonesia was on a production sharing basis with the government and therefore, the military. Generally foreign capital looked to invest elsewhere in the region. Subsequently, by the end of guided capitalism, established or committed foreign investment stood at a mere $US72 million.45

The policies initiated in the immediate post-independence period failed to improve conditions in Indonesia and in fact the opposite eventuated. While Sukarno fostered efforts to maintain popular support and military backing, Indonesia’s nominally self-sustaining economy crumbled. National unrest throughout the 1950s was primarily caused by the government’s refusal to implement vital economic structural reform. The

41 R. Robison, *Indonesia: The Rise of Capital*, p. 73. Robison asserts that 55% of profits from STCs were channelling into state revenue and development funds.
42 R. Robison, *Indonesia: The Rise of Capital*, p. 74. Initially industry, trade and agriculture were controlled by Bapit, BUD, and PPN Baru respectively. In 1960 all three sectors were bought under the auspices of BPUs (General Management Boards).
‘October 17 affair’ of 1952 (where the military urged Sukarno to step down), and the coups of 1956-57 only contributed towards popular discontent due to the nation’s deteriorating economy.

In the 1960s, the State Trading Companies (STCs) were incorporated into Sukarno’s Eight Year Plan for economic development, by focusing on economic activity based around the export of raw materials to pay off foreign debt, and the advancement of welfare through an array of projects that varied from health and education to infrastructure. However, the operation of such STCs was generally inefficient as the appointed managers generally had little or no experience in running business, and the resources were often utilized in a manner congruent to the personal interests of those in charge, rather than in the interests of the corporation.46 The STCs operated in a fashion solely to collect rents. The impact this had on private business and the broader macroeconomic framework resulted in industrial production at a rate far below projected capacity. The undoing of the 8-year plan was the poor yield in export crops, which was the key source of finance for the plan.47 Subsequently, further economic deterioration ensued and Indonesia’s balance of payments situation was out of control, so much so that in 1963 previously substantial bank credit to STCs was slashed. The Berdikari program of 1964 aimed to foster development through import-substitution industrialisation (ISI), commandeered by state projects including a steel mill and ship-building. Again, private business was largely affected by the strategy as Sukarno asserted that:

Private business will be forbidden to import except in the Government’s name. They will only be allowed to endeavour to become ‘producer exporters’ who must export under the government’s leadership. This is the revolutionary task conferred on private business as an essential element in the Indonesian socialist economic structure.48

However, this program also largely failed due to inadequate monetary and operational management and capital formation problems. Export earnings continued to decrease, while both foreign debt and imports, for inputs to support the projects, skyrocketed. Furthermore, government spending, which already far exceeded the budget, was

46 And thus those corporations suffered from poor monetary formation and management.
exacerbated by Sukarno’s decision to pursue a policy of Konfrontasi (‘Confrontation’) with Malaysia that lasted from 1962-1966. The Federation of Malaysia was officially recognised in September 1963, but Sukarno rejected the legitimacy of a truly independent Malaysia, asserting instead that the country was still under the indirect control of the British. Subsequently, skirmishes broke out between the Indonesian and Malaysian defence forces on the Borneo border.\footnote{British and Australian troops also eventually became involved. Australian War Memorial, ‘Indonesian Confrontation, 1963-1966’, www.awm.gov.au/atwar/confrontation.htm, (date of access 16 April 2008).} Hill reports that the Konfrontasi campaign totalled around “19 per cent of total government expenditures in 1965, in addition to the claim of the regular defence budget of a further 21 per cent”\footnote{H. Hill, The Indonesian Economy, p. 3.}.

The import sector was briefly opened up to private investment in the early 1960s, in an attempt to remedy the catastrophic economic situation. Although a few domestic enterprises indicated some interest, the sector was once again closed off by Sukarno in 1965, just after the inception of the Berdikari program. Similarly, Sukarno attempted to prop up the flailing economy in 1962 by allowing foreign investment and other private capital back into the economy on a ‘production sharing’ proviso. Although there were significant indications of domestic and foreign interest (predominately from Japan and the West), the terms of ‘production sharing’ were unclear and Gibson notes that “by the end of 1964 only thirteen projects had been authorized, with foreign credits totalling approximately $68 million”.\footnote{J. Gibson, ‘Foreign Enterprise and Production Sharing’, p. 91.} The ‘production sharing’ program continued but in 1966 the input from both foreign and domestic private interests was only minimal.\footnote{J. Gibson, ‘Foreign Enterprise and Production Sharing’, pp. 93-101.} Furthermore, the lack of private capital in conjunction with the poor formulation and regulation of tax collection rendered it almost impossible for the state to acquire revenue from that channel.\footnote{K. D. Thomas, ‘Political and Economic Instability’, p. 121.} In general it was virtually impossible to establish and maintain profitable private domestic enterprise in Indonesia under Guided Economy. First, it was restricted to small areas of the production sector only, particularly manufacturing, and secondly inflation, the poor exchange rate after devaluation, and the lack of imports due to the inefficiency of the STCs saw private business also producing well below capacity. Finally, co-operation with the STCs required a personal relationship with those in official and important positions, yet for private business, the individuals who held these official posts and the longevity of their patronage was, to a
large extent, uncertain. However, there were a few successful indigenous capitalists, such as Agoes Dasaad, who went into business with Lockheed and Westinghouse. However, Dasaad was a result of the former Benteng program, and appears to have been successful solely due to the protection afforded to him by the state and its president.\textsuperscript{54} A few other indigenous capitalists emerged from this period of ISI under the protection of Sukarno. Not many, however, survived in business after the accession of Suharto to the presidency.

Therefore, despite the nationalisation of Dutch property and the establishment of the STCs, the Guided Democracy period that was originally engineered to achieve economic sustainability through state provision saw the economy run into the ground. It did not start to recover until the New Order undertook the massive task of economic reconstruction. The aforementioned Eight Year Plan aimed at ‘self-sustained growth’ but was subsequently abandoned in 1964 in favour for an alternative approach which focused upon “self-sufficiency and self-reliance”\textsuperscript{55}. It was at this point also that Sukarno decided to remove Indonesia from the United Nations (UN) and strengthen ties between the Jakarta-Peking alliance.\textsuperscript{56} By the mid-1960s government control over the economy was virtually non existent. Inflation stood at 1500% per annum in 1965-66. Pauker reports that the cost of living price index in January 1966 had “jumped from 36,347 (in December 1965) to 56,020, following inept currency reform”.\textsuperscript{57} With the money supply out of control after attempts to service the substantial budget deficit, staples subsequently rose to unattainable prices for consumers, for example, the price of rice rose by 900 per cent.\textsuperscript{58} Robison observes that:

Indonesia’s export earning had declined from $750 million in 1961 to $450 million in 1965, while import requirements for 1966 were estimated at $560 million to cover rice imports and raw materials and spare parts for industry. At the same time Indonesia’s foreign debt had reached over $2 000 million and debt servicing for 1966 was estimated to be $530 million.\textsuperscript{59}

\textsuperscript{54} Robison details the suspicious and frankly confusing details of Dasaad’s operations involving the two technology companies, and an aviation-related contract. R. Robison, \textit{Indonesia: The Rise of Capital}, p. 89.
\textsuperscript{55} H. Hill, \textit{The Indonesian Economy}, p. 2.
\textsuperscript{56} H. Hill, \textit{The Indonesian Economy}, p. 2.
\textsuperscript{57} Guy J. Pauker, ‘Toward a New Order Indonesia’, p. 505.
\textsuperscript{59} R. Robison, \textit{Indonesia: The Rise of Capital}.
Human indicator levels were also dire with high infant mortality, low life expectancy and shocking sanitation. Thomas states that the masses of poor were unable to access even essentials such as staple foods with a rise in the price of rice from Rp. 300 per kilo in March 1965 to Rp. 2,700 by the end of 1965. With a completely shattered economy, PKI-military tensions rife, ill-health, and continuous social unrest Sukarno’s rule finally ended in shambles when the ABRI, led by General Suharto, reacted to a coup on 30 September 1965, allegedly involving a group of junior army officers who kidnapped and murdered six senior ABRI generals. Immediately the PKI was blamed for instigating the coup and the reprisals were swift. During 1965-66, over 500,000 to one million alleged PKI members and sympathisers were murdered in towns and villages across Indonesia. The Majelis Permusyawaratan Rakyat or the People’s Consultative Assembly (MPR) forced Sukarno’s resignation in March 1967, and formally recognised the New Order government in 1968.

4.3 Establishment and Consolidation of the New Order: 1965 – 1980

4.3.1 1965-1970: Reaction and Reorientation

Suharto worked swiftly to marginalise political competition by restricting the number of political groups, and the sources of their finance. At the inception of the New Order government only a few political parties were allowed to remain active. The Partai Persatuan Pembangunan or the United Development Party (PPP) was formed through the forced merger of the four leading Muslim parties while the Partai Demokrasi Indonesia or the Indonesian Democratic Party (PDI) was also created through the forced merger of the two principal Christian parties. The opportunity for other political parties to compete in elections against Golkar, the party to which Suharto was aligned, was further marginalised through the denial of access to campaign funds, to which Suharto was alone entitled. Furthermore, it was increasingly difficult for political parties to gain both popular and grass roots support as they were allowed to campaign only during election time. Tan argues that in fact the New Order era was

62 The details of the coup are still unknown- it is not completely clear whether the coup was initiated by the PKI (as alleged) or members of the TNI. For more detail on the subject see A. Vickers, A History of Modern Indonesia, Cambridge University Press, Cambridge, 2005, especially Chapters Six ‘From Old to New Orders’ and seven ‘Terror and Development in the Happy Land’.
dominated by an anti-party policy and rhetoric that was reinforced by the government-controlled media. She states that

While Soekarno had emphasized the need for unity in carrying out Indonesia's revolution, Soeharto emphasized the need for unity of all social and political forces in support of economic development. Indoctrination through government-enforced ideological training classes and government control of the media reinforced the regime's contention that Indonesia was far too heterogeneous a country to allow the unfettered competition of different political parties.63

Economic development was necessary to the New Order’s survival while the subordination of political parties allowed Suharto to further consolidate his power. This balance also fostered the development of elite circles with relatively little public political opposition. As part of Suharto’s much publicised development agenda, the Five-Year recovery stabilisation and rehabilitation plan 1966-1971 was announced in October 1966.64 Of course, the military had played an integral part in Suharto’s accession and Sukarno’s subsequent demise. The military’s role in suppressing ongoing dissent and political threats to the new government was vital in ensuring that stable conditions were quickly achieved so that economic growth could remain a central focus of the government.65 Dwifungsii or ‘Dual Function’ was the platform on which this was to be carried out. Dwifungsii was developed as a concept whereby the military’s mandate was extended past that of solely national defence to include direct involvement with the social-political aspects of national development. The New Order government claimed that the military’s dwifungsii role would assist in enabling the government to deliver stability and development to Indonesia. As Suharto claimed:

In whatever country it is impossible to carry out development without the preservation of national stability-stability in the political, economic, social, cultural, defence, and military field. Without development, there will be no growth, and without growth, there will be nothing to improve the people’s standard of living.66

65 S. Rina Kit, The Indonesian Military after the New Order, p. 27.
66 Sukarno quoted in Wilson, cited in Sukardi Rina Kit, The Indonesian Military after the New Order, p. 27.
Suharto also employed the Pancasila doctrine in concert with dwifungsi to legitimise his own rule through the promotion of the new development plan for Indonesia, and he simultaneously denounced the Sukarno regime through its apparent failure to uphold Pancasila principles. The president promised to deliver economic development to Indonesia, in line with Pancasila and the constitution,\(^6^7\) whilst placing senior army personnel in key leadership positions in the government. The Berkeley Group, led by Professor Widjojo Nitisastro, became the key economic advisors of the President.\(^6^8\) Furthermore, Rinakit argues that those who opposed the military’s involvement in politics and social issues were denounced as anti-development, and those who were anti-development were therefore anti-Pancasila (tidak Pancasila).\(^6^9\) In 1983 it was required that all political parties, NGOs and other organisations adopt Pancasila exclusively as their guiding ideology (azas tunggal). However, from the 1970s onwards as we shall see, Suharto sought to gain an increasing degree of autonomy from the military, and thus its role in affairs of state and economics was increasingly diminished.

From its inception, the New Order regime worked to rectify the appalling conditions left in the wake of Sukarno. At the end of 1966, Indonesia’s foreign debt stood at $2,400 million.\(^7^0\) Priority was given to curbing inflation, reconstructing and later improving physical infrastructure, and re-connecting with the international financial community, particularly the World Bank and the IMF, both of which became involved again\(^7^1\) from 1966 at Suharto’s request.\(^7^2\) As with Malaysia, the employment of seemingly laissez-faire economic policies implemented by Suharto proved favourable with the international economic community\(^7^3\) which granted financial assistance to Indonesia in the form of loans and aid over 1966 and 1967. In these two

\(^6^8\) The ‘Berkeley Group’ or ‘Berkeley Mafia’ was a group of Californian-educated technocrats who became key advisors to Suharto on economic issues.
\(^6^9\) Sukardi Rinakit, The Indonesian Military after the New Order, p. 27.
\(^7^0\) Although this was the official figure, the real amount of foreign debt was most likely far in excess of this. H. W. Arndt, ‘Economic Disorder and the Task Ahead’, in T. K. Tan (ed), Sukarno’s Guided Indonesia, The Jacaranda Press, Brisbane QLD, 1967, p. 129.
\(^7^1\) The involvement of the International Monetary Fund and World Bank had been explicitly prohibited by Sukarno.
\(^7^2\) H. Hill, The Indonesian Economy, p. 15.
years, Indonesia received US$200 million and US$300 million respectively in assistance, which contributed to rejuvenating the essentially stagnant economy.\textsuperscript{74} The technocrats, particularly Widjojo Nitisastro, implored Suharto to open the economy up to foreign investment, an essential source of capital, which the fast contracting domestic economy was lacking. The reputation of the Berkeley Mafia also lent credibility to the Suharto regime with other western countries that subsequently offered assistance.\textsuperscript{75} Yet the \textit{laissez-faire} reforms did not have such a positive domestic reception, particularly amongst the \textit{prabumi}, who argued that the policies favoured only those who already possessed large amounts of capital, such as the Chinese.

Although military coercion was utilized extensively by Suharto to subordinate serious rivals, patronage and clientelism increasingly became the central way in which the President consolidated and expanded the reach of his authoritarian power.\textsuperscript{76} In the first decade of the New Order, domestic corporate groups were privy to the benefits of state allocated monopolies, primarily in the areas of forestry concessions, import licences, commodity distributor licenses and construction and supply contracts. Robison notes that this was same manner in which domestic business operated under Sukarno and that most of these groups were afforded the same privileges by Suharto. Those that did survive the presidential transition included Sultan Hamengku Buwono (the Sultan of Yogyakarta), Sudarpo (a well known Indonesian entrepreneur) and Hashim Ning (a well known Indonesian industrialist, later partner in the Lippo Group conglomerate), and they did so by establishing a broader network of foreign and/or industrial connections, and diversifying into other sectors of the economy.\textsuperscript{77} In the 1960s, foreign investment was linked predominately with Chinese business, which in turn was supported by the military. Indeed, the military supplied licenses, contracts and the like, so its support and patronage was crucial to domestic and foreign business alike. Generals who had taken care of military finances were charged with managing business, particularly those assets that were taken over by the state from Sukarno and the state corporations. Thus the military companies benefitted from what Robison and Hadiz describe as the

\textsuperscript{74} D. Kingsbury, \textit{The Politics of Indonesia}, p. 63.
\textsuperscript{75} M. C. Ricklefs, \textit{A History of Modern Indonesia Since c.1200}, p. 352.
\textsuperscript{76} H. Crouch, 'Patrimonialism and Military Rule in Indonesia', p. 577.
\textsuperscript{77} R. Robison, 'Industrialization and the Economic and Political Development of Capital: The Case of Indonesia', in R. McVey (ed), \textit{Southeast Asian Capitalists}, Southeast Asia Program, Cornell University, Ithaca New York, p. 70.
“reallocation of rents”.78 However, from the 1970s onwards, as Suharto sought greater autonomy from the military, he further centralised his own power and authority through the distribution of patronage. By the beginning of the 1980s, the commercial interests of the military had been vastly downscaled following the failures of plantations and other businesses that had been seized in the 1950s.79

Those Chinese, or cukong, capitalists later evolved into Indonesia’s most prominent tycoons during the 1980s and 1990s.80 They included Liem Sioe Liong, with whom Suharto had a long-standing association, who established a clove importing monopoly and attained a flour-milling license; Yap Swie Kie, who attained a number of lucrative forestry concessions; Go Swie Kie, who attained import/export licenses from Badan Urusan Logistik or Indonesia’s Bureau of Logistics (Bulog);81 William Soejadjaja, who operated a number of highly profitable foreign and national joint venture companies; and Bob Hasan, who obtained a number of forestry concessions and shipping licenses.82 Yet, as was characteristic of the New Order (at least up until the 1990s) patronage and corruption was exercised with a degree of caution and the President placed parameters upon the acceptability of conduct. It was generally understood that excessive profiteering was directly and overtly detrimental to overall economic wellbeing and would result in public outcry and protest, and it would not be tolerated.83 For example, in 1976 Ibnu Sutowo’s blatant mismanagement of Pertamina left the company in around $10 billion of external debt, and resulted in his very public dismissal by Suharto, a case discussed in more detail below in this chapter. Although foreign investment was encouraged during the 1960s, interest remained minimal as international sentiment was still hesitant. Some deals with Japan and the US eventuated, but a sustained and prominent inflow of foreign capital was not to occur until the reforms of the 1980s.

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79 R. Robison and V. Hadiz, Reorganising Power in Indonesia, p. 54.
80 Chinese businessmen with official connections.
81 The state owned food distribution and had an import monopoly on sugar.
4.3.2 1970s: Oil Windfall Revenues, State Expansion and Import-Substitution Industrialisation

By the time Suharto’s power had become truly centralised and increasingly absolute at the beginning of the 1970s, much of the patronage-driven competition that occurred was between elites vying for the favour and confidence of the Presidency or those wishing to enter that particular echelon, rather than an interest in competing directly against the elite. Suharto abandoned the laissez faire mode of economic management promoted in the 1960s, and embarked upon a path of rapid economic growth under an interventionist/protectionist regime of Import-Substitution Industrialisation (ISI). The New Order government now promoted a ‘nationalist economic agenda’ emphasising the indigenous groups’ (pribumi) rights to attain a more substantial share of corporate wealth following their long period of economic marginalisation during colonisation and the laissez-faire policies of the 1960s. This period is known as the era of economic nationalism as the new move privileged pribumi business interests and accordingly curbed trade and foreign investment in order to boost the opportunity for indigenous enterprise.\(^4\) Thus rigorous state intervention was essential to ensure an equitable ethnic distribution of wealth and to prevent the continued disadvantage of the pribumi population.\(^5\) During this period it was not a priority to attract FDI, as the government could rely on oil windfall revenues. Rather, the New Order administration focused on investing in and expanding the domestic economy. This approach was generally successful in fostering economic prosperity as evidenced by the eagerness of foreign investors to do business once the Indonesian economy was opened up to them in the 1980s and 1990s.

The government’s inward-looking economic policies were afforded by the steady rise of world oil prices during the decade, thus decreasing the previous dependence upon foreign aid, donors, investment, and other sources of international finance. Suharto could then afford to ignore the ongoing pressure of the World Bank and IMF to deregulate Indonesia’s economy and adopt other liberalisation measures. In particular, Suharto was adamant that subsidies remain on staples such as rice and cooking oil, as the mass poverty and starvation of the Sukarno era had still not faded from the people’s minds. The importance of ensuring access to staples was discussed in

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\(^4\) H. Hill, *The Indonesian Economy*, p. 16.
\(^5\) A. MacIntyre, ‘Power, Prosperity and Patrimonialism’, p. 246.
an interview with a close associate of the Suharto family as a means to both manage the poverty situation and build political legitimacy for the president. He stated that if the people “do not get rice, they will shout”.\footnote{National Businessperson, Interview, Jakarta, August 2005.} Furthermore, the protectionist measures implemented by the New Order government depressed competition, and national commodities produced primarily by the SOEs, achieved an impressive level of export, particularly in oil and gas, rubber, palm oil, gold, copper, and tin, allowing the economy to remain strong. Although the agriculture sector remained dominant in the 1970s as rice production expanded during the decade, it was slowly overtaken by manufacturing and mining, which then became the dominant sectors of the 1990s, along with services.

Such changes required an expansion of the state’s capacity and a centralisation of powers in order to ensure that the transition occurred as quickly as possible. State banks funded many of the big state projects and initiatives such as Pertamina, \textit{Perusahaan Listrik Negara} or the State Electricity Company (PLN) and Krakatau Steel. Up to the beginning of the 1980s, state banks dominated the financial sector, and lending was largely government-directed. It was not until the 1980s that private banks were allowed to properly compete with state owned banks.\footnote{S. Radelet, ‘Indonesia: The Long Road to Recovery’, in P. C. Y. Chow and B. Gill (eds), \textit{Weathering the Storm}, Brookings Institute Press, Washington D.C., 2000, p. 44.} In the wake of the 1974 anti-Japanese \textit{Malari} riots, government established subsidised credit, financing and grant schemes directed towards the greater participation of \textit{pribumi} in capital oriented business.\footnote{R. Robison and V. Hadiz, \textit{Reorganising Power in Indonesia}, p. 52.} Furthermore, foreign investors were required to have local partners from 1974 onwards. This change was also largely a reaction to a disgruntled \textit{pribumi} population which continued to resent the Chinese community that held a disproportionate amount of national wealth.

Despite these measures, private domestic investment did not accelerate at the anticipated pace. However, elsewhere in the economy conditions began to improve as exports, particularly from oil and the commodities mentioned above were instrumental in the rapid growth that occurred. Revenues from this period of development were re-invested into Indonesia’s infrastructure and social services.\footnote{S. Radelet, ‘Indonesia: The Long Road to Recovery’, p. 41.} ISI was also employed in the underdeveloped domestic services and goods sector during this period. In 1985, the
World Bank released a report showing that a large amount of government expenditure was dispersed amongst public investment, public consumption, and developing Import-Substitution strategies for the domestic goods and services sector.\textsuperscript{90} Foreign investment dropped off in the 1970s, as windfall revenues from oil prices meant that Indonesia could afford to be less dependent upon private, particularly foreign capital. So for the most part of the 1970s foreign capital was deliberately excluded from certain sectors, such as physical infrastructure and media\textsuperscript{91} while ISI guards were simultaneously implemented to protect and build up industry in otherwise weak areas.

However, as Indonesia and the other countries in the region were subject to the double-edged sword of global trade, they found themselves increasingly under demand to justify their protectionist style industrialisation strategies to the IMF, World Bank and other western observers. At the same time they struggled to distribute their own manufactured exports against the wall of protection in Europe, the US and other industrialised countries. Malaysian Prime Minister, Dr. Mahathir brought this same situation to the attention of the US in a speech in 1984 where he argued that with a growing population, better communication and knowledge of the developments going on elsewhere in the world, better education and rising expectations demand that the developing countries move away from being mere producers of raw material. On the other hand if they industrialise they are going to be faced with horrendous problems. That is their dilemma.\textsuperscript{92}

He ended with the reassurance that “The NICs are never going to displace you”.\textsuperscript{93} Yet the 1970s was a turbulent time for the region’s interplay with the industrialised world, as foreign investment was continually deterred through preferential policies, or denied entry into lucrative industry. Political attention was thus focused predominantly upon domestic issues for much of the decade.

\textsuperscript{91} R. Robison and V. Hadiz, \textit{Reorganising Power in Indonesia}, p. 51.
\textsuperscript{92} M. Mahathir, ‘Prime Minister’s Visit to USA: The Dilemma of Developing Countries Wishing to Industrialise’, \textit{Foreign Affairs Malaysia}, 17(1), March 1984, p. 52.
\textsuperscript{93} M. Mahathir, ‘Prime Minister’s Visit to USA’, p. 54.
In Indonesia, government investment in state enterprises between 1969 and 1980 went from one billion rupiah per annum to 477 billion rupiah per annum. The expansion in the capacity and reach of the state was reflected throughout much of Southeast Asia in this decade in other economic strategies, such as the New Economic Plan in Malaysia which guaranteed that the state would support indigenous (bumiputra) capital and corporate ownership. The dominant economic role of SOEs in Indonesia became apparent particularly with the rise of Pertamina and Bulog, which remained outside the locus of formal control. The rise of state enterprise only served to increase negative sentiment from the international economic community, and also from within Indonesia, as SOEs became notoriously inefficient and corrupt. This is exemplified by the aforementioned Pertamina scandal of 1976, involving the Director, Dr Ibnu Sutowo, when the state owned oil company virtually collapsed. From 1972 all state enterprise were to seek government approval for overseas borrowing that was from one to 15 years maturity. Sutowo had been expanding Pertamina’s scope, entering into an array of industries, including steel with the Krakatau steel project. To finance these unproductive ventures he managed to side step the approval regulations by undertaking a number of short-term overseas loans. By 1975, it was publicly revealed that Pertamina’s debt stood in excess of US$10 billion, after the purchase of some oil-tankers. Sutowo, a long term friend of Suharto’s, received an ‘honourable discharge’ in 1976 and was placed under house arrest in 1977-78. Bulog and other SOEs followed suit with similar incidences, albeit of a lower profile. However, the policies of the 1970s did succeed in improving macroeconomic growth for the decade, as average GDP growth stood at 6.5 per cent between 1974-1976, and Indonesia’s performance as a result of the oil exports outstripped many of the prominent non-OPEC oil exporters. Thus the long awaited capital growth was evident, when current revenue increased by 80 per cent in 1973-1974. The subsequent surplus revenue was used largely to service the Pertamina and other government and non-government debts. Despite the presence of macroeconomic stability and solid growth during the 1970s, calls for economic liberalisation, both external and from within Indonesia, grew increasingly stronger. By the 1980s, a pro-

and anti-reform division arose within and between government ministers, prominent business people, the President’s advisors (mainly, technocrats), and academics.

The 1970s also saw the beginnings of what were to become the Chinese (cukong) conglomerate (konglomerat) tycoons who characterised Indonesia’s business environment in the 1980s and 1990s. The state-led economic growth strategy of the decade provided them with access to sources of revenue with the added guarantee of government support. The cukong too were beneficiaries of a range of protective measures that were employed by the government specifically conglomerates, such as import monopolies, state-regulated price fixing, and priority of government contracts, concessions and licences. Two particularly prominent characters to benefit from this, were Liem Sioe Liong and Bob Hasan, two of Suharto’s closest associates and long-time friends. Bob Hasan, future timber king of Indonesia, established ties with Suharto through the Diponegro Division’s charitable foundation (yayasan), where they met through the Division’s commander, Gatot Soebroto and forged a business relationship. Hasan was made the financial assistant for Suharto’s division in 1958 and later, in 1994, reminisced it was in these days that he “learned business from Col. Suharto”.99 He initially entered into the timber industry when he established a relationship with Soedjarwo, who was Director General of Forestry at the time and in charge of issuing timber concessions. Forestry became nationalised soon after Suharto’s inauguration and, under the auspices of the military who virtually ran the sector up until the 1980s, foreign companies were required to secure a national partner if they wished to operate in logging and timber. In 1970, PT Georgia Pacific Indonesia was formed by Hasan, with the US company Georgia Pacific. PT Georgia Pacific obtained a lucrative concession to log on the Telen River in East Kalimantan. As with many of the enterprises he started in the following decades, and as became typical practice for those national partners who had close ties with the President, Hasan did not have to pay for the 10% equity outright100, asserting that “I didn’t have the money to pay for it, so I paid out of future dividends”.101 In the 1970s, Hasan also secured a deal with Inhutani and Inhutani II (the state forestry enterprise) in conjunction with his timber company PT

Kalhold. As part of a larger operation to wind back Suharto-related ‘crony’ enterprises, Hasan later lost both his timber cartel and bank (Bank Umum Nasional or BUN) under the auspices of the IMF’s restructuring program.

Liem Sioe Liong had been in business with Suharto since independence, when he served as the future President’s financial adviser. Liem and his dealings have come to epitomise the nature of politico-business relationships in Indonesia. As Elliott notes, “Politically insecure, the most clever Chinese Indonesians have learned how to make friends with the powers that be. No one did it better than Liem”. Liem’s business career in Indonesia began in the period just after World War II when he was involved in supplying material to anti-Dutch groups. His entrepreneurial activities really began to take off when he started importing cloves and later expanded into flour milling and distribution, commodity exports, manufacturing, banking and food. In conjunction with Suharto’s step-brother’s company, PT Mercu Buana, Liem’s clove importing monopoly PT Mega, which lasted up until the end of the 1970s, achieved annual revenues that averaged US$340,000 between 1968-1970 and US$1.2 million in 1971. From 1969 Liem continued to expand his flour-milling and distribution monopoly, Bogasari Flour Mill (BFM), which later bought out its only other competitor that was subsequently sold to Bulog in 1980. PT Waringin, one of Liem’s first companies that primarily exported copra, coffee and rubber from the late 1960s also rose to prominence, with the help of government-directed protective policies and preferential treatment throughout the 1970s.

The Salim Group also went into manufacturing under PT Tarumatek (PT Industri Textiel Taruma) in 1968, and then banking from the mid 1970s. Another monopoly company, Indocement, started in 1975 (originally under another name), was assisted by the Suharto, who allowed inflated set prices on cement. In fact, from the

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1960s up until 1998 when Suharto was ousted, the Salim Group conglomerate was one of the major beneficiaries of various government policies, including “(quasi)exclusive rights, giving it (semi)monopolistic positions in several sectors; it got subsidised loans and inexpensive access to materials and other inputs”, it also received protection through the implementation of import barriers. By the 1990s, the Salim Group had diversified and grown to be the largest conglomerate in Indonesia. Other major companies included Indofood, Bank Central Asia (BCA, the largest bank in Indonesia), and from the 1980s onwards it made multiple investments overseas such as significant property acquisition in Singapore in 1991. To provide a perspective on the amount of personal and business wealth amassed by Liem Siow Liong and the Salim Group (which was subsequently run by Liem’s son Anthony Salim from 1992 when he became CEO), an article in Forbes estimated Liem’s personal net worth to stand at around $4 billion in 1997. Furthermore, an Asiaweb article stated that in 1996 “sales and turnover [of the Salim Group] almost equals the GNP of Sri Lanka. Take another comparison, it’s about one quarter of the size of Malaysia’s prosperous gross national product”.

The story of Liem and Hasan is similar to that of the relationship held by other cukep with the leaders of other authoritarian regimes in Southeast Asia. In Malaysia, Daim Zainuddin, President Datuk Seri Dr. Mohamed bin Mahathir’s closest confidant, also secured lucrative business deals, which only grew as the power of the leader increased. Interestingly, it appears that the success of these tycoons was not solely dependent upon the state as a source of formal protection. The protection policies of the 1970s served a purpose, however, as we shall see in the following chapter, the dismantling of these measures in the 1980s was not the undoing of these business groups. The politico-business relationships that existed in Indonesia to an extent survived the IMF-initiated ‘liberalisation’ reforms that were designed to dissolve them. Instead, the networks transcended the structural and systematic changes that were

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brought about, and reconfigured themselves so it was ‘business as usual’. That is, they continued to operate in an environment where power was no longer centralised, but the state apparatus could still be utilised to pursue business interests so long as the right set of networks were established. This point will discussed in more detail in Chapter Six.

4.4 Conclusion

Sukarno’s socialist economic policies put a stranglehold on Indonesia’s economy causing widespread hunger and poverty. Suharto’s New Order government was tasked not only with the restoration of economic order but the creation of a sense of both political and social stability. While both regimes were inherently interventionist and undemocratic, the manner in which the New Order administration harnessed the economy was far more successful than its predecessor. The New Order administration successfully navigated Indonesia’s political economy through external and internal economic change. It did this through reacting quickly and decisively to the economic climate in a manner that best served Indonesia’s situation at the time. In order to create an impression of national unity, the government suppressed any real political opposition, and the further consolidation of its power relied heavily upon military backing- a trend which shifted in the 1980s resulting in a slight decline in the military’s power, a point which will be discussed in the next chapter. We have also traced the beginnings of the politico-business networks back to the patronage system that occurred under Sukarno. Suharto subsequently drew upon this system as a means to build a non-military base of support and channel capital. However, we must also keep in mind that there was a degree of popular tolerance for the apparent level of political corruption during this part of the New Order era, as consent for the continuance and legitimacy of Suharto’s presidency was maintained partly through his tactics of coercion, but also resided in his ability to deliver economic growth and raise the living standards of the general population in an equitable manner. The next chapter will discuss the so-called liberalisation of Indonesia’s economy and the seeming rise in corruption and politico-business relations in the country up until the crisis of 1997.