

# Democratisation, Business Activism, and the New Dynamics of Corruption and Clientism in Indonesia

Mohammad Faisal

**Abstract**—This paper investigates the relationship between state and business in the context of structural and institutional transformations in Indonesia following the collapse of the New Order regime in 1998. Since 1998, Indonesia has embarked on a shift from an authoritarian to democratic polity and from a centralised to a decentralised system of governance, transforming the country into the third largest democracy and one of the most decentralised states in the world. This paper examines whether the transformation of the Indonesian state has altered the pattern of state and business relations with focus on clientism and corruption as the key dependent variable, and probes how/to what extent this has changed as a result of the transformation and the ensuring shifts in business and state relations. Based on interviews with key government and business actors as well as prominent scholars in Indonesia, it is found that since the demise of the New Order, business associations in Indonesia have become more independent of state control and more influential in public decision-making whereas the government has become more responsive of business concerns and more committed to combat corruption and clientism. However, these changes have not necessarily rendered business people completely leave individual-clientelistic relationship with the government, and simply pursue wider sectoral and business-wide collectivism as an alternative way of channelling their aspirations, which is expected to help reduce corruption and clientism in Indonesia. This paper concludes that democratisation and a more open politics may have helped reduce corruption and clientism in Indonesia through changes in government. However, it is still difficult to imply that such political transformation has fostered business collective action and a broader, more encompassing pattern of business lobbying and activism, which is expected to help reduce corruption and clientism.

**Keywords**—Business activism, business power, democratisation, clientism, corruption.

## I. INTRODUCTION

THIS paper discusses the impacts of Indonesia's democratisation following the collapse of the New Order regime in 1998 on business and government relations at the national level, which corresponds to the first research question of this thesis, embodied in two related hypotheses: first, that the democratisation and the more open political system following the regime change in 1998 has helped business to pursue wider sectoral and business-wide activism and collectivism; and second, that the increase in business activism and collectivism, subsequently, has helped reduce

particularistic deal making and corruption and clientism.

This paper discusses several changes occurred under the current democratic system, which may have contributed to the decline in the level of corruption and clientism. First of all, the reform movement in 1998 has replaced the former centralised authoritarian system with a new system, where power and authority are more distributed, making the benefit from pursuing individual lobbying and particularistic deal-making with government and bureaucrats more unpredictable for business people. Second, as part of the wider reform, there has been a stronger government commitment to eradicate corruption, which receives substantial support from the public. Third, democratisation has enhanced a broader role of a wide range of non-state actors including businesses in political, economic and social policy making.

While democratisation and the more open political system has enhanced business independence of state influence and encouraged business associations to become more proactive and more involved in public decision-making, it will be argued that such transformation has not necessarily rendered business people completely leave individual-clientelistic relationship with the government, and simply pursue wider sectoral and business-wide collectivism as an alternative way of channelling their aspirations, which is expected to help reduce corruption and clientism in Indonesia. This is because democratisation and the more open politics have provided more alternatives for businesses to channel their aspirations, which can be more effective than pursuing collective actions through business associations. Furthermore, the diminishing political and economic roles of the state and the enhancement of market-driven economy following the political democratisation and economic liberalisation have in turn reduced business dependence on government's support and the bargaining power of business associations as an intermediary between business community and the state.

This paper starts with a discussion on the progress of corruption eradication in Indonesia, which relates to the subsequent discussion on how the regime change and political transformation have had an impact on the dynamics of corruption and clientism in Indonesia at the national level. In the following section, the progress of corruption and clientism eradication will be discussed and related to recent development in business activism and collectivism and how the government responds to this development. The discussions on recent development in business activism and collectivism

Mohammad Faisal is with the School of Political Science and International Studies, the University of Queensland, St. Lucia, Queensland 4067, Australia (phone: +61 422 650671; e-mail: mohammad.faisal@uqconnect.edu.au).

in this section focus primarily on the development of Kadin given its central role as the peak business association in Indonesia. In the Conclusion, it will be argued that democratisation and a more open politics may have helped reduce corruption and clientism in Indonesia through changes in government. However, it is still difficult to imply that such political transformation has fostered business collective action and a broader, more encompassing pattern of business lobbying and activism, which is expected to help reduce corruption and clientism. Indonesia will require longer experience with collective representation mechanisms and commitment to establish new ways of organising collective action in order to reduce incentives for businesses to pursue individual-clientelistic deal-making.

## II. THE IMPACT OF REGIME CHANGE AND POLITICAL TRANSFORMATION ON CORRUPTION AND CLIENTISM

The economic crisis in 1998 disrupted state cohesion and consequently fractured the politico-business oligarchy established under the former regime. Not only were businessmen and conglomerates battered by the crisis, some of them including those who used to become Soeharto's close cronies, were also sent to prison on corruption charges. Nevertheless, as in [10], the traditional relationships between politico-bureaucrats and business elites nurtured during the New Order era were rooted so deeply that many of the cartels and cliques have been able to secure power. The demise of the former corrupt regime did not necessarily lead to the cessation of money politics, corruption and clientism. Instead, these practices have re-emerged in different forms in the new political and economic arena.

Despite the fact that corruption and clientism remains one of Indonesia's major problems under the more democratic system, recent developments in the state and business interactions have shown some improvements that are potentially hampering further proliferation of corrupt and clientelistic practices. An Indonesian economist, Faisal Basri argues that business at the national level has become less dependent on the government in such a way that the state cannot easily provide direct benefits to business in the form of projects, except for some minor cases in procurement projects [1]. Unlike the New Order system, the current political environment has made it difficult for businesses to expect predictable returns on investment through bribery. As in [2], Faisal Basri argues that in the current democratic system, power and authority are currently more distributed so businesses have to deal with more than just one political power/figure. Government leaders and politicians can also be replaced more quickly, meaning that no distinct figure inside the party system has been able to establish itself. The impeachment and removal of the former president, Abdurrahman Wahid, by the House of Representatives in 2001 is a good example of this. Dismissal of ministers from the cabinet is also more common. Even if leaders can hold their positions until the end of their tenure, this has also been

limited to a maximum of two periods<sup>1</sup>. Faisal Basri also explains that many businessmen had a profound dependence on and felt indebted to Golkar due to the protection and privileges it used to provide during the New Order era. Ever since the New Order regime collapsed, the politico-bureaucrats who used to infiltrate into the state apparatus through Golkar have had to take a back seat. This situation creates difficulties for the businessmen to select the politico-bureaucrats who can possibly become their new partners in corruption, as well as to estimate returns on their investment in bribes [2]. Most of the business groups, who are severely affected, are those of Chinese descent that used to have a privileged position in the economy and greatly benefit from the patrimonial-clientelistic system of the Soeharto regime. Although some political analysts such as Indria Samego and Luky Djani believe that some of them have managed to survive in the current regime and provide financial backing to new political actors, their economic power have been significantly reduced and much less dominant compared to that during the New Order regime [11],[22]. As Tomy Winata – an influential businessman of Chinese descent and the boss of the Artha Graha Group – has declared:

“During the New Order, everything was easy for Chinese big business: There was one pot of money, contracts and opportunities, and the pot was with the Cendana<sup>2</sup>; now the pot is spread to thousands of people. The political landscape has changed a lot and is more complex than before. Now the social cost of doing business is much higher” [2].

In addition to that, access to government benefits in the form of licenses was formerly restricted to particular business groups who were close to high figures in the government, which in turn, created domestic disparity between large businesses and small-medium businesses. Hence, businesses pursued individual clientelistic lobbying in order to have access to licenses. As in [16], the ethnic Chinese businessmen, in particular, were the groups who typically pursued and maintained clientism with the New Order government during the era in order to get the licences, which have brought them a lot of success and even domination over the indigenous businessmen. The ethnic Chinese businessmen's pursuance of the clientelistic relations with bureaucrats was crucial in order to get political protection due to their weak political power designed by the regime [22]. Due to their strong individual connection with the regime, these ethnic Chinese groups were not interested in pursuing collective action with business associations especially the peak business association, Kadin or the Indonesian Chamber of Commerce, which were considered as an indigenous entrepreneurs-dominated organisation [16].

Interestingly, the decline in the economic dominance of the ethnic Chinese entrepreneurs in the post-New Order era has been replaced by the increasing influence of indigenous

<sup>1</sup> One period equals to five years.

<sup>2</sup> Cendana refers to a high-profile residential area along Jalan Cendana (Cendana Street) in Central Jakarta where Soeharto's family and his close relatives reside.

entrepreneurs. The Deputy Coordinator of the Indonesia Corruption Watch or ICW, Luky Djani, asserts the emergence of indigenous entrepreneurs can be precarious because many of them do only play the role as entrepreneurs, but also get involved in politics, which is quite similar to the dual function of the military during the New Order era with their privileged military and political powers. In the New Order era, except for the Soeharto family and his immediate cronies, mostly from the military, there was a clear separation between business groups, who was dominated by the ethnic Chinese, and political groups and bureaucrats, who were dominated by the indigenous. This separation rendered the two groups dependent on each other. They developed a mutualistic relationship, where the Chinese businesses sought protection from the indigenous politicians and bureaucrats, while the politicians and bureaucrats who had limited access to financial benefit needed financial supports from the ethnic Chinese business groups. As many of the indigenous – especially civil – politicians have currently gained access to financial assets, they no longer need financial backing from the ethnic Chinese groups, and hence can be more powerful to divert government policies in their own favour [11].

However, as in [2], in the current more democratic political system, political power is scattered and less concentrated. This means that individual lobbying through bribery, which used to be easier under a centralised authoritarian regime, becomes more complicated and more costly for businesses. While individual lobbying has become more difficult and less profitable for businesses, the democratisation has provided an ample space for a wide range of civil society organisations including business associations to voice their aspirations and interests.

### III. RECENT PROGRESS OF CORRUPTION ERADICATION IN INDONESIA AND THE ROLE OF KPK

The establishment of *Komisi Pemberantasan Korupsi* (Corruption Eradication Commission) or KPK in 2003 has been an important milestone for corruption eradication efforts in Indonesia. Based on Law 30/2002 on the Corruption Eradication Commission, KPK has five main functions namely inquiry, investigation, prevention, supervision and coordination. In order to perform these functions, KPK is granted a wide range of privileged authority, which among others, include tapping and recording telephone conversations, instructing related institutions to ban a suspect from leaving for overseas, instructing the banks to submit account statements of a suspect and blocking the account when necessary, instructing related institutions to suspend a suspect from their current position, and collaborating with law enforcement institutions in other countries to search and arrest a suspect, who has already gone overseas [8]. Despite its relatively small size compared with its huge responsibility, this new anti-corruption body has proven to be a more effective body in combating corruption compared with its predecessors [3]. Within only two years after its establishment, KPK had successfully brought 24 cases to the anti-corruption

court [24]. Throughout the period 2004-2010, KPK has investigated, prosecuted and achieved a 100-percent conviction rate in various cases of bribery and graft related to government procurements and budgets, and has put many high-profile convicts into prison on corruption charges. These have included parliamentarians, ministers, governors, mayors, regents, commissioners, ambassadors [3], and even a close relative of the president, Aulia Pohan, the father of President Yudoyono's daughter-in-law and a Deputy Governor of the Bank of Indonesia [26].

Besides KPK, there are also other institutions that work synergically with KPK. Gratuity granted to public officials has also been regulated through Law No.20/2001, of which KPK has been playing an important role in its enforcement. This gratuity act states that the members of People's Consultative Agency, House of Representatives, high officials of the executives and judiciary, and public servants who have strategic functions in state administration – all categorised in the law as the *penyelenggara negara* - are obliged to report on any form of gratuity they receive during their period of service. The enforcement of this law has further limited the extent of corruption and clientism between the state and business actors [3].

Nevertheless, the increasing power of KPK has not come without challenge. As stated by an officer of KPK, many parties dislike and fear of the growing power of KPK, and there have been some obvious attempts by powerful businesses, the police and politicians to weaken and even assault KPK [3]. In addition, pressures have also come from the parliament since 2009 that has tried to emasculate the authority of KPK through legislation on the basis that the anti-graft body has allegedly become so powerful that it could conduct direct investigations on high-profile institutions such as the House of Representatives as well as law enforcement institutions like the Police Department and the Attorney General's Office [9]. However, a law amendment requires an agreement between the government and the parliament. Therefore, if the parliament could persuade the government to amend the law on the authority of KPK i.e. Law 30/2002, the power of KPK could have been reduced. According to the KPK officer, such threats would not have happened if there was strong and continuous political support from the government, but government's support is often difficult to maintain under the current dynamics of political environment [3]. As also argued by one of the KPK officials, Budi Prakoso, the government's political will at the national and regional levels is not strong enough and it has impeded the effectiveness of the corruption eradication efforts [28]. This contention is also supported by Luky Djani from the Indonesia Corruption Watch, who believes that despite the various anti-corruption jargons campaigned by government and political leaders in the post-New Order era, the leaders did not seriously provide support for anti-corruption programs as has been the case in Scandinavian countries [11].

As corruption and clientism issues have obtained much more serious attention in recent years, a number of evidence

has recently shown how corrupt and clientelistic practices have been facing greater challenges under the current more democratic system. One positive opinion comes from the KPK that argues that one can identify important progress in corruption eradication in Indonesia with the establishment of KPK of various indicators. First, KPK has created wariness on the *penyelenggara negara*<sup>3</sup> to get involved in activities associated with corruption due to the fact that KPK has always successfully brought suspects to prison. Public servants have also become more alert and wary of taking the position of project manager in their own department/office, a lucrative position that used to be very attractive for public servants [3]. Even though this 'wariness effect' is refuted by Luky Djani from the Indonesia Corruption Watch, he admits that at least currently people can expect that corrupt suspects that have been detected by the KPK will be arrested, tried and – when proven guilty – sentenced in the current justice system [11].

Second, corruption – particularly greed-driven corruption<sup>4</sup> – in Indonesia has been facing greater barriers since the establishment of the institution. In line with this argument, a scholar on Indonesian Politics, Nasir Tamara, also suggests that the degree of corruption in Indonesia is currently less than it was during the New Order era [26]. Although Indonesia is still categorised as a corrupt country compared with many others, an annual survey conducted by Transparency International on the perceived level of corruption across different countries in the world has demonstrated a gradual decline in the level of corruption in Indonesia. The relative world rankings of Indonesia based on the Corruption Perception Index (CPI) in recent years are better than those at the outset of the Post-Soeharto era [38]. This finding is confirmed by a more recent survey by the ASEAN (Association of South East Asian Nations) Business Advisory Council, which reveals that Indonesia – despite listing corruption, legal uncertainty and lack of infrastructure as its biggest business impediments – is the most attractive investment destination in South East Asia in 2012, ahead of the other nine countries in the region [32].

Third, public support for KPK – and for anti-corruption in general – has increased and public opinion has also changed to become less permissive of corruption. People, who used to be sceptical and regard wealthy government officials as a given, have become more suspicious and less respectful of them. Furthermore, since the implementation of Law No.20/2001 that restricts government officials from receiving gratuity<sup>5</sup> during their period of service, businesses that used to provide

government officials with various kinds of gratuity in order to develop or maintain mutual closeness, have become more cautious in doing so [3].

Despite the above arguments and findings, other studies are still pessimistic regarding the current level of corruption in Indonesia particularly in relation to business activities. These studies have indicated that red-tape and bureaucracy remain major obstacles in doing business in Indonesia. A study conducted by Kadin's think-tank, the Institute for Economic Research and Development (LP3E), found that business people have to follow a nine-stage process to set up a business in Indonesia and spend 17.4 percent of their investments on bribes and illegal payments. This finding, despite contradicting the earlier mentioned ASEAN Business Advisory Council's finding, confirmed the 2011 report of the World Economic Forum that ranks Indonesia at 129<sup>th</sup> globally in terms of the ease of doing business [31].

In addition, the KPK still considers Indonesia's public sector as relatively weak and vulnerable to bribery [3]. On the other hand, an Indonesian economist, Hendri Saparini, businesses have always tried to find loopholes to satisfy their individual interests [23]. Luky Djani also asserts that business approach to government in the post-Suharto era tends to be situational and pragmatic, which means that their decision to choose between individual or collective approach or both in a particular condition depends on which way is more effective and less costly [11]. An activist of a business association in Indonesia (Interview, 2 April 2011) and a political analyst from the Indonesian Institute of Science or LIPI, Indria Samego (Interview, 5 July 2012), believes that many businessmen still prefer to pursue individual lobbying with the government rather than to work collectively through business associations [4]-[24]. This could probably explain why business involvement in public sector corruption is still common today. The KPK even claims that most of the collusion and clientism in Indonesia has involved both public and private actors [3]. The following sections will discuss recent developments, which indicate that the current more democratic system has led to a more scattered distribution of political power, making it difficult for businesses to expect a profitable return from maintaining an individual clientelistic relationship with the government. Furthermore, it will also be discussed how the democratisation and the more open politics have encouraged business associations to become more proactive and more independent of the state, even though they do not necessarily make business people completely shift from pursuing individual-clientelistic lobbying to working collectively with and through business associations.

#### IV. ACTIVISM AND COLLECTIVISM IN INDONESIAN BUSINESS ASSOCIATIONS

The role of business associations in Indonesia has also become more important and strategic in the last decade. Kadin as the peak business organisation in Indonesia, has become more assertive and engaged with the government and become more involved in the policy-making process since the

<sup>3</sup> Defined as the members of People's Consultative Agency, House of Representatives, high officials of the executives and judiciary, and public servants who have strategic functions in state administration (Law 20/2001).

<sup>4</sup> Greed-driven corruption is attributed to the insatiable avarice of individuals for wealth, such as corrupt act by well-paid officials in higher-level positions, who do not count on bribery for survival, whereas a need-driven corruption is a corrupt act by underpaid low-level officials, who accept bribes to pay for basic necessities, such as food or schooling for their children [14].

<sup>5</sup> Defined as gifts in the form of cash, discount, commissions, zero-interest loans, tickets, accommodation, tour package, free medical treatments, etc.

downfall of the New Order. The representatives of Kadin have been involved in the policy making forums of the ministries, where the government provides information about their view of economic development and policy initiatives, asking for inputs from the private sector regarding the possible constraints related to inter-sectoral economic and business issues. Beyond the policy making process, Kadin's representatives have also more directly been involved in policy implementation, such as organising conferences and seminars aimed at introducing a new law stipulated by the government as well as monitoring the implementation of the law [16].

In contrast to the New Order era when Kadin played a relatively passive role, waiting for top-down directives from the government and following them, it has become more proactive in the current more democratic environment. Kadin has become more pro-active in proposing changes to government such as asking the central bank to lower interest rates to stimulate the economy, pressing for group-specific privileges and protections for local businesses against international competition, and supporting anti-corruption campaigns [15]. Based on personal observation in the National Leadership Meeting of Kadin in Makassar on 1-3 April 2011, the vocalicity of Kadin members is very obviously reflected in the Kadin's plenary meetings, when they provided suggestions and showed dissatisfaction and made complaints regarding administrative and technical impediments they had encountered. As the freedom of press has been greatly enhanced after the collapse of the New Order, the media is also frequently used by the representatives of Kadin to voice the aspirations and interests of members. In particular, Kadin leaders often give interviews and write columns in the newspapers to voice their views on economic issues such as new anti-monopoly law and labour law [16]. According to an officer from the Directorate for Industry of the Ministry of National Development Planning (Bappenas), the audacity of business people has become even more apparent since the stipulation of Law 14/2008 on public information disclosure. This is a new law that legalises the public's rights to acquire and demand information from government institutions as part of the government's efforts to promote transparency and promote good governance. This law along with the rapid advancement of information technology have made access to public information that used to be restricted to certain groups become more widespread to a broader community [6].

Despite Kadin's proactiveness and greater involvement in the policy-making process, scholars have different views regarding its effectiveness in attracting business people to work with and through the organisation as an intermediary to channel their interests. One of the positive opinions comes from Hartono, who contends that Kadin has become a vehicle for businesses to get close to high-profile figures from the government, the parliament, as well as business leaders. He maintains that representatives of Kadin's leaders have direct access not only to the ministries, but also to the parliamentarians and even the president. If direct interactions

with the ministries frequently happen during the government's policy making meetings, interactions with the parliament occur at parliamentary hearings, where both Kadin and legislators have discussions on business interests and issues related to economic development. Access to the parliament is even more direct given many of Kadin's key figures are also members of and/or have close connections with the parliament, especially those affiliated with the Golkar party. This underlines the intensity of interactions between Kadin and the government and the importance of its position in the view of the government [16].

In line with Hartono's argument, a senior economist from the Indonesian Research and Strategic Analysis (IRSA), Faisal Basri, observes that business community has started to realise that Kadin has become a more effective vehicle to represent their interests. He points out that unlike in the New Order era when business leaders could go directly to Soeharto and pursued individual clientelistic lobbying with the president, in the current democratic environment, they need to influence a much broader constituency. For instance, the foreign chambers of commerce – e.g. the American Chamber of Commerce and the Japanese Chamber of Industry – that used to go directly to Soeharto, have realised the need to work more closely with and through Kadin [36].

Nonetheless, these optimistic views have been challenged by scholars such as Indria Samego from LIPI and Hendri Saparini from ECONIT Advisory. Samego argues that the open politics and the more democratic regime after the fall of the New Order do not necessarily encourage business people to voice their interests through Kadin due to a number of reasons. First, as one of the positive impacts of democratisation and the promotion of political freedom, many new organisations, including those working on business and economic issues, have been established. These new organisations – either business associations or government bodies such as the Commission for the Supervision of Business Competition (KPPU) – have become the competitors for Kadin in playing the role as the representative of business interests. Second, apart from the competition from new institutions/associations, other modes for voicing aspirations such as mass media campaign or mass demonstrations that used to be restricted have become more powerful and effective political pressures in the current more open political environment. Samego believes that many business people prefer to use these uninstitutionalised mechanisms to voice their concerns rather than working collectively through business associations such as Kadin. Third, after the economic crisis that led to the demise of Soeharto's authoritarian regime, the government's role in the economy has diminished. During the Soeharto era, the government monopolised the financing of almost all areas development, which made many people try to get close to the government, one of which was through a business association especially Kadin. As the economy is currently more driven by market forces and there are more non-state actors involved in controlling economic sources, businesses has become less enthusiastic to work with

and through Kadin as an intermediary between business and the government [22].

Criticism on Kadin's performance also comes from an economist from Hendri Saparini, who argues that there is no significant change in the way Kadin works today compared to that in the New Order regime as the organisation continues to work more in favour of big businesses. Hendri Saparini asserts that with the current government that has substantially liberalised the trade regime, Kadin will not be able to effectively channel the aspirations and policy concerns of domestic industries, particularly the Small and Medium Enterprises. Domestic industry will need a more effective medium to channel their concerns and aspirations to the government to get the necessary support to grow and improve their competitiveness in order to be able to compete with imported products. Without such support, domestic industry will not be able to be sustained, and local businesses will probably shift from producers to importers [23].

With regards to the issue of Kadin's representativeness of business interests, Saparini maintains that it is difficult for an umbrella organisation like Kadin to effectively channel the aspirations of the multifaceted interests of its members that work in various sectors and that might compete with one another [23]. In line with Saparini's view, Hartono suggests that the very broad coverage of Kadin as the peak business organisation has made it difficult to deal with members with different backgrounds and conflicting interests. This is particularly true as its membership does not only cover business associations, companies and businessmen from various sectors and sub-sectors, but also state-owned enterprises, which normally provide public goods rather than private goods, and co-operatives, which primarily serve the economic needs of the less fortunate [16]. This argument is also supported by Bappenas, who mentions an example of the conflict of interests between textile entrepreneurs association and the cotton string manufacturers association [6].

Contrary to the New Order's authoritarian corporatist regime that required businesses to affiliate with the ruling party (Golkar) in order to grow and enjoy benefits from the government, business affiliation in the current democratic system is no longer restricted to one particular party. According to Faisal Basri, Kadin has become relatively less dependent on the government compared to the experience under the restrictive New Order regime. Nevertheless, the revival of Golkar's political influence after the collapse of the New Order regime has allowed the retention of influence by many of its leaders and political figures in a wide range of organisations and institutions both in public and private sectors, including Kadin. The majority of current Kadin leaders thus remain affiliated with the Golkar party. However, more cadres of other parties particularly from the current ruling party, *Partai Demokrat* or the Democratic Party, have recently emerged [1].

Basri contends that significant changes in Kadin did not begin to become palpable until Mohammad S. Hidayat took the chairman's position throughout the period 2004-2009,

where Kadin implemented a number of changes. Despite his affiliation with Golkar, as the chairperson of Kadin, Hidayat did not act in favour of the interests of Golkar. Instead, Kadin that had been treated in low regard by the New Order government was able to function as a sparring partner of the government. There was less of a dichotomy between indigenous and ethnic Chinese entrepreneurs, and they were able to build better communications with each other [1]. During Hidayat's tenure, Kadin was also more directly involved in broader and cross-sectoral economic and business issues. For example, Kadin developed and proposed to the government an Industrial Roadmap, which was a comprehensive plan containing proposals on how to stimulate industrial performance and promote investment. In the process of the roadmap's development, Kadin invited participation from the representatives of various interest groups within Kadin as well as external parties like the Central Bank of Indonesia, the American Chamber of Commerce, and the Japanese Chamber of Industry [16]. According to Hidayat, more than 100 business associations under Kadin were involved in a nine-month research exercise led by Kadin's economics team that eventually came up with the Roadmap [35]. As the result of this participative approach, as in [16], not only were Kadin able to present their own ideas independently from the government, but they could also effectively avoid internal frictions between different interests groups within the organisation – i.e. frictions between indigenous and non-indigenous businessmen, and between large corporations and small and medium enterprises, etc. Apart from the Industrial Roadmap, Kadin also submitted a proposal on the revitalisation of industry and investment to the various ministries, containing suggestions for the improvement of business law and taxation policy, business-friendly manpower policies, further empowerment of the private sector, support of regional autonomy, and the promotion of the development of small and medium-sized enterprises. This broader policy focus was a significant step beyond earlier forms of clientism and special dealing under the Soeharto regime. Such initiatives indicated very important departures from Kadin's previously passive role where it used to be left behind in anticipating business and economic problems. With these initiatives, Hartono suggests that Kadin was not only capable of building its role as a broad business representative, but also in providing solutions rather than merely criticising government policies [16]. Hidayat's satisfactory performance as Kadin's chairman has brought him to a post-Kadin assignment since 2009, as the Minister of Industry in the current Yudoyono's cabinet.

Since 2010, Kadin has been chaired by Suryo Bambang Sulisto, another business figure affiliated with Golkar party, who has a strong connection with Aburizal Bakrie. Under Sulisto's chairmanship, Kadin has also been involved in the development of the Master Plan for the Acceleration and Expansion of Indonesia Economic Development 2011 – 2025, a multi-stage economic plan that aims to create economic corridors for Indonesia partly through public-private

partnerships. This master plan aims at reducing poverty levels, giving better access to quality education, employment, higher living standards and medical care, and envisions Indonesia as the world's 10 major economies by 2025. Although the document was originally prepared by the government, views and inputs from various stakeholders especially from the business community have been taken into consideration through a series of intensive, interactive and participative dialogues. According to the Plan, the private sector will be given a major and important role in economic development, particularly in investments to increase job opportunities [7]. As Sulisto pointed out in the launching ceremony of the Master Plan:

"This is the first time that the business community has been asked to be involved in the laying out of the mid- and long-term economic development — sending a strong signal, especially for foreign investors, that the government is really serious and will go all out with this master plan." [34].

Despite the above improvements in Kadin etc, older clientelistic tendencies remain a serious obstacle for further development of Kadin as a genuine representation of business interests. Faisal Basri, who was the key architect of Kadin's earlier industrial road map and the lead technocrat in Kadin's economics team during Hidayat's tenure, is quite pessimistic about the prospect of Kadin under Sulisto's leadership. Basri asserts that Sulisto's victory in the 2009 Kadin chairmanship election was largely contributed by Aburizal Bakrie's lobbying due to their mutual closeness [1]. More recently, some criticisms have also been directed to Sulisto as an extension of public criticism of the Bakrie Group related to the allegations made by a former tax official at the center of a high-profile corruption trial, Gayus Tambunan, who said that Bumi Resources, along with two other Bakrie Group's subsidiaries, Kaltim Prima Coal and Arutmin, had paid him \$3 million to settle tax disputes [30].

The strong influence of Aburizal Bakrie in Kadin has resulted in many criticisms. The case of the last election of the Kadin chairman has shown that the influence of large and powerful conglomerates and politico bureaucrats remains strong in Kadin politics. Faisal Basri also suggests that the dominant influence of Aburizal Bakrie in Kadin has led to dissatisfaction by some of Kadin leaders. Kadin's credibility and effectiveness as the medium for business interest representation has also become dubious when some of its leaders take strategic positions in the government as well as in the parliament. Faisal Basri contends that the multiple roles of Kadin's high figures are problematic and unethical as it will affect their representativeness and neutrality in Kadin, whether representing Kadin or the parliament. In addition, Faisal Basri also reports that Kadin's membership remains an issue as it does not only consist of businessmen or entrepreneurs, but also politicians or even political/business brokers, which may not be the case for other business associations [1].

#### V. THE ROLE OF GOVERNMENT AND THEIR ATTITUDE AND RESPONSES TO BUSINESS

While the role of business in the economy has increased under the current more open and democratic system, the role of government has been declining. An officer from the Ministry of National Development Planning suggests that the role of the private sector in the economy has recently been more dominant and remarkably larger than the government, particularly when compared to that in the New Order era, when the government used to have a dominant control over the economy [6]. This opinion has been supported by Indria Samego, who suggests that the increasing role of the private sector in the Indonesian economy is not merely associated with domestic businesses, but more importantly, with multinational business actors that work in collaboration with their domestic partners [22]. The shift from government-dominant to private sector-dominant economy developed after the New Order government implemented economic liberalisation and deregulation policies. The shift became more apparent since the democratisation of the political system and the implementation of more extensive trade liberalisation and privatisation policies.

In the first few years of the reform era, it is difficult to track government's attitude and responses towards business collective action due to political instability and the short tenure of the first three successors of Soeharto – i.e. Habibie, Abdurrahman Wahid, and Megawati. As the former Kadin's chairman revealed after the launch of Kadin's industrial roadmap 2010-2014, as Indonesia endured a series of quick changes in leadership after the crisis, none of the leaders offered a clear development vision, particularly in relation to how to make the industrial sector the main locomotive of the economy [35]. It was not until the period of Soesilo Bambang Yudoyono's administration since 2004 that it is easier to identify how the business community become more involved in public policy making and obtained more serious attention by the government. The government has also become more consultative of business and responsive to its collective requests. This is reflected, among others, in the cases of the Industrial Roadmap proposed by Kadin and the tri-partite negotiation on labour law issues with Apindo and labour unions mentioned earlier. As Hamilton-Hart suggests, business representatives often meet with economic ministers and leaders of the People's House of Representatives (DPR) for formal discussions [15]. More recently, in the National Leadership Meeting of Kadin in 2011, there have been interactions between government ministers, the members of KADIN and the representatives of the provincial and district levels of Kadin. The president also provided opportunities to convey their most urgent problems to the government.

An officer from the Ministry of National Development Planning reported that regular meetings with various business associations have been conducted by the government to discuss a wide range of economic and business related issues. While meetings with Kadin are normally conducted to discuss broader and inter-sectoral issues, separate meetings with

sectoral business associations have also been conducted to discuss more specific, sectoral issues. Bappenas along with sectoral ministries and departments have also invited business figures in Kadin from central to regional levels in meetings to formulate development plans such as the recently-launched Master Plan for the Acceleration and Expansion of Indonesia Economic Development 2011 – 2025, which is complied with the National Long-term Development Plan (RPJPN) 2005 – 2025. This pattern of interactions has not significantly changed since the New Order era, although these meetings were suspended in the beginning of the reform era [6].

Nonetheless, the way the current government works and interacts with businesses has several drawbacks. The key problem in the relationship between business and the government in Indonesia according to Hendri Sapparini is the lack of adequate and clear directions for economic development policy by the government. She criticises the government's lack of policy directions due to its reliance on the National Medium-Term Development Plan (RPJMN), which only sets out general directions without clear inter-sectoral linkages and annual development priorities. Each sector works and sets strategies exclusively for itself without integrating with other sectors, even for cross-cutting issues such as poverty alleviation. Without sufficient guidance from the government, inter-sectoral and inter-association conflict is often unavoidable, as has been the case in the increase of the basic electricity tariff. The ambiguity of the government's directions in economic development is also reflected in the case of import policies that have an impact on local business development – e.g. imports of cotton thread for the textile industry. The government allows imports on both raw materials and finished products without directives on which industries to be prioritised, and this has created confusion for domestic industries in developing their businesses. Under these circumstances, Sapparini asserts that businessmen have tended to find their own way to promote investment, making it more difficult for business associations like Kadin to promote collective action [23].

Sapparini further argues that the National Medium-Term Development Plan is also dependent upon directions of the incumbent president, so it is prone to a sudden change with the succession of the presidency, which in the beginning of the reform era occurred within just a period of one or two years. Such changes have troubled development continuity in the longer term [23]. However, an officer from the Ministry of National Development Planning asserts that since 2004, the parliament has started to realise the importance of a long-term development plan and directives and thus they support the stipulation of Law 17/2007, by which the National Long-term Development Plan (RPJPN) for the period 2005-2025 has been imposed as a base for the president in planning and running his development programmes. While the vision and mission of the president remains accommodated during his/her term, general development milestones in the RPJPN should also be complied by the president [6].

Even though the role of the private sector is currently more

dominant in the economy than the government, Sapparini argues that the government should continue to take the lead on key economic issues to make sure that the benefit does not only extend to large businesses, but also to small and medium ones. As an example, Sapparini mentions the Roadmap that was proposed by Kadin and subsequently approved by the government has not sufficiently accommodated the interests of domestic small and medium businesses, which have been forced to compete freely with more established or larger businesses, particularly from overseas due to the implementation of trade liberalisation. Kadin admitted that the proposal or interests that are more attractive and thus accommodated by the government are those of businesses with substantial capital. The government is also not supposed to simply adopt the Roadmap from business (associations) without deep scrutiny, particularly when the roadmap is mainly driven by the interests of large businesses. If the government adopts the whole Roadmap without sufficient assessment, then the interests of small-medium enterprises will be neglected [23].

## VI. CONCLUSION

Democratisation, regime change and a more open politics have rendered business associations in Indonesia more independent of government control and more proactive in voicing their aspirations at the national level of politics. The increasing vocality of business associations, including Kadin as the peak business association in Indonesia, has seen it become more assertive with the government and more involved in government's decision making related to economic policy. Business people that used to pursue individual lobbying with the president during the New Order era, have started to realise the need to influence a much broader audience and work more closely with Kadin. Several multi-sectoral associations other than Kadin and sectoral business associations are even deemed able to work more effectively in resolving business issues and channelling the aspirations of business people.

However, it is still too hasty to imply that the increasing vocality and independence of business associations have rendered business people completely leave individual-clientelistic relationship with the government, and simply seek to work collectively with and through business associations in order to voice their aspirations and interests. Several factors have hampered the effectiveness of Kadin and other business associations in working for the wider interests of business community, and have reduced their attractiveness amongst business people to voice their aspirations through these organisations. The current democratic system, which ensures the freedom of speech, has provided a greater opportunity to form a wide range of interests groups and organisations. These organisations have become the competitors and have limited the space for business associations especially Kadin to attract the interests of business people. As for Kadin, the influence of Golkar and its powerful figures in this



organisation has further hampered its effectiveness in channelling a wide range of business interests in Indonesia. Furthermore, the freedom of speech enhanced in the current political system have also provided a greater opportunity for people to voice their aspirations through other mechanisms such as mass media campaign and mass demonstration. Many business people tend to choose these approaches over an institutionalised mechanism through business associations as the former are deemed more effective to influence or change government policies. Apart from the above factors, the diminishing power of the government and their control over the economy in the current more democratic and liberalised system has left many issues in the public domain resolved by market mechanism. Even though the government has become more attentive, supportive and accommodative of business aspirations, their approach and interactions with businesses continues to remain passive, conventional, and reactive rather than proactive. This has not only reduced the reliance of business people upon the government with regards to business opportunities, but also reduced their passion to work through business associations as an intermediary between the government and business community. Hence, it is still difficult to imply that the recent development in business activism and collectivism in Indonesia has helped reduce corruption and clientism in the country.

Fortunately, government's enforcement on corruption and clientism issues has strengthened since the establishment of KPK, which has successfully imprisoned many high-profile figures in the executive, legislative and judicial bodies. Although the government remains relatively weak and vulnerable to bribery and businesses tends to find loopholes for their individual interests, this achievement has resulted in increasing wariness among the government, politicians and businesses about getting involved in corruption and clientism, as well as increasing public awareness and social control over the implementation of good governance.

Given this recent development, it seems plausible to say that Indonesia will require longer experience with collective representation mechanisms and commitment to establish new ways of organising collective action in order to reduce incentives for businesses to pursue individual-clientelistic deal-making. The increasing business activism in Indonesia so far merely reflects the phenomena of democratisation without clear implications for the reduction of corruption and clientism. Business associations still have to improve their effectiveness and bargaining power amongst business people in order to compete with other media/actors to attract business community to channel their aspirations and pursue wider and business-wide activism and collectivism. If business associations can work more effectively in channelling the aspirations of business community in the future, combined with significant achievements in corruption and clientism eradication by the government, there will be a narrower manoeuvring space for particularistic deal-making between government and business. This, in turn, may help reduce corruption and clientism down the line along with the

increasing public awareness and control over the implementation of good governance.

## REFERENCES

- [1] Basri, Faisal (7 June 2011), Senior economist and observer of business associations in Indonesia, Indonesia Research and Strategic Analysis (IRSA) [Interviewee].
- [2] Chua, Christian, 2009, 'Capitalist consolidation, consolidated capitalists: Indonesia's conglomerates between authoritarian and democracy'. In Marco Bunte and Andreas Ufen (Ed), *Democratization in Post-Suharto Indonesia*. Routledge Contemporary Southeast Asia Series, London and New York.
- [3] Commentator 1 (17 February 2011), Corruption Eradication Commission (KPK) [Interviewee].
- [4] Commentator 2 (2 April 2011), Association of Indonesian Procurement and Distribution Partners (ARDIN), CE Natural Resources Group, PT Bosowa Resources [Interviewee].
- [5] Commentator 3 (2 April 2011), Indonesian Young Entrepreneurs Association (HIPMI) [Interviewee].
- [6] Commentator 4 (8 April 2011), Sub-directorate for Science, Technology and Industry, Ministry of Development Planning (Bappenas) [Interviewee].
- [7] Coordinating Ministry of Economic Affairs, the Republic of Indonesia, 2011, *Master Plan for the Acceleration and Expansion of Indonesia Economic Development 2011 – 2025*.
- [8] Corruption Eradication Commission Annual Report, 2010, Corruption Eradication Commission.
- [9] Detiknews.com, 25 April 2008, Politisi PD Ancam Bubarkan KPK. <<http://us.news.detik.com/read/2008/04/25/133033/929433/10/politisi-pd-ancam-bubarkan-kpk>>
- [10] Dhume, Sadanand, 2004, 'A new political economy?' politics, ethnicity and business in Indonesia', In Basri and van der Eng (Ed.), *Business in Indonesia: New Challenges, Old Problems*. Institute of Southeast Asian Studies, Singapore.
- [11] Djani, Luky (6 July 2012), Deputy Chairman of Indonesia Corruption Watch and Deputy Secretary General of Transparency International Indonesia [Interviewee].
- [12] Eklof, Stefan, 2002, 'Politics, business, and democratization in Indonesia. In Gomez, Edmund T. (Ed.), *Political Business in East Asia*. Routledge, London and New York.
- [13] Gambletoft, Peter, 1997, *State, Business and Hegemonic Rule in New Order Indonesia*. Working Paper 5. International Development Studies, Roskilde. <<http://home14.inet.tele.dk/petergt/me/phd/norfa.pdf>>
- [14] Gong, Ting, & Wu, Alfred M., 2012, 'Does Increased Civil Service Pay Deter Corruption? Evidence from China'. *Review of Public Personnel Administration*, 32(2), 192-204.
- [15] Hamilton-Hart, Natasha, 2006, 'Government and private business: rents, representation and collective action', In McLeod, Ross H., and MacIntyre, Andrew (Eds.), *Indonesia: Democracy and the Promise of Good Governance*. Institute of Southeast Asian Studies, Singapore.
- [16] Hartono, Adelbertus Irawan Justiniarto, 2011, 'State-Business relations in Post-1998 Indonesia: The Role of Kadin', *Theses in Economics and Business*, University of Groningen, Groningen.
- [17] Kadin Indonesia, 2010, *Asosiasi/Himpunan*, Webindo, 23 February 2012.
- [18] Kompas, 25 June 2009, *Berbahaya kekuasaan Terlalu besar dan Tanpa Kontrol*.
- [19] MacIntyre, Andrew, 1991, *Business and Politics in Indonesia*. Asian Studies Association of Australia in association with Allen & Unwin, North Sydney, N.S.W.
- [20] RIMAnews.com, 25 November 2010, Umar Hamdani: Edy Baskoro Masih Bau Kencur Jadi Wakil Ketua Umum Kadin. Ini Pasti Ada Intervensi SBY!!! <<http://rimanews.com/read/20101125/7099/umar-hamdani-edy-baskoro-masih-bau-kencur-jadi-wakil-ketua-umum-kadin-ini-pasti>>
- [21] Samego, Indria, 2004, 'Kadin dan pembangunan nasional'. *Profil Indonesia*. Cides Annual Journal No.1/1994, pp.145-156.
- [22] Samego, Indria (5 July 2012), Political Analyst from the Indonesian Institute of Sciences (LIPI) [Interviewee].
- [23] Saparini, Hendri (16 February 2011), Economist – ECONIT Advisory [Interviewee].

- [24] Schutte, Sofie Arjon, 2009, 'Government policies and civil society initiatives against corruption'. In Marco Bunte and Andreas Ufen (Ed), Democratization in Post-Suharto Indonesia. Routledge Contemporary Southeast Asia Series, London and New York.
- [25] Sekretariat Negara Republik Indonesia, 2007, Pola Pemberantasan Korupsi Sistemik Melalui Pencegahan dan Penindakan. Viewed 28 February 2012. <[http://www.setneg.go.id/index.php?Itemid=219&id=2259&option=com\\_content&task=view](http://www.setneg.go.id/index.php?Itemid=219&id=2259&option=com_content&task=view)>
- [26] Tamara, Nasir, 2009, Indonesia Rising: Islam Democracy and the Rise of Indonesia as a Major Power. Select Publishing, Singapore.
- [27] Tempo Online, 6 July 2009, Cicak kok mau melawan buaya. <<http://majalah.tempointeraktif.com/id/arsip/2009/07/06/LU/mbm.20090706.LU130792.id.html>>
- [28] The JakartaGlobe, 12 March 2008, KPK backlog reaches more than 16,000 cases. < <http://www.thejakartapost.com/news/2008/12/03/kpk-backlog-reaches-more-16000-cases.html>>
- [29] The JakartaGlobe, 30 October 2009, KPK's Chandra, Bibit Arrested. < <http://www.thejakartaglobe.com/home/kpks-chandra-bibit-arrested/338541>>
- [30] The JakartaGlobe, 21 June 2011, New Bumi Coal Venture Lists Fraud, Graft Allegations Among IPO Risks. <[http://www.thejakartaglobe.com/business/new-bumi-coal-venture-lists-fraud-graft-allegations-among-ipo-risks/448240#Scene\\_1](http://www.thejakartaglobe.com/business/new-bumi-coal-venture-lists-fraud-graft-allegations-among-ipo-risks/448240#Scene_1)>
- [31] The JakartaGlobe, 14 March 2012, Indonesian graft saps 17% of investment: Report. <[http://www.thejakartaglobe.com/home/indonesian-graft-saps-17-of-investment-report/504590?utm\\_source=newsletter&utm\\_medium=email&utm\\_campaign=jgnewsletter](http://www.thejakartaglobe.com/home/indonesian-graft-saps-17-of-investment-report/504590?utm_source=newsletter&utm_medium=email&utm_campaign=jgnewsletter)>
- [32] The JakartaGlobe, 7 April 2012, Indonesia Tops Asean Investment Survey. < [http://www.thejakartaglobe.com/home/indonesia-tops-asean-investment-survey/509737?utm\\_source=newsletter&utm\\_medium=email&utm\\_campaign=jgnewsletter](http://www.thejakartaglobe.com/home/indonesia-tops-asean-investment-survey/509737?utm_source=newsletter&utm_medium=email&utm_campaign=jgnewsletter)>
- [33] The Jakarta Post, 10 January 2010, Suryo Bambang Sulisto: The father of wisdom. <<http://www.thejakartapost.com/news/2010/10/01/suryo-bambang-sulisto-the-father-wisdom.html>>
- [34] The Jakarta Post, 28 May 2011, Master plan to make RI a top-10 world economy unveiled. <<http://www.thejakartapost.com/news/2011/05/28/master-plan-make-ri-a-top-10-world-economy-unveiled.html>>
- [35] The Jakarta Post, 19 July 2007, Kadin unveils road map to industrial growth. <<http://www.thejakartapost.com/news/2007/07/19/kadin-unveils-road-map-industrial-growth.html>>
- [36] The Jakarta Post, 7 November 2009, Taking a closer look into Kadin's economic road map. <<http://www.thejakartapost.com/news/2009/11/07/taking-a-closer-look-kadin039s-economic-road-map.html>>
- [37] The Jakarta Post, 5 December 2009, President ready to issue a decree reinstating Chandra and Bibit to KPK. <<http://www.thejakartaglobe.com/home/president-ready-to-issue-a-decree-reinstating-chandra-and-bibit-to-kpk/345660>>
- [38] Transparency International, 2012, Surveys and indices. <[http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi)>

**Mohammad Faisal** is a PhD student at the School of Political Science and International Studies, the University of Queensland. Prior to his PhD, he received a Master's Degree in Development Studies from the University of Melbourne in 2006, and a Bachelor's Degree in Regional and City Planning from the Institute of Technology Bandung in 1998. His research interests include political economy, governance, regional development and planning.

He has worked for diverse international organisations including the World Bank, the United Nations Population Fund (UNFPA), and the Secretariat of the Association of Southeast Asian Nations (ASEAN) in Jakarta. He has also served as a consultant for the Indonesian government agencies e.g. National Development Planning Board. His research experience prior to his PhD was related to economic issues particularly during his employment with Econit, a leading Indonesian economic think-tank, and the ASEAN Secretariat.