Chapter 2 State-Business Relations: A Theoretical Perspective

2.1 Introduction

As described in Chapter 1, for decades Kadin served as the only business association that was formally accepted by the government, at least during the New Order era of 1968-1998. After 1998, however, the political reality changed quite dramatically which, according to the analysis in this thesis, may also have changed the nature of the state-business relations and of Kadin and its relation with the state in particular.

As will be discussed in this chapter, the political theoretical model of corporatism appears to be very relevant in describing and explaining changing interactions between business and the Indonesian state – both before and after the political, social, and economic changes of 1997-1998. This model has been popularized in political science by authors like Philippe Schmitter\textsuperscript{13} and Gerhard Lehmbruch\textsuperscript{14}. Corporatism is especially relevant, since it focuses on factors such as the power relations between state and business, the degree of autonomy of business associations in their relationship with the state, and the outcomes of state-business interaction with respect to policy decisions. These factors are found to be relevant in the context of analyzing the policymaking process in Indonesia and Kadin’s influence on this process, especially during the New Order, but also after the reforms in the late 1990s.

Concepts that are central in the corporatist theory are legitimacy, credibility, and institutionalization of business associations. These concepts will be discussed in this chapter. They are useful when describing the nature of the interaction between these associations and the state and help to understand the changing nature of state-business relations in Indonesia. In particular, the concept of credibility appears to be useful as it furthers our understanding of the (in)ability of Kadin with respect to managing the interests of various sub-categories of business (e.g. small versus large businesses, Indonesian versus Chinese businesses, etc.), and how in the past few decades Kadin translated the different interests of its members into policy recommendations to the state. As described in Chapter 1, the representation of various interests and the related policy recommendations by Kadin is the focus of this thesis.

\textsuperscript{13} Schmitter, 1974, 1975.
\textsuperscript{14} Lehmbruch and Schmitter, 1981.
The remainder of this chapter is organized as follows. Section 2.2 discusses policymaking models in general, particularly focusing on closed versus open policymaking models. The discussion in this section will provide the background for the analysis of the policymaking process, and the role of business associations in the context of the corporatist model. Section 2.3 describes the nature of corporatism, focusing on different versions of corporatism and the practice of corporatism in Europe, Latin America and Asia. The section also shows why the corporatist model applies very well to the case of Indonesia until the end of the 1990s.

Section 2.4 discusses the concepts that are central in the corporatist model: legitimacy, credibility, and institutionalization. These three concepts—and in particular the concept of credibility—will be used to discuss the changing role of Kadin as a business association, representing business interests in its relationship with the state, both before and after the reformasi of the late 1990s. The final section summarizes the main issues discussed in this chapter, showing how the concepts and theories discussed here help to analyze the changing role of Kadin as a representative of Indonesian business interests, and in particular how it changed its role in influencing state policy decisions that were relevant to the business community.

2.2 A Brief Survey of Policymaking Models

Before discussing state-business relations and the possible influence of these relations on policymaking, this section provides a general description of policymaking models. Such a description can be used as a background against which state-business relations can be evaluated. In the literature, several types of policymaking models may be distinguished: closed versus open policymaking models, elite versus group-oriented policymaking models, and system versus structural models. We will briefly discuss the closed versus open policymaking models as these models are most relevant in the context of the various corporatist models discussed in this chapter.15

Closed Versus Open Policymaking Models

According to the closed policymaking model, policymaking is centralistic, the state being the central and dominant actor. There are only a small number of actors involved in the policymaking process. A closed policymaking model cannot easily be combined with a democratic system, in which participation of many different groups of society is the rule. Instead, closed policymaking models are usually associated with authoritarian regimes. A closed policymaking model does not allow genuine participation of society in the policymaking process.

15 A brief description of the other two types of policymaking models can be found in appendix 2 of this thesis.
The dominant role of the state in a closed model resembles a statist ideology. Such an ideology argues that the state is the leading institution and the key agent in society, and therefore deserves a crucial role in public policymaking.\textsuperscript{16} In its extreme form, statism – as noted by Max Weber and Otto Hintze\textsuperscript{17} – portrays the state as a determining agent with the monopoly to use force in order to be able to guarantee order and harmony of social relations.\textsuperscript{18} A more moderate interpretation of statism is put forward by Theda Skocpol. She argues that the state can be seen as an arena of struggles between competing interests in society. According to Skocpol, although the state remains the most important agency in the policymaking process, the state allows other agencies to participate in public policymaking processes.\textsuperscript{19} Other academics argue that, since the conflict of interests is embedded in society, a closed policymaking process will face problems in policy implementation, because certain policies may not be acceptable to certain groups in society. Because the interests of these groups are not taken into consideration in the policymaking process, they may resist policies that do not match their interests.\textsuperscript{20} Depending on the political strength of these groups, to the state their resistance can be a matter of concern.

In contrast to the closed model, policymaking in the open model is not centralistic. Moreover, it involves many different actors. While authoritarian regimes often adopt a closed policymaking model, democratic regimes are usually associated with the open policymaking model. In such regimes, the state serves as an arena for competing interests, and different actors representing different interests tend to be involved in public policy debates, especially through their representatives in parliament and state bureaucracies. Thus, an open policymaking model is inclusive as it allows many different actors to participate in policy debates.

An important interpretation of the open model, called the public choice approach, emphasizes the importance of the public when discussing policymaking processes. In this approach, the public – which may consist of many different groups with different interests – behaves rationally in its attempts to satisfy its interests, thereby trading off the gains and losses related to its involvement in policymaking. The public choice approach applies principles of neo-classical economics to political behavior.\textsuperscript{21} It stresses the role of voters, political parties, politicians and bureaucrats, who all participate in policymaking. It assumes that voters constantly demand government policies to

\textsuperscript{16} Howlett and Ramesh, 1995, pp.28-29.
\textsuperscript{17} Weber, 1978 and Hintze, 1975.
\textsuperscript{18} Howlett and Ramesh, 1995.
\textsuperscript{19} Skocpol, in: Evans, Rueschemeyer, and Skocpol, 1985.
\textsuperscript{20} Rajawali, 1986.
\textsuperscript{21} Public choice theory was pioneered by e.g. Arrow, 1963; Buchanan, 1962; Niskanen, 1971; and others. For comprehensive overviews of this theory, see e.g. Howlett and Ramesh, 1995, op. cit.; and Shughart and Razzolini, 2001.
satisfy their interests. Politicians, political parties and bureaucrats are prepared to make and implement policies in order to satisfy their constituencies, establish their prestige, and increase their popularity in order to secure a place in public office in the next elections. The open policymaking model version of the public choice approach treats voters (i.e. the public) as pivotal actors in decision making.

The public choice approach to open policymaking has been reviewed critically in the literature on political science. Ard Schilder argues that open policymaking processes may lead to government failure with respect to policies implemented and their outcome. Government policies may be less effective because of three crucial factors: extreme self-interest of the bureaucracy, rent-seeking behavior of certain groups, and opportunism of politicians. \(^{22}\) In the public choice approach the bureaucracy is assumed to carry out policies neutrally. However, in practice the bureaucracy may have a different interest. Government failure may occur if the bureaucracy produces policies that have an adverse effect on social welfare. Rent-seeking behavior of particular groups may also produce government failure, especially when these groups try to gain privileges from the government at the expense of other groups. Finally, political opportunism may lead to government failure. Political opportunism of politicians may often take place in the period before elections. Politicians may opt for policies that are negative for welfare of society as a whole, but that are advantageous for certain groups. Niels Hermes and Ard Schilder define political opportunism as the short-term manipulation of economic or political variables to secure re-election. Voters base their judgment of government policies on the economic performance that are the result of these policies. Economic performance is reflected by changes in macroeconomic indicators. Yet, voters may lack information on the precise outcomes of policies, as reflected by changes in macroeconomic indicators. Due to this lack of information, the government may manipulate macroeconomic information in an attempt to secure re-election. \(^{23}\)

Another interpretation of the open policymaking model is based on the transaction cost theory, which states that policymaking can be defined in terms of transactions between different parties. This view is taken by Hermes and Schilder, and Van Leerdam. \(^{24}\) These authors contend that during the policymaking process different individuals and groups with different goals and interests interact and exchange resources. Yet, the interaction and exchange of resources involves transaction costs that may determine whether and to what extent individuals and groups participate in the policymaking process. These transaction costs may be the result of the lack of information related to adverse

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\(^{22}\) Schilder, 1997.  
selection and moral hazard problems, political opportunism, etc.\textsuperscript{25} Therefore, according to the transaction cost approach, effective policymaking is a matter of how transaction costs can be reduced by improving the transparency of information and/or increasing the efficiency of bureaucracy.\textsuperscript{26}

The closed and open models as described above are theoretical abstracts; they are the two extremes of a continuum of possible policymaking models. In practice, these extreme cases may not exist. Rather, policymaking will be a mix of both closed and open models.

### 2.3 Understanding Corporatism\textsuperscript{27}

**Political Theoretical Models: Corporatism and Its Competitors**

Corporatism as a model of interaction between state and society was developed in the 1960s when political scientists discovered that the ‘traditional’ political models, i.e. the pluralist and the Marxist model, could no longer adequately describe the processes of policymaking after the Second World War. These actual processes were characterized by interest groups that were involved in the policymaking process together with the state. This situation did not match either of the two traditional models.

The pluralist model is based on the primacy of interest groups in the political process.\textsuperscript{28} In pluralism interest groups are unlimited and free-forming. Moreover, they are characterized by overlapping membership and a lack of representational monopoly. Overlapping membership is said to be the key mechanism for reconciling conflicts and promoting co-operation among groups. In addition, the same interest may be sought after by more than one group. Pluralism does not imply that all groups are equally influential or that they have equal access to the government. In fact, groups vary in terms of their financial or organizational (personal, legitimacy, members’ loyalty, or internal unity) resources and their access to the state. The state is considered to be the place where competing groups meet to work out their differences. Yet, the state is also considered to be a neutral party, setting out the rules in case of group conflicts and ensuring that groups do not violate them with impunity. As such, it plays a relatively minor role. Pluralism exists in an open policymaking setting, in which the demands of (not necessarily formally organized) groups are influential in shaping policymaking by the state.\textsuperscript{29} Yet, in most cases the interests of groups are not turned into policy through direct involvement. Instead, the influence of groups’ interests may be indirect, through competition

\textsuperscript{25} Dixit, 1996.
\textsuperscript{26} North, 1994; and Chang and Rowthorn, 1995.
\textsuperscript{27} This section draws on Wiarda, 1996.
\textsuperscript{28} Howlett and Ramesh, 1995, op. cit.
\textsuperscript{29} The concept of an open policymaking model is explained in more detail in Section 2.2.1.
between groups. In the end this competition may shape policymaking by the state. The political system of the United States is the best example of a pluralist model.

In the Marxist model the state is the dominant player and it is seen as totalitarian. Interest groups may be created, but they are fully controlled by the state. This also means that these groups do not effectively form their own independent views on policymaking. It is the state that decides on policies and policy implementation. The state may decide to create interest groups to use them as channels through which policies are made known to the public and/or as channels for implementing policies. The former communist countries in Eastern Europe are examples of this Marxist model.

The corporatist model is somewhere in between the pluralist and Marxist model. In corporatism, the focus is on the primacy of the state. Schmitter, one of the most important political scientists who have written substantially on this issue, has provided a definition of corporatism. According to Schmitter corporatism is:

[A] system of interest representation in which the constituting units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.\(^{30}\)

The state thus holds a dominant position in the policy decision making process. Yet, in a corporatist system public policy is shaped by interaction between the state and interest groups. Unlike in pluralism, interest groups in corporatism are recognized and regulated by the state – through government rules such as laws, Presidential decrees, ministerial decisions, etc. In corporatism, interest groups in fact become part of the state.

The state aims at structuring interest representation by a limited number of (or even a single) interest group(s) for each societal or functional interests. These interests may be based on ethnicity, tribes, families or clans, religion, military power, or various economic interests reflected in trade unions, business associations, farmers’ unions, etc. For all these different interests the state aims at having several (or a single) representing interest group(s), for example catholic organization(s), trade union(s), business association(s), etc.

Apart from the corporatist model, another political theoretical model of state-business relationships emerged during the 1960s. This is the model of collective action, originating from the public choice literature and popularized

\(^{30}\) Schmitter, 1974, pp.93-94.
in the work of Mancur Olson.\textsuperscript{31} The theory of collective action tries to explain the rise of interest groups, such as business groups, and the way these groups try to pressure (referred to as ‘collective action’) the state into implementing certain policies. The success of interest groups depends on the homogeneity of interests and/or the size of the interest group. The larger the group and the more heterogeneous the interests, the more likely it is that members of the interest group will become free-riders, i.e. free-riding on the activities (such as lobbying) of others members. Yet, the larger the number of individuals showing free-riding behavior, the lower the probability that collective action actually puts pressure on the state. In case of small and homogeneous interest groups, individuals observe a more direct link between the costs and benefits of individual contributions to collective action. Moreover, in smaller groups social pressure is likely to reduce incentives for free-riding behavior.

Olson’s theory inspired a lot of literature on the economics of rent-seeking. This literature explains how state intervention creates rents, such as in the case of the introduction of import licenses. This in turn induces groups to organize themselves into interest groups in order to try to obtain these rents.\textsuperscript{32,33} Several studies have used Olson’s theory to explain the interaction between state and business in different country settings. For example, Manzetti\textsuperscript{34} applies Olson’s notion of distributional coalitions (e.g. interest groups that are successful in pressing the state to take measures favoring their private interests at the cost of the interests of society as a whole) in his discussion of the political economy of Argentina. Frieden\textsuperscript{35} and Shafer\textsuperscript{36} use the theory of collective action to discuss how economic sectors within countries have shaped economic development. Sandler\textsuperscript{37} provides an overview of several applications of Olson’s theory in the political economy literature.

Notwithstanding the importance of the theory of collective action in explaining the interaction between state and business, one problem of the model, at least for the analysis in this thesis, is that the state remains passive in its interaction with business.\textsuperscript{38} The business sector takes action and determines the interaction with the state and state officials. In this respect, the collective action model has some similarities with the above discussed pluralist model. In the pluralist model, the state is merely a place where competing groups meet to work out their differences; it is considered to be a neutral party that plays a relatively minor role in society. In our case study of state-business relations in

\begin{thebibliography}{99}
\bibitem{31} Olson, 1965, 1982.
\bibitem{32} Krueger, 1974.
\bibitem{33} Bhagwati, 1982.
\bibitem{34} Manzetti, 1993.
\bibitem{35} Frieden, 1991.
\bibitem{36} Schafer, 1994.
\bibitem{37} Sandler, 1992.
\bibitem{38} Schneider, 2004.
\end{thebibliography}
Indonesia, we will show that the state definitely played a dominant and active role. This explains why in the analysis we focus on using the political theoretical model of corporatism, rather than the model of collective action.

**Different Versions of Corporatism**

Generally speaking, three main types or versions of corporatism can be distinguished, based on the extent to which the state has a dominating role. In the first version of corporatism, state dominance is very strong and sometimes comes close to being authoritarian. This version of corporatism is called historical or natural corporatism and is mainly found in societies where group solidarity and communitarism are strong. In such societies, interest groups are ‘naturally’ organized along ethnic, family or clan, community, regional lines, etc.

The second version of corporatism is called state corporatism, which is related but not entirely similar to natural corporatism. In case of state corporatism, the state is authoritarian and is usually based on military power. Since the state is so dominant and society appears to be self-structured to a great extent, the state may be able to organize interest representation into a single or a few interest group(s) for each societal or functional interest. The relationship between the state and the interest groups can be described as top-down. This means that the state basically decides on policies, taking into account the interests of groups, but once decisions have been made groups have no choice but to agree. Moreover, interest groups also play a role in communicating policies to the groups they represent and help to implement these policies.

Next to natural and state corporatism, neo-corporatism constitutes a third version of the corporatist model. Neo-corporatism is more closely connected to state corporatism than to natural corporatism. However, whereas in case of state corporatism, the state is still relatively strong and dominant, in the neo-corporatist version of the model the state focuses on harmonious decision making, directly incorporating interest groups in the decision-making process. These groups are formally consulted before the state takes decisions on policies. In practice, such a harmonious decision making model means that the views of interest groups are explicitly taken into account. Decision making takes place through consultation, coordination and direct negotiations with these groups. Neo-corporatism is thus characterized by a quasi-open policymaking system, where interest groups are involved in the policymaking process, conducting a role designed by the state, and where co-operation rather than competition is the main mode of interaction between groups and the state. It is clearly different from the pluralist conflict model of competition between the many interest groups, who are all fighting to get their interests represented in formal policies. It is also clearly different from historical/natural and state corporatism, since the relationship between the state and interest groups is not top-down. Instead, in policymaking processes the state and interest groups are more like partners.
Interest groups also play a role in communicating policies to the groups they represent and they help to implement these policies.

Summarizing the above, corporatism is characterized by (1) a strong and dominating state; (2) restricted interest representation by groups that are recognized and regulated by the state, in most cases based on clear societal and/or functional interests; and (3) interest groups that are part of the state and co-operate with the state in the policymaking process.

Corporatism and Economic Development
Wiarda argues that different versions of corporatism are related to different levels of economic development. In particular, he stresses that there is an evolutionary path of corporatism as a country develops economically, going from historical and state corporatism to neo-corporatism. Neo-corporatism is generally found in Europe, whereas many developing countries, at least until the 1980s, were still experiencing historical or state corporatism. Democratization processes in these countries in the late 1980s and 1990s have slowly moved them towards neo-corporatism. Thus, the more developed a country is, the more interest groups participate in the policymaking process. The argument being that as the economy develops, especially interest groups representing labor and business begin to play an important role. Therefore, when deciding on policies these groups are explicitly consulted by the state so as to come up with decisions that are supported and carried out by these groups, which will further stimulate economic development. Several Western, most importantly European, countries have in fact gone through a development process from historic corporatism before the 18th century to state corporatism in the 1920s and 1930s, to neo-corporatism after the Second World War. Several developing countries seem to be at the early stages of this development process, as will be discussed below.

Corporatism in Europe
As mentioned, neo-corporatism is found mainly in Europe. Yet, neo-corporatism exists in many different forms, depending on the economic and institutional context of countries. Wiarda distinguishes three types of neo-corporatism: strong, moderate and weak corporatism.

Strong corporatism exists when there is one so-called peak agency for each major societal group (e.g. labor, business). These peak agencies are often recognized (by law) by the state. With respect to the business sector, a peak business institution is often created to govern the other less influential business institutions. In case of strong corporatism, the state often requires compulsory membership for a particular business association. Members may be individuals

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40 Wiarda, 1996, op. cit., pp.73-76.
as well as groups. As such, the peak business institution serves as a single representation of the business sector. Its relationship with the government is hierarchical, in which the government takes the lead. Within the business association, members interact through the spirit of communalism. In some cases, strong corporatism denotes a close link between the business association and political parties. In these cases, members of the business association are also members of political parties. Through this mechanism, business interests are passed – both formally and informally – to the state policy discussion. In case of a single party regime, this is what usually happens in the policymaking process. Therefore, in strong corporatism, business elites may have direct access to both the legislative and the executive body, and especially the ministry of trade and industries. While a legitimate policy normally requires active participation from all stakeholders, the presence of a business association with compulsory membership – which is the case with strong corporatism – provides the setting in which policymaking by the government will be legitimate. Austria and Sweden are examples of countries that closely reflect the strong version of neo-corporatism.

In case of moderate (intermediate/medium) corporatism, business interests are often represented by a small number of influential business associations that attempt to coordinate the representation of the business sector. Unlike strong corporatism, where a peak business association serves as the single representation of the business sector, moderate corporatism allows a multiple representation of business interests. Membership of a peak business association is not compulsory, and one can expect a certain degree of fragmentation of interests within the business sector, i.e. different parts or segments of the business sector at the national level may have different interests, all of which want attention when state policies are shaped. Yet, fragmentation does not mean that the business sector is disconnected from the policymaking process. In case of moderate corporatism, the state only recognizes a limited number of larger business associations, which in turn play a coordinating role for smaller business organizations. So, although with moderate corporatism business associations are characterized by some degree of self-governance, especially within the smaller associations, they still may be formally or informally connected with political parties through the relationship of the larger associations with the state.

Communalism is an abstract entity of a community that prioritizes togetherness over direct cost-benefit considerations. Communalism does not necessarily need to be formulated formally in a community. The performance of communalism in a community does not depend on whether or not it has been formally formulated.

This does not necessarily mean that there is only a single political party in the country, but that policy can be formed without the need to make coalition with other political parties. In this context, the dominant political party holds an absolute majority, i.e. more than 51 per cent of the total number of votes.
Still, in moderate corporatism policymaking tends to be more complicated and involves more actors than in strong corporatism. The absence of a single business representation that is recognized by the state will lead to the emergence of multiple ‘representatives’ of business, who also have to interact with other actors such as the bureaucracy, political parties, and labor unions. While the policymaking process in case of moderate corporatism may be much more complicated, it does provide opportunities for different groups to participate. The influence of a particular business association on government policies tends to be determined by the extent to which the state considers it to be a credible partner. The determinants for being a credible partner will be discussed below. To conclude, policymaking in moderate corporatism appears to be less centralized, which makes state-business relations less predictable. Examples of moderate neo-corporatist states are Germany and Denmark.

Weak corporatism is characterized by the presence of several small and less influential business associations representing the interests of their own members. In case of weak corporatism, in general business institutions are not closely connected to political parties. Also, communalism among existing business organizations is absent, and competing business interests are represented by different organizations or associations. As a result, policymaking is often much more complicated than in moderate or strong corporatism. Often, weak corporatism occurs in a multi-party system, and policymaking in this setting relies on the ability of individual business institutions to articulate and represent their interests in the communication and interaction with the government. To this end, business institutions may take action collectively by forming a centralized business association, which represents various interests. Yet, recognition by the state of such a centralized association does not come automatically as it does with strong corporatism. First, business associations must gain credibility and legitimacy with the state as well as their stakeholders, i.e. individual businesses. Although weak corporatism reduces the possibilities to successfully influence policymaking due to strong competition among different interest groups, the simple fact that in this model policymaking can – at least theoretically – be influenced, may induce many business associations to make an attempt to approach the government with their specific interests. Italy and France are two examples of countries with weak corporatism.

**Corporatism in Latin America and Asia**

Outside Europe, at least until the 1980s many countries were characterized by natural or state corporatism. In Latin America, for example, Chile, Brazil and Argentina in the 1960s and 1970s were clear examples of state corporatism. In Asia, corporatism in many countries has characteristics of the historic version, especially before the 1990s. Many Asian cultures are characterized by strong

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communalism. This has certain implications for the functioning of corporatism in these countries. To begin with, the orientation towards the group (instead of the individual like in pluralism) is conducive to corporatism. Moreover, and related to this, Asian culture focuses on solidarity rather than on conflict, again making corporatism as a political model more acceptable. Apart from communalism, Asian culture is also characterized by the acceptance of hierarchical structures. Again, this helps corporatism to be established as a political model.

In the 1960s and 1970s, like in Latin America, in many Asian countries such as South Korea and Taiwan political decision making had developed into some form of state corporatism. The state in these countries was dominant and tried to control emerging interests and their representation. In particular, the emergence of business and labor interests was regulated by the state. Only a limited number of interest groups were officially recognized by the state. The relationship between the state and interest groups was highly hierarchical, top-down, and the state behaved rather authoritarian, sometimes pressing groups to accept certain decisions and coercing them to co-operate in carrying out these decisions. At the same time, however, the state did consult interest groups with respect to economic policies. For instance, in South Korea the state established so-called deliberation councils in which representatives of the state, business, labor and the financial sector met and discussed important economic issues. These councils facilitated the exchange of information between the state and interest groups. The state was informed of specific needs and demands from business and labor, and at the same time it allowed the state to win representatives for policy measures taken and to ask them to communicate the contents of these measures to their supporters.44

Some Latin American (e.g. Chile and Brazil) and especially several Asian countries (e.g. South Korea, Taiwan, Singapore, and Hong Kong) seem to have been able to reach high levels of economic growth of (sometimes substantially) more than 5 per cent annually for a longer period of time. Whether these growth rates were high due to or in spite of state corporatism remains to be seen.45 Yet, it has been stated that the high rates of annual growth allowed the state to

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45 Neoliberalists like Krueger (1990, 1993) stress the problems related to strong state interference. They emphasize that liberal trade policies were responsible for the high growth rates in Asia. Others, however, especially some experts on Asian economies like Amsden (1989) and Wade (1990), claim that the role of the state has been crucial to the high growth rates. This last group of authors is also referred to as the structuralists. Although they do not explicitly refer to policy models such as corporatism, the discussion between neoliberalists and structuralists is certainly relevant for our discussion of corporatism and economic success in Asia, since these authors explicitly discuss economic development and the role of the state.
remain in control for a long period, because they could show that they were successful with respect to their policies.\textsuperscript{46}

At the same time, however, economic development and modernization breeds interests from business, labor, farmers, etc. This may put the state under pressure to incorporate these interests, to let interest groups take play a more explicit part in the decision making process, and to move from controlling to cooperating with these groups. In other words, economic development may change the political model from state corporatism towards the European neo-corporatist model or even the American pluralist model. Such a process may go hand in hand with a shift from authoritarianism towards democratization.

During the late 1980s and 1990s several Latin American as well as some Asian countries actually experienced such a process of democratization and reduced dominance of the state over interest groups. Instead, traces of neo-corporatism in these countries have come to the surface. Notwithstanding these developments, state corporatism is not easily removed, as is shown in studies by for example Peter Kingstone on Brazil,\textsuperscript{47} Javier Corrales and Imelda Cisneros on Venezuela,\textsuperscript{48} and Ben Ross Schneider on several Latin American countries.\textsuperscript{49} In some cases, the shift from state corporatism to neo-corporatism has been more successful, as is described in a study by Paola Perez-Aleman on Chile.\textsuperscript{50}

As a final remark, one may ask why the state in a state corporatist system wants to consult business associations about policy decisions. Why should the state want these business associations – where in principle the state has the power to carry out any policy – to be involved in the policymaking process? One answer to this question may be that every state (democratic or authoritarian) may want to ensure the legitimacy of its policies by asking different societal groups to justify its policies. Therefore, even an authoritarian state may involve a business association in business-related policymaking. A state corporatist regime may even demand the involvement of business associations in policymaking. At the same time, however, given that the state will allow participation only to justify state-initiated policies, the involvement of a business association is confined to providing support to the state rather than to serving as an independent source of policymaking.

Corporatism in Indonesia
In the literature, Indonesia under Soeharto has been mentioned as an example of Asian state corporatism.\textsuperscript{51} The state during the Soeharto era was rather

\textsuperscript{46} Wiarda, 1996, op. cit., p.85.
\textsuperscript{47} Kingstone, 1998, pp.73-95.
\textsuperscript{48} Corrales and Cisneros, 1999, pp.2099-2122.
\textsuperscript{49} Schneider, 2004; and Schneider, 1998, pp.95-118.
\textsuperscript{50} Perez-Aleman, 2003, pp.193-213.
\textsuperscript{51} Wiarda, 1996, op. cit., p.85. See also Maclntyre, 1991 (chapter 2) for a comprehensive overview of the early literature (before 1985) on Indonesia’s political model.
authoritarian, and interest groups were heavily controlled by the state. These groups were allowed to participate in the decision making process. Yet, this right was reserved for those groups that were officially recognized by the state. Several authors have analyzed policymaking during Soeharto’s New Order, using different models and approaches. Several of these models bear at least some commonalities with the corporatist model described above.

Some authors on Indonesian policymaking after the independence refer to the patrimonial model. In this model, the head of state plays a role that is similar to that of a traditional ruler of early times. He distributes material rewards and opportunities to leading members of the elite, who in turn rival for patronage and largesse of the ruler. The state is not responsive to extra-state pressure groups – these are simply repressed. Benedict Anderson’s analysis of Indonesian politics after the independence fits into this model. He argues that the policies of the Soeharto regime were mainly instruments to defend the state’s interests. Moreover, these policies were strongly influenced by the interests of the military forces and by foreign capital. The Indonesian extra-state actors, such as labor unions, business associations, etc., did not play an important role. A similar view is held by Harold Crouch who argues that the New Order resembles patrimonial polities of the Javanese antiquity. Policies are not governed by arguments to invest in development, but rather by the distribution of privileges and opportunities. If the state responds to business’ interests, it is on a patrimonial basis; individual senior officials distribute concessions to privileged individual firms.

Other authors focus on the role played by the bureaucratic elite in shaping Indonesian policies. Karl Jackson uses the bureaucratic polity model of Fred Riggs to describe Indonesia’s political model, emphasizing that policymaking after the independence was almost entirely in the hands of senior members of the state apparatus, both military and civilians. The space left for participation of other actors, such as labor unions and/or business associations, was limited to policy implementation, mainly in terms of minor local level adjustments. John Girling et al. also share the view of the monopoly of senior state officials on policymaking, little scope being left for Indonesian extra-state actors.

The structuralism approach by Richard Robison combines ingredients of the patrimonial model and the bureaucratic polity model into his notion of the ‘neo-patrimonial nature of the bureaucratic state’. According to Robison, since a strong bourgeoisie failed to emerge during the New Order, the state was able to monopolize policymaking and make patrimonial links the norm, with foreign

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52 See also Section 3.3 of Chapter 3 of this thesis.
54 Crouch, 1984.
56 Girling et al., cited in MacIntyre, 1991.
capital functioning as an overriding extra-state force. Robison rejects the idea that a local business class had a direct influence on policy formation. The rulers aiming at long-term economic growth were pre-occupied by the dynamic interaction between the local and international economy and by international pressure. Although Robison acknowledged the rise of a business middle class in Indonesia, he argues that it was unable to influence policymaking. Relations between state and society were based on patrimonial and corporatist patterns.

Dwight King refers to 'bureaucratic authoritarianism' in his analysis of the political model during the Soeharto regime. Borrowing from experiences in Latin America, King stresses that after the collapse of democratic regimes and the installation of military regimes, there is often a shift to political repression, excluding mass organizations and other extra-state groups from the policymaking process. Usually the new regime commits itself to economic development and appoints technocrats to lead the process of reforms. Often corporatism will be used as an instrument to defend the interests of the regime in power. According to King, Soeharto’s New Order satisfies several characteristics of a corporatist state. Quite a few groups in society may have wanted to formulate demands, but the state limited or suppressed societal demands by means of a corporatist network. The network included privileged enterprises and organizations. The corporatist network functioned to limit rather than satisfy societal demands.

Donald Emmerson uses the term bureaucratic pluralism to describe policymaking during Soeharto’s New Order. According to Emmerson, the state was indeed almost immune to societal interests, and there was hardly any pluralist input from extra-state organizations. But still there was pluralism. Policymaking took place on the basis of pluralist debates and competition within the government, often about substantial policy issues.

The work of William Liddle shows some similarities with that of Emmerson. Liddle develops a model of restricted pluralism and argues that Indonesian politics showed some form of pluralism. He stresses that, perhaps not on important political matters, the extra-state actors, like the press, intellectuals, individuals, MPs, producer and consumer organizations, were involved in policymaking. Unlike Emmerson, he believes that substantial policy debates took place.

Wibisono also argues that extra-state actors had at least some influence on policymaking. He differentiates between direct and indirect influence, the latter referring to the influence of extra-state actors. According to Wibisono, during the Soeharto regime, societal interests were recognized by decision makers at least to some extent, and in view of these interests adjustment of

60 Liddle, cited in MacIntyre, 1990.
61 Wibisono, cited in MacIntyre, 1990
policies would sometimes be made. Although there was certainly not an egalitarian balance between the influence of state actors and extra-state actors, Wibisono argues that there were other ways of dealing with extra-state interests than through clientelism. The views of Liddle and Wibisono are supported by Andrew McIntyre, who argues that, at least from the early 1980s, there was an increasing, albeit still rather limited, role for extra-state actors (and in particular business associations) in policymaking during Soeharto’s New Order.

The above described political economy approaches towards policymaking during the Soeharto regime all stress the dominant role of the state. The views and models vary in the extent to which extra-state actors may have influenced policy decisions. Yet, several of the models hint at the existence of relationships between the state and interest groups, as in the corporatist model. With respect to business interest, Kadin was the interest group that was sanctioned by the state and was therefore allowed to participate in policymaking. Dikdik Rachbini argues that the intervening character of the state, the existing patron/client relationship, and the concentration of resources in the hands of a few business actors marginalized business collective action. This marginalization prevented the business sector from playing a major role in policymaking during the Soeharto regime.

The high growth levels of Indonesia’s economy under Soeharto allowed his regime to keep its dominant position for a long time. However, in the (late) 1980s Indonesia – like many developing countries – started to liberalize economically as well as politically, and even though during this period the Soeharto regime remained strong, there were some indications of increased business influence on policymaking. In a case study analysis, Andrew Maclntyre shows that several smaller business associations were in fact successful in influencing policy decisions of the state during the second half of the 1980s.

Moreover, after the financial and economic crisis of 1997-1998 the Indonesian political landscape underwent more changes. This time, pressure from interest groups as well as from outside (IMF and World Bank) led to a true democratic transition in 1998. The political system, characterized by an authoritarian, military dominated government, was transformed into a more open political system and an open policymaking model; and the ruling party, Golkar, had to accept potential competition from existing and new political parties.

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62 See also Section 3.3 (Chapter 3) of this thesis.
63 McIntyre, 1990.
64 Dikdik J. Rachbini, 1996.
66 Golkar, an acronym for Golongan Karya (Working Group) was the military-backed ruling party during the New Order with more than 60 per cent of the seats in Indonesian parliament. Golkar had served as the main instrument for the corporatist interest intermediation during
The political changes after 1998 have changed the characteristics of the state-business relations in Indonesia – this is the issue this thesis wants to address. After 1998 Indonesia’s political model changed from state corporatism towards neo-corporatism. In this context, the role of Kadin as a representative of business has also changed. This change in state-business relations, however, has moved in different directions. On the one hand, the new political model allows interest groups, such as Kadin, to have a more direct influence on policymaking. On the other hand, Kadin has faced more competition from other interest groups from both outside and inside the business sector. These issues will be addressed in the analysis of the three case studies in this thesis. What should be clear from the above discussion is that the corporatist model versions can be applied rather well to the case of Indonesia.

2.4 Legitimacy, Credibility and Institutionalization of Business Associations

The previous section discussed what role business associations may play in different corporatist systems. The next question is how a business association establishes its role in a particular corporatist system. According to the literature on corporatism, three factors seem to determine the establishment of this role: legitimacy, credibility, and institutionalization. These concepts are useful tools for operationalizing the nature of the interaction of these associations with the state. In particular, they help to describe the changing nature of state-business relations in Indonesia since the late 1990s. This is why these three concepts will be used as tools to analyze why and how the political, economic and social changes of 1997-1998 led to a change in the role of Kadin as the main business association in Indonesia. How did Kadin operate in the process of policymaking in the post-New Order era and how did it interact with the state and other interest groups? The way Kadin operated depended on its legitimacy, credibility, and the degree of its institutionalization.

Legitimacy refers primarily to the legal basis and type of membership of Kadin. Kadin’s credibility refers to the extent in which Kadin is accepted by the state and other members of society as a representing association of business interests. This in turn relies on the degree of unity or fragmentation of the business interests of the different business groups that are represented by Kadin, as well as by its attitude towards other business associations and interest groups outside the business community. Institutionalization refers to internal rules, procedures and processes within Kadin, making the association acceptable to the state as well as to the general public as a representative of business interests.

the New Order by bringing business and other professional associations into its circle. See also Chapters 1 and 3 for a discussion of the role of Golkar in Indonesian politics.

67 Wiarda, 1996, op. cit., pp.73-76.
Moreover, it refers to the formal as well as the informal procedures or mechanisms it uses to communicate with the state about policymaking. Institutionalization therefore focuses on how a business association establishes formal and informal links with the state. In the remainder of this section, these three concepts will be discussed in more detail.

**Legitimacy**

A business association is considered to be legitimate if its operations are either recognized formally by the state or informally by society. Formal legitimacy by the state may be understood as the business association’s right, given by the state, to engage in the formal political process. Its operations have a formal, or legal, basis. This legal basis can be a law implemented by the state, a Presidential decree, or a ministerial decree. Informal legitimacy by society refers to the fact that according to the members of society who have chosen to become members of the association, the association reflects the interests of its members.

Formal and informal legitimacy of business associations is closely related to the issue of how membership of these associations is organized. Basically, membership of a business association may either be voluntary or compulsory. In pluralist societies such as in the United States, representation of interests is not controlled and regulated by the state. In such societies, the number of business associations is not limited and their membership is voluntary. Business associations can recruit potential members without state intervention. Businesses and/or individuals can choose freely which associations they want to join. Their decision to join certain associations is based on their belief that these associations will be most efficient in representing their interests. In a pluralist society, business associations with voluntary membership are constantly challenged and pressured into representing their members’ interests. The failure to do so will lead to a loss of confidence by its members, i.e. their informal legitimacy will diminish.

In corporatist societies membership may be compulsory. This is especially true for state corporatism and strong neo-corporatism; for example, in many Latin American countries, at least until the early 1980s membership of business associations was made compulsory by the state. Moreover, the number of associations may be limited by state intervention. Thus, the state wants to control the participation of the business community in the policymaking process. In many cases, the state allows only one association as the representative of business interests, and this association is then formally legitimized by law or decree. Again, this is usually the case in state corporatist or strong neo-corporatist societies. This single association must accept all business institutions and/or individuals as members. Members do not evaluate

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68 Wiarda, 1996, op. cit. p.78. See also Schneider, 2004, op. cit.
their membership because they believe that the association will efficiently represent their interests; instead, they join the association because it is the only way to have their interests represented. The driving force for compulsory membership is negative rather than positive: the main consideration to become a member is the costs or consequences of not being a member, rather than the benefits of being a member. As a result, this business association has a very broad membership, consisting of many different types of businesses, each with their own interests. Because of this and due to the fact that the state is actually in command of the business association, participation of most members will be passive rather than active, since the chances of having their interests represented are quite low. Although this association may be formally legitimized by the state, which uses the association to control business interests, it may not be informally legitimized by its own members. In other words, especially in case of state or strong neo-corporatism, the legitimacy of a business association is not based on its ability to speak freely and autonomously on behalf of its members, but on the willingness of the state to let the association participate in the policymaking process. This participation depends on the decision of the state to invite the association to discuss policies that are relevant to the business community. Policymaking in such a setting is best described as closed.

In case of moderate or weak corporatism, there is an increasing degree of openness with respect to the participation of the business community in the policymaking process. Weak corporatism allows for a large number of associations, closely resembling a pluralist model, whereas in moderate corporatism the number of associations is limited by the state. In such case, the limited number of associations is usually a mix of government-sponsored (but not necessarily formally legitimized) and privately established associations. Membership in both moderate and weak corporatism is not compulsory. Due to the more open character of policymaking, business associations have more possibilities to influence policy decisions.

In most cases, the legitimacy of business associations is not formalized by the state through law or decree. Instead, informal legitimacy by society (and in particular by business) is important. This means that associations need to carefully represent the business interests of their stakeholders. The open policymaking model allows for such a careful representation. In moderate, but especially in weak corporatism, this leads to (many) different associations being established, each representing specific business interests. By focusing on the specific interests of parts of the business community, an association will be more effective in representing these interests towards the state and other interest groups in society. At the same time, however, increased competition due to the larger number of associations fighting for attention from the state may also make it more difficult for individual associations to achieve anything.

To conclude, the legitimacy of a business association may be formal with respect to the state and/or informal with respect to society. Formal legitimacy is
most important in state and strong corporatist systems and becomes increasingly less important in moderate and weak corporatist systems. In contrast, informal legitimacy becomes increasingly important in moderate and weak corporatism. Since 1987 Kadin operates under law No. 1/1987 on the Chamber of Commerce and Industry. \(^{69}\) This law stipulates that Kadin is the single representation of the business community in Indonesia: in other words, Kadin has a monopoly in representing business interests. The legal basis allows Kadin to represent itself as the legitimate business association vis-à-vis the state and the general public. At the same time, this monopoly reflects the fact that at the time the law was implemented in 1987 (halfway the New Order era), the corporatist model of interest intermediation was the only game in town as far as the Indonesian state was concerned. In particular, the law reflects the fact that Kadin was established by the state to control business interests and to control their participation in the policymaking process. This fits perfectly into the model of state corporatism as discussed in Section 2.3.

However, after 1998 the Indonesian political landscape changed dramatically. The model of state corporatism had been abandoned – at least to some extent, given the retreat of the state as the dominant player –, and policymaking appeared to become a more open process. This has also changed Kadin’s need for legitimacy, shifting from strictly formal to more informal legitimacy.

### Credibility
The credibility of a business association can be divided into internal and external credibility. Internal credibility relates to the extent to which the association can show it is effective in representing the interests of its members in terms of active communication with the state about policies, and its influence on policy decisions made by the state. For members, incentives to join an association may derive from the association’s ability to perform as an efficient intermediary between business and state, especially with respect to influencing business-related policies. \(^{70}\), \(^{71}\) Conversely, if the relationship between state and business is disturbed due to a lack of institutionalization, and/or due to clientelism, cronyism and corruption, members are discouraged to invest in the association. The business association will lose its attractiveness to potential members, and the internal credibility decreases. External credibility by the state is related to whether, according to the state, the association makes policy

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\(^{69}\) See Chapter 4.  
\(^{70}\) Schneider, 1998.  
\(^{71}\) Internal credibility and informal legitimacy are closely linked. The main difference is that informal legitimacy refers to the fact that society accepts that an association represents particular interests, whereas internal credibility stresses the fact that its activities as part of its aim to represent interests are accepted.
recommendations that truly represent the interests of its stakeholders. If this is the case, the state can be fairly sure that the association actually fights for the interests of its members.

Credibility (internal as well as external) of the association depends on a number of assets. Credibility is determined by the extent to which the association can show its autonomy from external influences and from the state in particular; whether it is independent and has a strong management; and whether it is self-supporting, i.e. does it have sufficient resources. These resources may be financial, they may refer to active membership, and to having access to exclusive networks and influential people. Moreover, credibility may be indicated by a certain degree of sustainability, i.e. the association has been operating successfully over a longer period of time. These assets of an association are crucial to successfully communicate with the state (and other interest groups) and represent members’ interests.

One important aspect of associations – related to managerial assets resources and sustainability, and thus influencing credibility – is the extent to which members’ interests are fragmented. If associations become large because they have many members, they may have to represent different interests. This is particularly relevant for the small number of business associations in corporatist systems, especially in state and strong or moderate corporatism. In these systems, the state effectively allows only a limited number of associations (sometimes just one). As a consequence, they may have to represent many different business interests.

Fragmentation in a business association may have different reasons, such as leadership disputes, rivalry between different types of businesses, differences in ethnic background of members, etc. According to Ben Ross Schneider, one of the most serious challenges for a business association’s credibility is fragmentation caused by a conflict of interest between small and big business members. Schneider provides examples from Latin America, showing that when the interests of small businesses prevail over those of large businesses, the latter may no longer be interested in being a member and withdraws (financial and other) resources, which may seriously hurt the existence of the association. In contrast, if large business members are dominant, small business members may stop being active members.

The extent to which a business association is able to manage conflicts internally determines its credibility, both internally as well as externally. With respect to internal credibility, it may be important to evaluate to what extent members accept the association’s articles of association, leadership, structure, policy direction, etc. The more members accept these aspects of the association, the greater the chances are that the association can establish internal credibility.

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72 Schneider, 1998, op. cit.
In terms of external credibility, if an association performs poorly, e.g. in terms of dealing badly with fragmentation, the state may decide to intervene and control the association, for example by appointing its leaders and/or by being actively involved in its policies and recommendations. In contrast, successfully dealing with fragmentation leads to autonomy from the state. The logic behind this is that the state will tend to stay away from an association’s internal affairs as long as the association is an effective intermediary between state and business in terms of communicating the interests from business to state on the one hand, and as long as it provides information about the consequences of policy decisions from state to business on the other hand.

Based upon the above discussion of credibility and combining this with earlier discussions on corporatism, the following conclusions can be drawn. Internal credibility appears to be stronger, if the state exerts less power on the associations and/or if the policymaking model is more open. In case of state or strong corporatism, the state usually allows the establishment of only one or a few associations. Moreover, the associations are legitimized and, at least in state corporatism, controlled by the state. Consequently, the association is not independent from external influences. The dependent relationship vis-à-vis the state may also lead to clientelism, patronage, and corruption. Moreover, since business interests are highly concentrated into one or a few associations, the chances of fragmentation increase. Thus, with state or strong corporatism, internal credibility may be low. In contrast, in case of moderate or weak corporatism, internal credibility may be higher, since associations can show that they are much more independent from outside (state) influences. In addition, since more associations are allowed, the problem of fragmentation may also be less prominent.

With respect to external credibility, a similar pattern may be observed. Especially in case of state corporatism, the dominant role of the state leads to a situation in which associations do not really represent interests of its members. Compulsory membership of the association(s) allowed by the state reduces members’ incentives to become actively involved. Yet, in these corporatist systems the objectives of the state are also different. The state does not really care about the credibility of the associations. Their main objective is to control participation of the business community in the policymaking process. Associations are merely there to justify state policies. Credibility becomes an issue the moment associations are allowed to play a more active and independent role in policymaking, i.e. when the policymaking model becomes more open. This is increasingly the case when the system moves from strong to moderate and eventually to weak neo-corporatism.

**Institutionalization**

Institutionalization in the context of policymaking refers to the availability of formal channels, procedures and mechanisms the association has developed
and/or may use to represent the interests of its members in communicating with the state about policymaking. The basic idea is that a higher level of institutionalization allows a business association to better represent the interests of its members.

Formal channels of communication may take various forms, ranging from an ad hoc body or mechanism of infrequent meetings of state officials and representatives of business associations (and possibly other interest groups), to a formal body with more intensive contacts between business representatives and state officials. In the case of ad hoc mechanisms, the contribution of business associations to policymaking will be rather patchy and less comprehensive. However, in case of a formal mechanism, contributions are more direct and comprehensive. Intensive meetings and consultations between business representatives and state officials enable both parties to have in-depth discussions. In countries like Austria and the Netherlands, formal bodies have been established in which representatives of labor and business together with government officials discuss policy issues on a regular basis; in Austria this is the Joint Commission on Wages and Prices, while in the Netherlands the Social-Economic Council (SER) serves a similar purpose. In South Korea during the 1970s and 1980s the so-called monthly export promotion meetings were introduced by the state. These meetings were chaired by the President of the country and were attended by high government officials, bankers, managers and union leaders. At these meetings decisions were made concerning economic policy measures.

Yet, the existence of formal (rather than ad hoc) mechanisms does not mean that the contribution of business associations is effective in terms of policy outcomes and the extent to which they reflect the interests of their members. The effective contribution of business associations to policymaking ultimately depends on whether or not it secures legitimacy and credibility vis-à-vis its members, the state, and the general public. The provision of a formal channel may at least make it possible for a business association to contribute to policymaking. In this sense, institutionalization may be seen as a more general prerequisite for an association to act as an effective representative of business interests. At the same time, however, a business association in a state corporatist regime that has regular consultations with the government may not be effective in contributing to policymaking decisions, due to the fact that it is strongly controlled by the state.

In general terms, it can be argued that the existence of formal mechanisms is most prominent in state corporatism and strong neo-corporatism. This is also shown by the above examples of Austria, the Netherlands (both

73 Wiarda, 1996, op. cit.
examples of strong neo-corporatism), and South Korea until the 1990s (an example of state corporatism). In these types of regimes, state-legitimized business associations are granted quasi-representative, formal authority in the policymaking process. More often than not the state determines how the association should establish itself in the policymaking process and what policies are required. Thus, the role played by the business association in the policymaking process becomes institutionalized. As mentioned before, however, such a formal mechanism, especially in a state corporatist system, does not automatically mean that the contribution of business associations is effective. In case of moderate and weak corporatism, state-business relations may be formalized in a more ad hoc manner. Business associations consult and communicate with state officials on an irregular basis, depending on whether or not any issues need to be discussed that are of importance to the members.

2.5 State-Business Relations and Corporatism: The Case of Kadin

This chapter discussed various models of state-business relations. It focused on different policymaking models, with the main emphasis on the distinction between open versus closed models, since this distinction appears to be most helpful in the research for this thesis. Moreover, the chapter discussed in some detail models of corporatism, distinguishing between historical, state, and neo-corporatism. Finally, it discussed three main concepts that are important to understand the relationship between business associations and the state. These concepts are legitimacy, credibility, and institutionalization. All these models and concepts may, at potentially, be helpful in analyzing the changing relationship between the Indonesian business association Kadin and the Indonesian state after the democratic transition of 1998.

As mentioned before, Indonesia under Soeharto can be described as a clear example of state corporatism. In this period the state was authoritarian. Interest groups were heavily controlled by the state. With respect to business interests, Kadin was formally legitimized by the state and was allowed to participate in policymaking. Yet, under Soeharto, Kadin was nothing more than a tool of the state in justifying business-related policies. Through direct involvement in the selection of leadership and in determining the association’s policy direction, the state made Kadin a quasi-representative of business interests. The closed policymaking model adopted by the New Order government made Kadin the only business representation, speaking on behalf of all members of the Indonesian business community. These limitations prevented Kadin from becoming an independent business representation, effectively influencing business-related policies. While Kadin was formally legitimized by the state, there was no real informal legitimization. The involvement of Kadin in
the policymaking process was institutionalized, although this did not lead to the effective representation of business interests. Moreover, since the state effectively used Kadin to control participation of the business sector in the policymaking process, internal and external credibility were low. Related to this, Kadin suffered from strong fragmentation due to the fact that it had to represent many different business interests, such as small and big business, Chinese and Indonesian business, etc. So, in terms of state-business relations and the policymaking process, the state was clearly dominating in these relations and in this process, using a closed policymaking model.

After the financial and economic crisis of 1997-1998, the Indonesian political landscape underwent major changes. Pressure from interest groups as well as from outside triggered a democratic transition in 1998. One of the consequences in terms of the models and concepts discussed in this chapter was that the political system characterized by an authoritarian, military dominated government was transformed into a more open political system and an open policymaking model. This transformation resulted in a potentially new role for Kadin as a representative of business interests in discussions on business policies. While during the New Order Kadin was forced to be involved in the state policymaking process, in which its participation was no more than a rubber stamp for business-related policies, after the New Order Kadin had a chance to participate freely in policymaking process and establishing itself as an influential party in this process. Thus, the political transformation of 1998 allowed Kadin to redefine its position as a prominent business institution representing business interests vis-à-vis the state and other interest groups of Indonesian society.

However, Kadin also faced several new challenges in the post-New Order era. First, the removal of restrictions on societal organizations during the presidency of Habibie (May 1998-September 1999) led to the formation of various independent professional business associations and to the tendency of business associations being confident in openly expressing their demands. Thus, Kadin was faced with increased competition for the attention of the state for business interests and business-related policies. On several occasions (as will be discussed in one of the case studies), it clashed with other agencies. Moreover, internal fragmentation became more visible as different interests (big versus small businesses, local versus national businesses, Chinese versus Indonesian businesses) – previously all served by Kadin because there were no alternative associations – now came to the surface. In the context of all these changes and challenges, it is interesting to analyze how Kadin has positioned itself as just one of the business associations among other ones, and how it has dealt with aspects like legitimacy, credibility and institutionalization vis-à-vis the state, rivaling business associations, and other interest groups.

More specifically, did Kadin manage to establish itself as an independent business representation and a true representative of the business community; if
yes, how? How did it develop its informal legitimacy? To start with, Kadin needed to get rid of the long-standing image of being a government tool. This means that, for example in the policymaking process, it needed to position itself as a true representative of the business community, speaking on behalf of its members and not by order of the state. In terms of credibility, how did Kadin increase its capacity in accommodating the different (sometimes opposing) interests of its members? Did it solve the problem of fragmentation? These issues are important for the sustainability and credibility of Kadin facing its members, the state, and the general public. With regard to institutionalization, was Kadin able to use existing state-business channels (formal or informal) to influence policymaking? Some of these questions are embedded in the research question formulated in Chapter 1 and will be addressed in the remainder of the thesis. In chapter 4, where we discuss the development and organization of Kadin as the main business association, we will discuss Kadin’s legitimacy, credibility and institutionalization vis-à-vis the state, rivaling business associations, and other interest groups in more general terms. The analysis of the three case studies (in chapters 5-7) will show that especially internal conflicts, and related to this the lack of credibility, were an important factor hampering Kadin’s effectiveness in representing business interests.