State-business relations in post-1998 Indonesia
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Chapter 3  Reformasi in Indonesia: From Centralization to Partitioning of Authority

3.1 Introduction

This chapter focuses on the developments of Indonesia’s politics during the post-1998 era, after the stepping down of President Soeharto. We will see that, unlike in the period before 1998 when power and influence were concentrated in the hands of the Indonesian President (centralized authority), after 1998 there were several new actors involved in state policymaking (partitioned authority).

In order to be able to understand the changes after 1998 in the processes of policymaking, a proper discussion of the political changes is necessary. This calls for a historical overview of Indonesian politics since the 1950s. Section 3.2 discusses Indonesian politics in the 1950s and 1960s. Section 3.3 continues with a description of New Order, describing the role of the military, of the army-backed dominating political party Golkar, and of the process of ‘Golkarization’ which involved enforcing local officials to sign statements of loyalty and mobilize votes for Golkar. The New Order ended with the fall of the Soeharto regime in 1998.

In Section 3.4 a number of institutional and political changes after the reformasi are discussed. Rather than giving an exhaustive description of political events and institutional reforms, we will limit ourselves to a discussion of certain aspects. Some of these have had a huge general impact on political or social life; others are of special importance with respect to the case studies in Chapters 5-7. These three extensive case studies all focus on processes of policymaking, in particular concerning new laws on economics and business. After 1998, Indonesian parliament plays a key role in these processes, since parliament has the authority to initiate, draft, discuss and ratify new laws. Besides, many stakeholders like labor unions, business associations, mass organizations, non-governmental organizations and the media actively participate in discussions on the new laws. Kadin is one of these stakeholders. Because of the important role of parliament, some features in Section 3.4 are directly related to parliament, for instance amendments to the constitution delineating authorities of parliament, the end of the role of the military in politics and in parliament, the rise of many political parties in parliament, and the empowerment of regional authorities. In this section, we will also highlight some issues that are very characteristic for Indonesia, but their impact on our case studies is subject to debate – for instance, the role of the Islam, of the Pancasila ideology, and of the ideas of an integralist state as reflected in
Indonesia’s constitution. In later chapters we will come back to their possible influence on the business attitude of the Indonesian people.

Section 3.5 throws light on a phenomenon, which was notorious during the Soeharto regime and is still a nuisance: KKN (korrupsi, kolusi, nepotisme: corruption, collusion, nepotism). The section anticipates discussions in the case studies of Chapters 5 and 6, which basically deal with legislation to fight KKN. The chapter closes with a short summary and conclusions in section 3.6.

3.2 Centralized Authority from 1959-1965: Soekarno’s Guided Democracy

Soon after Indonesia declared its independence on 17 August 1945, the leaders of the new republic rushed to draft a constitution that would ensure not only law and order, but that would also protect the country against recalcitrant ethnic groups or paramilitary forces that could exploit ethno-religious divisions and instigate separatism. Indeed, the new republic did have enormous ethno-religious diversity: consisting of over 3,000 islands and more than 360 ethnicities, Indonesia is a pluralistic society. Herbert Feith calls this new republic a ‘mosaic society’ for three reasons. First, there was a sharp division between the so-called pribumi (indigenous) population and the descendants of overseas immigrants (Chinese, Arabs, and Eurasians). Second, the pribumi itself consisted of 366 self-conscious ethnic groups spread across the archipelago. Third, an ever-sensitive relationship between the Muslim majority and the non-Muslim minorities (especially the Christians), which occasionally turns into violent conflicts, has made the country vulnerable to religious conflicts.76

Having realized the potential danger of ethno-religious divisions, the leaders of the new republic drew up the ‘Constitution of 1945’, which reflected the spirit of negara kesatuan (the unitary state). They invoked the saying ascribed to the medieval text of the Javanese sage, Mpu Tantular: Bhinneka Tunggal Ika – literally meaning ‘unity in diversity’ – which was adopted as the official motto.77 Accordingly, the system of government envisaged by revolutionary leaders like Soekarno, Mohammad Hatta, Mohammad Yamin, Sutan Sjahrir, Soepomo, Sunaryo, and others was highly centralized, and the idea of decentralization or de-concentration of power was not pursued until at least 1999, when the post-New Order government introduced a new law on regional autonomy.

The strong aspiration for a centralized government can explain why the brief period of parliamentary democracy (1950-1959) began to founder and was subsequently replaced by Soekarno’s Guided Democracy (1959-1965) and Soeharto’s New Order (1965-1998). Endless political wrangling in cabinet and

77 Dahm, 1971, p.143.
parliament, and growing separatist threats in some parts of Java, Sumatra, Sulawesi and Maluku preceded the Guided Democracy. In the late 1950s growing ethnic discontent, military rebellion, war-lordism and political intrigue within cabinet and parliament became more intense, which led President Soekarno to issue a decree on 5 July 1959 dissolving parliament and banning Masyumi (the hard-line Islamic party). From then on, the system was dominated by Soekarno himself, who was backed by the mass-based party PKI, the Indonesian Communist Party.  

This centralized system of governance did not last very long. Soekarno, who was threatened by the growing criticism of the military, sought more support from the second biggest political force in the country – the communist PKI – by adopting a strong anti-imperialist and anti-Western policy. While the national economy was suffering from a crisis due to mismanagement and a lack of productivity, this anti-Western policy backfired and turned the country into an economic disaster with hyperinflation (more than 700 per cent within one year), mounting budget deficits, a shortage of food, and so forth. Predictably, Soekarno’s popularity began to wane, especially among students and the middle-class population (who saw his anti-imperialist campaign as unnecessary propaganda). Thus, after a failed attempt by a faction within the armed forces – involving Presidential security guards and some elements of army and air force – to instigate a coup on 30 September 1965, Soekarno’s Guided Democracy was brought to an abrupt end and replaced by a military-backed authoritarian government under President Soeharto.  

The desire for a centralist government emanates from the unitarist idea of government promoted by the protagonists of ‘integralism’ who were involved in the design of the Constitution of 1945. One of the prominent figures was Professor Soepomo, an expert in state law. While arguing that the main duty of an integralist state is not to fulfill the interests of either individuals or groups, but rather to protect the interests of the whole society, Soepomo spoke of the compatibility of integralism (adopted from the works of Spinoza, Adam Mueller, Hegel, and other German theorists) with the basic notion in the Javanese culture about the unity of life. This notion of the unity of life entails unity between micro cosmos and macro cosmos, between servants and lords, between people and rulers.  

What seems to be central in Soepomo’s integralistic theory of the state was support of collectivism and rejection of individualism. Despite the controversies of the concept, integralism has been used as conceptual justification for the centralized governments during both Soekarno’s Guided Democracy and Soeharto’s New Order regime.

80 See Bourchier, 1996, p.78.
81 Schwartz, 1994, p.8; and Simanjuntak, 1994, p.23.
The Dual Function of the Military
Since in the 1950s the civilian parliament did not function well due to the constant competition between political parties, Soekarno created a new institution in 1957 – the National Committee – to challenge the role of parliament. Later, it became an important instrument in Soekarno’s Guided Democracy. The National Committee consisted of constituent groups representing various sectors of social and economic life, such as laborers, peasants, civil servants, scholars, young people, ethnic groups, and the military. The participation of the military was greatly supported; the historical speech of the then Chief of Commander Nasution, who introduced the concept of dual function (dwi-fungsi), had a huge impact. The dual function of the military implied that the military forces were not only responsible for defense and security, but they should also be involved in political and socio-economic activities. In 1958, the national conference of the National Committee adopted a resolution that stated that the military constituent group included the army, the navy, the air forces, the police, veterans, village security organizations (OKD) and the people’s defense organizations (OKR). During the Guided Democracy, the military expanded their political and societal activities in many areas, by creating mass organizations that were linked to the military forces, for instance, the ‘forum for co-operation between military, laborers and peasants’.

3.3 Centralized Authority from 1966-1998: New Order
When army general Soeharto came into power, his initial strategy was to ensure order and stability by imposing a series of policy measures that included a permanent ban on the PKI, the campaign bashing the communists (which led to the massacre of around 500,000 PKI members and followers, and the imprisonment of hundreds of thousands of party members and sympathizers on Buru Island), and the adoption of the doctrine of dwi-fungsi (dual function), which as has been explained above allowed the military to play an important role beyond the domain of defense and security. The role of the military in politics was strengthened by the creation of the military Fraksi ABRI in parliament. Moreover, the organization Sekber Golkar was established, later

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82 Dewan Nasional.
83 The speech was delivered at the inauguration of the new military academy in Magelang on 12 November 1958.
85 Badan Kerjasama, BKS.
86 During the New Order administration a prison was located on this island, where thousands of political prisoners were held.
87 Sundhaussen, 1994, pp. 276-277.
88 Fraksi ABRI is a faction within the New Order’s People Consultative Assembly MPR, representing the Indonesian armed forces. Members are not elected but appointed.
called Golkar, which functioned as Soeharto’s political wagon and was backed by the military. Formally, Golkar was not a political party but a ‘functional group’ involved in socio-economic activities at all levels. Controlled by Soeharto, Golkar was however also represented in parliament and did function as a political party; it even became the dominant party in parliament. Soeharto, who had had a long military career and who was close to the military, granted many political positions to the military at key positions in the government and in parliament. The existing mass organizations with strong links to the military allowed the military to infiltrate at many levels of social and economic life. Military staff was given key positions both in villages and at government levels. The ABRI masuk desa was a successful program in which the military helped to build bridges, construct roads, small water reservoirs etc. in remote villages. But the military were also highly criticized when using coercion and force to maintain order in for example Aceh and East Timor.

Military officers were also involved in economic activities. High-ranking officers became members of the board of directors (komisaris) or managers of important banks and private enterprises. There were also many military officers involved in the management of state-owned enterprises. An important phenomenon was the creation of ‘foundations’ or yayasan. These institutes were originally created to execute social activities but gradually developed into business enterprises. All four military branches, i.e. army, navy, air force and the police, had their own ‘foundations’, which usually consisted of (groups of) businesses that were active in urban centers. Needless to say some high-ranking officers had a great personal interest in private and public enterprises.

The military were also charged with the task of safeguarding the ‘results of economic development’. This meant that the armed forces were given the responsibility to ensure a smooth running of the processes of mining, industrial

89 Golongan Karya literally means ‘working group’; Sekber Golkar is the ‘joint secretariat’ of Golkar.
90 Golongan Fungsional.
91 For instance, president Soeharto was komisaris of the Cendana Group; Ibnu Sutowo, former chief director of the state-owned enterprise Pertamina, producing oil and gas, was komisaris of the conglomerate Nugra Santana; Edi M. Naalapraya, vice military commander of ABRI, and former governor of the Djakarta Region (DKI) was komisaris of the television company RCTI; Benny Murdhanie, former Minister of Defense, was komisaris of the Batara Indra group. See Iswandi, 1998, pp.258-259.
92 Like the retired general Ramly, who was the chief director of the gas and oil company Arun NGL Coy in Sumatra; the retired general Bustanil Arifin, who was Presiden Komisaris of Berdikari Sari Utama Flour Mills. See Iswandi, 1998, p.153.
93 The army, the navy, the air force and the police had their own foundations (yayasan). In the army examples of foundations are: Dharma Putra, (see Robison, 1990, p.15, and Iswandi, 1998, p.156), and Yayasan Kartika Eka Paksi (including PT Asuransi Cigna Indonesia, PT Cilegon Fabricators, PT Pondok Indah Padang Golf, and PT Sempati Air, see Iswandi, p.164). For examples of foundations for the navy, the air force and the police, see Majalah Infobank, November No. 155, 1992, pp.165-167.
production, and distribution and transport. The business enterprises had to financially compensate the military for this service. The service could even imply that the military would hinder demonstrations in factories and opposition by laborers and human rights activists.

The Soeharto regime wanted to have as much control as possible over political and socio-economic life. In order to realize this corporatist goal (see Chapter 2), the regime not only made use of the military infiltrating in many branches of political and economic life, but it also tried to infiltrate and control all important mass organizations. The way the regime tried to effectuate this was quite peculiar. They made extensive use of the 1945 Constitution, in particular of the Pancasila ideology (to be discussed in more detail in Section 3.4). Soeharto used this ideology for his own purposes. He worked out a new interpretation of Pancasila, which became the ideological basis of his regime: he emphasized that cultural differences needed to be subordinated to the common good, and that the common good was best served by an authoritarian state.

He wanted to prevent his regime from being challenged by other political or religious ideologies. He introduced his version of Pancasila in schools and universities, created a Pancasila indoctrination program ('guidance, understanding, and implementation of Pancasila'), and imposed it on mass and other organizations as the only accepted ideology. All mass organizations (political parties, interest groups, professional associations, religious organizations, NGOs, etc.) had to accept Pancasila as the exclusive ideology. This strategy impeded independent political activities because societal groups were not allowed to adopt an ideology of their own.

During the corporatist regime of Soeharto, the processes of decision making were of a special nature. They have been the subject of many studies. Authors like Jackson emphasize the pivoting role in the decision making processes of the highly trained bureaucratic elite. King, however, argues that a group of military officers had the ultimate power, and not a group of influential civilian bureaucrats. For King, the New Order regime was formed by a group of military officers (led by Soeharto) who functioned as the ruling elite surrounded by a technocratic and bureaucratic elite whose sole function it was to be consulted and to give advice to the ruling elite on policy matters. Whether the New Order was dominated by bureaucrats or by the military elite, the regime was very authoritarian. At a lower level, participation in decision making was limited to a number of state-sponsored corporatist organizations representing different segments of society: women, peasants, workers, youth.

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95 Vatikiotis, 1993, p.104.
96 Jackson, 1978, p.3. He refers to the ‘bureaucratic polity’ model as used by Fred W. Rigg in Thailand.
97 King, 1982, pp.110-112. He refers to the ‘bureaucratic authoritarian’ model as used by Juan Linz to describe Franco’s Spain.
groups, religious leaders, etc. Organizations like SPSI (All Indonesian Workers’ Association), HKTI (Indonesian Peasant’s Union), KNPI (National Committee of Indonesian Youth), Kadin (Indonesian Chamber of Commerce), MUI (Islamic Scholars Assembly), and others were nurtured and co-opted by the New Order regime in order to ensure popular support. The regime was involved not only in selecting the leaders of these corporatist organizations, but also in setting up the organizations’ strategies and policy direction.

The New Order government demanded unreserved loyalty from civil servants to Golkar. This is known as the Golkarisasi (Golkarization) strategy, and Soeharto pressed civil servants at all levels, as members of the ‘national organization of civil servants’, to sign a statement of ‘mono-loyalty’ to Golkar. Moreover, local state officials – provincial governors, district heads, sub-district heads, and heads of villages – were assigned quotas of votes to be mobilized for Golkar in the general elections. This policy had turned Golkar into a crucial political machinery to buttress the regime’s legitimacy; it was capable of securing over 60 per cent of the votes in every general election from 1971 to 1999. Golkar also served as an important political instrument to Soeharto’s government in organizing societal organizations (youths, peasants, workers, teachers, civil servants, businessmen, and so on) in line with the corporatist mode of representation.

Parliament – DPR, dominated by Golkar – played only a marginal role in policymaking processes. As the executive power, the government was predominant, even in the field of law and policymaking. Although parliament had the formal right to propose policy drafts, such proposals always came from the executive, and only after the President had approved them. It was unlikely that a policy dossier that was proposed by the government and approved by the President would be rejected by parliament.

The Beginning of the Reformasi

The authoritarian regime and restrictions on political activities during the New Order government began to generate dissatisfaction and frustration. From the mid-1990s, slowly but surely these disappointments turned into public anger. This anger was expressed by the media. It culminated after a series of misconducts by the government with respect to the special treatment of Soeharto’s family members in businesses in sectors such as cigarette production, clove trading, the automobile industry, aviation, oil exploration, construction, etc.

98 Ibid., p.112.
99 Sentral Organisasi Karyawan Seluruh Indonesia, SOKSI.
100 Liddle, 1985, p.83.
101 Reeve, 1985, pp.140-143; and Vatikiotis, 1993, p.78.
102 The involvement of Soeharto’s children in business will be discussed in Chapter 5, Section 5.2.
In the meantime, a new generation of pro-democracy and human rights groups began to mature. Labeling the New Order government as totalitarian and fascist, these groups – together with students’ organizations all over the country – joined forces and formed a cross-ethnic and cross-religious coalition. On many occasions, this coalition incited street demonstrations and protests demanding political openness and democratization. Their demand for an immediate end of military repression was supported by other groups in society, including peasants (who in some regions had been evicted), workers (who were suppressed), and community leaders.

The turning point was in 1997, when Golkar again won the majority of votes (75 per cent) and Soeharto could serve another term until 2003. Many people felt that the 1997 general election was the worst election – in terms of violence and manipulation – in the entire history of New Order. There was some violence during the brief campaign of the three main political parties – Golkar, PPP (United Development Party), and PDI (Indonesian Democratic Party) – just a few weeks before the election in June 1997. About a year before, the public had been annoyed by the government’s attempt to depose the elected leader of PDI, Megawati Soekarnoputri. Megawati was considered a potential threat to Soeharto, and the New Order government was accused of masterminding a coup within the PDI by exploiting existing conflicts within the party. In a government-sponsored extraordinary party convention held in Medan, North Sumatra, Suryadi (a pro-government politician defeated by Megawati in the party convention of 1995) was elected as PDI’s new leader. It was not long before the angry supporters of Megawati went to the streets and occupied the PDI head office in Jakarta. The subsequent action to crack down on Megawati’s supporters was brutal and vicious. Using thugs and security forces, Suryadi and his followers launched a violent attack on Megawati’s followers which led to riots in Jakarta, leaving dozens of buildings (mainly government offices) burnt or damaged, five people killed, 74 people missing, and 149 people seriously injured. Although the public was angered by the state-incensed attempt to incapacitate a political party, they were too afraid to challenge the government directly.

This depressing picture overshadowed the 1997 election. It was not surprising that public anger was expressed during the election period. Several incidents took place in cities like Jakarta, Solo, Yogyakarta, Bali, Banjarmasin.

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103 Hadiwinata, 2003, p.72.
105 PPP: Partai Persatuan Pembangunan. At that moment, PPP was the only legal Islamic political party. See also section 3.4.
106 PDI: Partai Demokrasi Indonesia. At that moment, PDI was the only legal secular non-Golkar political party. See also Section 3.4.
and Ujung Pandang (now Makassar), leaving 310 people dead and 500 injured. In the election that followed, Golkar experienced a landslide victory.

The Asian Crisis and the Fall of Soeharto
In 1998, when the Asian economic crisis hit Indonesia, Soeharto’s legitimacy (already shaken by accusations of election fraud and repression of the opposition) faced a serious blow. The fall of Indonesian currency, rupiah, to just 20 per cent of its previous value against the US dollar had led to soaring prices of basic items, the collapse of the national banking system, and the devastation of the industrial sector. In May 1998, the government had to bow to the IMF’s structural adjustment program by cutting the state budget, which resulted in the rise of oil and electricity prices. After nationwide students-led protests and demonstrations, which culminated in the occupation of the parliament building, Soeharto was forced to announce his resignation on 21 May 1998. The appointment of Bacharuddin Jusuf Habibie as Soeharto’s successor marked the end of the New Order government.

The Soeharto regime was very much blamed for the economic problems. The frustration and public anger about the dominant position of the huge conglomerates, mainly controlled by ethnic Chinese Indonesians and family members of Soeharto (see also Chapter 5, Section 5.2), about the inefficiency of many state-owned enterprises, and about numerous cases of corruption had become too much. The anger led amongst other things to the destruction and burning of conglomerate assets and of the properties of rich businessmen.

Not only massive opposition and rallies against his regime but also internal pressure by the political elite led to Soeharto’s resignation. The chairman of parliament and four factions in parliament (one of these being Golkar) strongly advised Soeharto to resign. The national meeting of Islamic leaders on 19 May 1998 was particularly important: these leaders wanted a peaceful transfer of power to Habibie. They were afraid that otherwise the army would intervene, because the military feared Islam politik, and in particular the introduction of Islamic law. Vice-President Habibie had been loyal to Soeharto and one of the founding members of the Indonesian Association of Muslim Scholars (ICMI). The fact that Chief Commander General Wiranto supported Habibie, was also of importance.

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107 It has been estimated that five police stations, two district military offices, 26 sub-district and village head offices, six political party offices, 110 resident houses, three churches and four mosques were seriously damaged during the first two weeks of the election campaign. See Hadiwinata, 2003, p.76.

3.4 Indonesia after 1998 Indonesia: Some Institutional and Political Changes

The increasing feelings of dissatisfaction and frustration made the process of reformasi inevitable. Due to internal and external pressure, the authoritarian regime of Soeharto had to be changed. In the new system, political power would have to be transferred from the central level to lower echelons, and many parties would have to participate in political decision making processes. In order to achieve this, many institutional changes were needed. The changes included the amendment of the constitution, the formation of new political parties, an independent parliament, the end of the military role in parliament, and the empowerment of regional authorities.

Amendments to the Constitution

The main changes concerned the constitution. The revision of the constitution took place in four rounds of amendments in 1999, 2000, 2001, and 2004. The most important changes will be discussed briefly, as they opened the way to more democratic ways of decision making, to the participation of stakeholders at various levels in decision making processes, and a new role for Kadin.\textsuperscript{109}

In the new constitution, many of the President’s rights and authorities were curtailed. First, it was no longer the President’s right to institute laws: the President’s approval of drafts was no longer needed. It was parliament that had the authority to effectuate laws. If parliament had approved a draft, it would automatically become a law after 30 days – with or without the President’s approval. Second, the President was no longer in control of the military; parliament (DPR) decided on the appointment and dismissal of the military commander and the police chief. Third, the President had no longer full control of the cabinet ministers. Although the President could still appoint and dismiss ministers, the DPR now had the right to intervene. Fourth, the judges of the Supreme Court were no longer appointed by the President but by parliament. And fifth, the President no longer had the right to dismiss parliament; moreover, parliament could impeach the President.

The President could only be re-elected once, meaning that he or she can rule for a maximum of ten years.\textsuperscript{110} The President was no longer elected by parliament, but by the people in general elections. The members of parliament and local governments were also elected in general elections.

Parliament (DPR\textsuperscript{111}), formally called the People’s Representative Council, is one of the two chambers that constitute the People’s Consultative Assembly MPR; the other chamber is the Regional Representative Council

\textsuperscript{109} See also McLeod et al., 2007, pp.30-31.

\textsuperscript{110} In theory, a president can be elected for a third time if his time as president is interrupted by the election of another president.

\textsuperscript{111} Dewan Perwakilan Rakyat (parliament).
DPD.\textsuperscript{112} The MPR gets together just once every five years, as a joint meeting of both chambers, at the occasion of the installation of the new President.

Parliament DPR is the main legislative institution controlling the executive power. The DPR has 550 members; the candidates represent political parties. The Regional Representative Council DPD plays only a secondary role. It can put legislation on regional matters on the agenda of the House of Representatives, DPR. Members of the DPD are elected on a personal title, formally not as a member of a political party. Each province has a number of seats on the council. The precise role of DPD has not yet been sorted out.\textsuperscript{113}

Various amendments concerned the role of the military forces, which lost certain privileges. The military were no longer represented in parliament. The amendments on the constitution have had a tremendous impact on the political scene, in particular the role of parliament, the limited role of the military, and the empowerment of local authorities.

**Political Parties**

During the New Order regime, one single political party, Golkar, dominated the parliament. In the 1970s the Soeharto regime had forced the existing political parties – other than Golkar – to merge into two parties, the PPP\textsuperscript{114} (United Development Party) representing Islamic parties, and the PDI (Indonesian Democratic Party) unifying nationalist and Christian parties.

During the New Order, Golkar held more than 50 per cent of all seats in parliament, leaving the PPP and the PDI with a minority. As has been shown in the previous section, the Soeharto regime managed to keep the majority through Golkarisasi, where the appointed officials had to show that they were loyal to Golkar and had to secure a certain number of votes during elections. Since Golkar had a majority in parliament, it never had to form a coalition to pass a resolution in parliament.

After 1998, this all changed. Due to internal and external pressure to establish a democracy in Indonesia, President Habibie allowed the formation of new political parties by introducing new laws on political parties. As a result, many political parties emerged.\textsuperscript{115} In the new situation, the main parties were Golkar, the PPP, and:

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\textsuperscript{112} MPR: Majelis Permusyawaratan Rakyat (People Consultative Assembly). Since the Soekarno regime and during the Soeharto regime, the MPR consisted of parliament DPR and representatives of special groups; see article 2 (1) of the 1945 constitution. See Schwartz, 1999, p.450. DPD: Dewan Perwakilan Daerah.

\textsuperscript{113} See e.g. McLeod et al. 2007, p.37

\textsuperscript{114} Partai Persatuan Pembangunan (PPP).

\textsuperscript{115} During the 2004 elections about 200 political parties were registered. This was mainly because of the introduction of two liberal political laws: Law No. 3/1999 and Law No. 31/2002 (Winarno, Budi, 2007, pp.59-60). Because of electoral thresholds, a much smaller number succeeded in getting seats in parliament.
• PDI-P\textsuperscript{116} (Indonesian Democratic Party of Struggle) led by Megawati Soekarnoputri. This is the successor of PDI, and its supporters are mainly nationalist and secular Muslims, Christians, and other non-Muslim minorities;
• PKB\textsuperscript{117} (National Awakening Party) was established under the auspices of Abdurrahman Wahid, the leader of the largest Islamic organization \textit{Nahdatul Ulama}; its members include traditionalist syncretic Muslims belonging to Nahdatul Ulama;
• PAN\textsuperscript{118} (National Mandate Party) led by Amien Rais; the party claimed to be a non-religious party, but gained support from modernist Muslims;
• PD (Democratic Party) was formed under the patronage of Susilo Bambang Yudhoyono, and
• PKS\textsuperscript{119} (Justice and Welfare Party), which attracted quite some number of supporters.

During the parliamentary elections of 1999 and 2004 these parties obtained significant number of seats in parliament, as shown in Table 1.\textsuperscript{120}

\textbf{Table 1. Results of the parliamentary elections of 1999 and 2004}

\begin{center}
\begin{tabular}{lcc}
\hline
Political parties & 1999 (% of seats) & 2004 (% of seats) \\
\hline
Golkar & 22.4 & 21.6 \\
PPP (United Development Party) & 10.7 & 8.1 \\
PDI-P (Indonesian Democratic Party of Struggle) & 33.7 & 18.5 \\
PKB (National Awakening Party) & 12.6 & 10.6 \\
PAN (National Mandate Party) & 7.1 & 6.4 \\
PKS (Justice and Welfare Party)* & 1.4 & 7.3 \\
PD (Democratic Party) & 12.1 & 7.5 \\
Other parties & 20.0 & \\
\hline
\end{tabular}
\end{center}

\textit{Name of the party in 2004; in 1999 this party was called the Justice Party}

Source: general elections committee KPU

\textsuperscript{116} Partai Demokrasi Indonesia Perjuangan (PDI-P).
\textsuperscript{117} Partai Kebangkitan Bangsa (PKB).
\textsuperscript{118} Partai Amanat Nasional (PAN).
\textsuperscript{119} Partai Kesejahteraan dan Keadilan (PKS).
\textsuperscript{120} In 1999 462 seats were elected, in 2004 550 seats.
As shown in Table 1, in 2004 Golkar was the largest political party, but the number of seats was not enough to claim a majority. Golkar had to form a coalition with other political parties to ensure majority.

Although not formally, the relation between Golkar and Kadin has always been close. 121 Before 1998, most influential leaders in Kadin were Golkar activists. Kadin and Golkar frequently organized joint seminars to discuss economic issues. The ties between Kadin and Golkar weakened after 1998, but nevertheless Kadin was often seen as a Golkar stronghold. Kadin was therefore mistrusted by other political parties, in particular by PDI-P, who thought that Kadin was too much involved in Golkar (see also Chapter 4).

Independent Parliament
The increased power of parliament was one of the main features of the post-1998 democratic reforms. For parliament, the transition from passive listener to active initiator was an enormous change. During the New Order, the DPR played only a very marginal role in policymaking processes. After the reformasi, parliament became very active in drawing up, discussing and ratifying drafts of laws, initiated by parliament itself (this will be discussed in more detail in the case studies of Chapters 5-7).

The new parliament was intended to represent the people of Indonesia. Therefore, the agenda and debates in the parliament were much influenced by the public interest in political and socio-economic matters, as raised in the media and at mass rallies.

A challenging new task of parliament was the control of the executive power, which included criticism on the President. Being able to publicly expressing criticism signaled a major breakthrough. Presidents reacted in different ways to such criticism. For instance, Habibie, who was severely criticized because of his refusal to investigate Soeharto’s misuse of public funds and corruption, accepted the criticism and officially asked for parliament’s forgiveness because he could not carry out such an investigation. His successor Abdurrahman Wahid found it very difficult to accept the increasing role of parliament and particularly its criticism on his erratic performance in the government. This led to a great deal of tension between him and parliament, which eventually led to his impeachment. His successor, Megawati Soekarnoputri, was inclined to accept parliament’s new power.

The End of the Role of the Military in Parliament
During the reformasi, many people demanded the end of the role of the military in politics. Especially the role of the armed forces in parliament was heavily

121 Interview with Arfan Sofan, the chairman of the Kompartemen Asosiasi dan Himpunan Kadin held on 21 January 2003.
criticized. There was also much criticism on the strong involvement of the army in business.

There were many discussions on the role of the military. According to Salim Said, it would be better for Indonesia and for the military if the military were to stay away from political institutions.\(^\text{122}\) Syamsudin Haris argued that if the military wanted to play a role in the political arena, they needed to resign as military first, or they were to be given the status of ‘non-active’. Terrence Lee stated that there may be a task for the military outside the domain of defense and security, but only if civilian governance fails.\(^\text{123}\) Kristiadi argued that there was still room for the military in Indonesian politics; this new role, however, would have to be formulated and authorized by a legitimate civilian government.\(^\text{124}\) According to Philips, in the first years after the reformasi (1997-1998) the role of the military was still vital, particularly since the civilian government had not yet been properly installed.\(^\text{125}\) He also emphasized that civilian supremacy over the military implies not only the transfer of military leadership to civil leadership, but also the handling of issues like public accountability and civilian control of intelligence agencies.

There were many discussions on the role of the military in the People’s Consultative Assembly (MPR) during deliberations on amendments to the constitution. The amendment concerning the tasks of the military – limiting them to defense and security – provoked fierce reactions. For instance, the former General Hartono wanted to restore the military political role by re-adopting dwi-fungsi.\(^\text{126}\) This was strongly opposed by Adnan Buyung Nasution, a senior lawyer who had been actively involved in many important events in Indonesia.\(^\text{127}\) He argued that a failure of the reformasi to provide instant economic and political stability would not necessarily mean that people wanted to go back to the reality of the New Order. According to him, democracy does not allow for the military to play a political role. In a democratic society, the role of the military is to keep order in society, not to be involved in politics.

A real breakthrough took place in 2002 when the faction of the military and the police\(^\text{128}\) endorsed the formation of Komisi Konstitusi to prepare the adoption and ratification of proposed amendments to the constitution.\(^\text{129}\) It is remarkable that members of the military faction, who were appointed during the Soeharto regime and had vested interests in a status quo, opted for withdrawal

\(^\text{123}\) Lee, 2000, p.695.
\(^\text{125}\) Philips, 2002, p.221.
\(^\text{126}\) See Section 3.1
\(^\text{127}\) Denny, January 2004.
\(^\text{128}\) Fraksi TNI-Polri: the faction of the military and the police in parliament.
\(^\text{129}\) Interview with Kristiadi (researcher with CSIS), Syamsudin Haris (researcher with LIPI), Salim Said (politics and military expert), on 8 August 2002. See Denny, 2006.
from politics. They realized that the opposition to the role of the military in the past was massive. Moreover, the demand for a change in the authoritarian regime had increased in the military ranks. The role of the military in parliament was gradually reduced, until it finally ended in 2004.

Since the military have retreated from the parliament, some high-ranking officers left the army in order to stay involved in politics. They became important members of parliament representing established parties, or they founded new political parties because they feared political instability. Still quite a few people worry about the instability of the country and hope that the politically stable years of the New Order regime will return. But the changes are irreversible. The place of the military is no longer in parliament but in the barracks.

Empowerment of Regional Authorities

In the past, the centralization of power in Indonesia was often justified by referring to the 1945 constitution. However, feelings of discontent grew, in particular in provinces that have a lot of resources, such as Aceh (natural gas), Riau (oil), East Kalimantan (oil and timber) and Irian Jaya (copper, gold and timber). They complained that their natural resources were primarily exploited to ‘improve the living standards of the center’.\textsuperscript{130} The central power has always resisted decentralization. Many politicians and military officers feared that a transfer of political and economic power to local levels would encourage separatist tendencies. Calls for decentralization almost always emanated fear of separatism and revolution. This is one of the reasons why politicians and army officers preferred the increased autonomy of districts to autonomy of provinces. Districts are usually administrative entities that are smaller in size than provinces. Historically, provincial boundaries may have been determined by regional differences in geography, ethnicity, culture, or religion. Some military officers strongly objected against provincial autonomy, since it might accelerate ‘centrifugal forces’.\textsuperscript{131} During the New Order regime, the complaints and demands of local government’s were usually ignored. This caused a lot of much dissatisfaction with the local governments, but that was usually hidden; criticism was of little use, since the authorities in Jakarta dominated the political scene, and – more importantly – there were no official texts to refer to. Because the reformasi blew a new wind of freedom in almost all aspects of public life, aspirations of local and regional authorities could be expressed freely and loudly. The reduction of the central power became a hot topic in parliament and other state institutions, as well as the empowerment of regional and local authorities.

\textsuperscript{130} Schwartz, 1999, p.63
\textsuperscript{131} See Kimura 2007, p.89; Islam, 2003, pp.11-12).
The empowerment of regional authorities is part of a decentralization policy in which authority is transferred from the central to the local level. There can be many reasons for decentralization. It may for example improve societal participation in public affairs, contribute to equality and justice, adapt specific services to local conditions, make better use of local resources, and increase local competition. It is thought that local governments will have more information and can interact much better with local stakeholders.

In 1997-1998 an intensive process of decentralization started in Indonesia. Two laws were drawn up: Law No. 22/1999 on ‘Local Autonomy’ and Law No. 25/1999 on ‘Financial Balance between Central and Local Governments’. These laws were effectuated in 2001. Local authorities, mainly at the district level, were given the right to manage their own affairs as much as possible, except for matters concerning religion, foreign relations, national security, and monetary policies. The new laws specified that a certain percentage (25 per cent) of the district’s revenues that were collected centrally by the central government would be allocated to the district’s authorities to be used for health, education, etc.

Local authorities – regents, mayors and regional parliaments – were directly elected. For the local governments the communication, sometimes confrontation, with their own people became a more important issue than the direct structural links with the national leadership. The local authorities had direct relations with regional authorities, like the regional parliament, and hardly any with the central government.

While the process of decentralization was very much welcomed, there were also some negative side effects. The local elite rather than the central government became responsible for the financial management. The decentralization laws resulted in higher tax revenues and other flows of income to the periphery. These changes gave also rise to patronage and rent-seeking practices in the periphery, for instance in the allocation of projects like the construction of infrastructure, offices, and houses.

The new decentralization laws allowed local authorities to arrange their own matters and become more independent from the central government,
particularly in areas such as Batam (an Indonesian island near Singapore with a high level of industrialization) and in regions that were rich in natural resources like Aceh (gas), Papua (copper and gold), and West Sumatra (cement). The main issue of the negotiations about the transfer of authority from central to local levels was the share of the revenues of local mining and industrial activities that the local authorities would receive. The case studies of Chapters 5 and 7 will shown that there were also several other issues involved.

The process of decentralization is linked to the issues of free markets and free trade between regions and islands in Indonesia. We will mention these in the case study of Chapter 5. In Chapter 7 we will show that many labor conflicts had to be solved at a regional rather than at the national level.

The Influence of the Islam in the Public Domain in Indonesia

To gain a better understanding of the significance of the role of the Islam in Indonesia, first we will discuss some characteristics of the constitution of 1945, which had a huge impact on the political setting until 1998. The constitution of 1945 was adopted immediately after the declaration of independence. In the preamble to the constitution, the official state ideology of Indonesia, Pancasila, was formulated and it basically consists of five principles: (1) the belief in one almighty God; (2) a just and civilized society; (3) national unity; (4) a democracy based on consultation and consensus, and (5) social justice. Muslim leaders drew up a text for the first principle, according to which the Indonesian state was based on the belief in one almighty God with ‘the obligation to carry out the laws of Islam (Syariah) for the adherents of Islam’.

This draft text, which became known as the Jakarta Charter (Piagam Jakarta), was rejected and not included in the constitution. It has often been stated that this decision had an historical impact on the development of Indonesia towards a modern state. In the memory of many radical Muslims, this rejection is still traumatic. During the regime of Soekarno, the 1945 constitution was twice replaced by a new version: in 1949 and in 1950. These versions were provisional. Efforts to draw up a definitive version failed especially because of controversial views on the role of the Islam in Indonesia. A number of Muslim leaders wanted to re-insert the Jakarta Charter in the constitution. In 1959, Soekarno decided to issue a Presidential decree stating that the 1950 provisional constitution was abolished, and the constitution of 1945 became the

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142 Often referred to as UUD 1945 (Undang-Undang Dasar Republik Indonesia 1945).
143 Musyawarah (consultation).
144 Mufakat (agreement).
145 A Constitutional Assembly (Indonesia Konstituante) was established to prepare a definitive version of the constitution.
constitution of Indonesia again. Pancasila was the heart of the constitution and of both revisions as well.

The constitution of 1945 remained effective until the reformasi. During the New Order, the regime made extensive use of the 1945 constitution, in particular of Pancasila. As has been discussed in the previous section, Soeharto used this ideology for his own purposes. He was not interested in changing the constitution. In 1983, a law was adopted stating that a change in the constitution could only be made by way of a nationwide referendum with a turnout of 90 per cent and an approval of the change of 90 per cent. These high percentages implied that the constitution would never be changed. After the collapse of the New Order regime, the law of 1983 was abolished and changes to the constitution could be made by parliament.

During the parliamentary debates on the new Indonesian constitution (see Section 3.4), one important proposed amendment was rejected: some Islamic parties had proposed once more to include the text of the Jakarta Charter in the constitution and to introduce the Syariah in Indonesia. The proposed amendments of Art. 29 of the constitution were rejected. Religious leaders of two major Islamic organizations had declared that they were very much against the proposed amendments, as they were afraid that radical Islamic groups would take advantage of the changes.

Although the majority of the people of Indonesia adhere to the Islam, the majority of these never wished to create an Islamic state; several authors have tried to explain why. Feith emphasizes that not only ideas from the Islam shaped politics in Indonesia, but also Western ideas (through the colonial past) and, perhaps most important of all, Javanese traditional ideas. Whatever the reasons may have been, it is certain that the regimes of both Soekarno and Soeharto restricted the political influence of the Islam. During the days of Soekarno, the only Islamic political party was banned, and there were only two Islamic mass organizations with some political influence. During the New Order regime, there was only one Islamic political party (PPP), and Islam mass organizations did not exist until the end of the New Order, when vice-

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146 According to Soekarno, the 1945 constitution was ‘not amenable to amendment, addition or improvement’; see McLeod et al., 2007, p.23.
147 Wiratma, 2002.
149 Partai Persatuan Pembangunan (PPP), Partai Bulan Bintang (PBB), and Partai Daulat Ummah (PDU).
150 Art. 29 of the new constitution reads: (1) the state shall be based upon the belief in the one and only God; (2) the state guarantees all persons the freedom of worship, each according to his/her own religion or belief (see www.us-asean.org/Indonesia/constitution.htm).
151 Muhammadiyah and Nahdatul Ulama.
152 Feith, 1983, pp.92-94. See also the ideas of Soepomo, discussed in Section 3.2.
153 Named Masyumi.
154 Islam Abangan and Islam Santri; see Feith, 1983, pp.92-94.
President Habibie established the association of Muslim scholars (ICMI).\textsuperscript{155} He used the organization to allow Muslims to raise their voice and play a role in politics on the one hand, and to mobilize support for his position on the other hand. The collapse of the Soeharto regime, followed by the appointment of Habibie as the third President of Indonesia, led to great changes in the position of the Islam. Several new Islamic political parties\textsuperscript{156} and mass organizations\textsuperscript{157} were established. These parties and organizations had different political views, some wanted to introduce the Jakarta Charter or the Syariah, others preferred to have a state based on universal values of the Islam. There was and is no single voice of the Indonesian Muslims, but unlike in the past the Muslims can now make themselves heard through many parties and organizations.

Most Muslims in Indonesia do not support Islamic political parties, but instead prefer secular political parties. The results of a survey\textsuperscript{158} held in 2006 amongst Muslim respondents by the Indonesian Survey Institute LSI confirm this.\textsuperscript{159} According to Effendy, this is not surprising: throughout the years Islamic political parties never obtained a dominant position, and the percentage of voters for Islamic political parties was gradually reduced to 18 per cent in 2004.\textsuperscript{160} Effendy argues that this is due to a rejection of the ideas of an Islamic state and the Syariah.

Despite the declining voters’ support for Islamic political parties, these relatively small Islamic parties still played a crucial role in Indonesian politics after 1998, as is shown in the following example. During the legislative elections of 1999, the party PDI-P, chaired by Megawati Soekarnoputri, obtained a majority in parliament. It would have been logical if Megawati became the next President of Indonesia. However, the chairman of PAN, Amin Rais, managed to create the so-called Middle-Axis coalition\textsuperscript{161} and with political

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\textsuperscript{155} ICMI: Ikatan Cendekiawan Muslim Indonesia.
\textsuperscript{156} Examples of Islamic-based political parties are PKB (Partai Kebangkitan Bangsa), PAN (Partai Amanat Nasional), PBB (Partai Bulan Bintang), and PKS.
\textsuperscript{157} Some examples of Islamic-based mass organizations are FPI (Forum Pembela Islam), NU (Nahdatul Ulama), and Muhammadiyah.
\textsuperscript{158} The survey, by Lembaga Survey Indonesia (LSI), was conducted in September and October 2006 amongst 1092 Muslims respondents from Sabang to Merauke. It distinguished between three categories of political parties: Islamic political parties, pluralist political parties with an Islamic basis but a pluralist orientation, and secular political parties. 49 per cent of the respondents opted for secular political parties, whereas only 8 per cent choose Islamic political parties. Mujani, 2006, ‘Prospek Politik Islam’, reviewed in Pikiran Rakyat, 16 October 2006.
\textsuperscript{159} The survey distinguished between three categories of political parties: Islamic political parties, pluralist political parties with an Islamic basis but a pluralist orientation, and secular political parties. 49 per cent of the respondents opted for secular political parties, whereas only 8 per cent choose Islamic political parties.
\textsuperscript{161} Poros-Tengah: the Middle-Axis coalition brought together both Islamic politicians and Islamic political parties. This movement was led by Amin Rais, the chairman of PAN (Partai
maneuvers he prevented Megawati Soekarnoputri from becoming the fourth President of Indonesia. The reason for this opposition was the fear that many Muslims would not (yet) be in favor of a woman as head of the state. Abdurrachman Wahid took her place; he had been the chairman of the large Muslim organization Nahdatul Ulama.

The question whether or not to have a female President became an important issue in 2001, after the abdication of Abdurrachman Wahid. Debates on this issue caused the delay in the inauguration of Megawati Soekarnoputri as the fifth President of Indonesia. Her nomination was strongly opposed by Hamzah Haz from the Islamic party PPP; he had been the vice-President during the Habibie presidency. The fact that in the end Megawati did become President, illustrates the dominance of the secular views in politics, even within the Islamic community itself.

In spite of the separation of religion and state in Indonesia and the declining support of voters, Muslim leaders and in particular leaders of Muslim mass organizations have a lot of influence in the public domain. We refer for instance to constitutional matters, such as the above-mentioned interventions by Muslim leaders in order to prevent changes in article 29 of the constitution. Muslim leaders also have influence in the economic domain. For instance, they strongly defend the so-called people’s economy. In the last few years, this term is often used to indicate a pro-poor economy with an emphasis on grass root development and co-operatives, support for SMEs, and opposition against the dominance of conglomerates and foreign companies. These issues will be discussed in more detail in the case study of Chapter 5.

3.5 A Regrettable Phenomenon

In this section, we will try to shed light on a side effect of the transition from Soeharto’s authoritarian regime towards a more or less democratic political system. We refer to KKN (corruption, collusion/cronyism, and nepotism) and parliament. The discussion of this item deserves some justification: in the case

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162 See also Salim, 2007, p.134.
163 *Ekonomi Kerakyatan*. The Muslims’ concern for the ‘people’s economy’ has its roots in the Islamic obligation of the rich to give ‘zakat’ (a kind of donation) to the poor, as instructed by the Syariah.
164 See e.g. PAN’s chairman Amin Rais, who opposed to the selling of several SOEs by Laksamana Sukardi, the Minister of Public Enterprises during the presidency of Megawati Soekarnoputri.
165 See e.g Adi Sasono. This researcher at the Muslim-based institute Cides was an important voice of the Muslims; later he became the Minister of Co-operatives; *Bisnis Indonesia*, 6 June 1997.
studies in later chapters, it will become clear that practices of collusion and nepotism were quite common during the Soeharto regime. Due to existing alliances between the military, the government and influential businessmen (mainly Chinese Indonesian businessmen and family members of Soeharto), the practices of cronyism and nepotism were widespread and an intrinsic part of economic life. These practices, which had a disastrous impact on economic life and were one of the causes of the economic collapse in 1997-1978, consisted of cartels, price-fixing, exclusive licensing, market allocation, the misuse of public funds, and many other malpractices; they will be discussed in more detail in Chapter 5, Section 5.2. It was hoped that after the reformasi serious efforts would be made to eliminate such practices and that a vigorous fight against corruption would be started. Certainly, much legislation, for instance the anti-monopoly law (to be discussed in Chapter 5) and the Presidential decree on the procurement of projects (to be discussed in Chapter 6) are aimed at preventing unfair business practices and can be seen as important contributions to the fight against KKN. There was also hope that the highest authorities like the President, Ministers and members of parliament would lead the fight against corruption. Especially parliament was seen by the general public as the main stronghold to fight corruption. For this reason the issue of ‘KKN and parliament’ will be addressed below.

KKN and Parliament
It was almost taken for granted that after the reformasi the highest authorities in Indonesia like the new Presidents would be impeccable defenders of the fight against corruption. Unfortunately, this was not the case. President Habibie was much criticized in parliament because he was reluctant to prosecute Soeharto and his family for the misuse of public funds. President Abdurrachman Wahid came under attack in parliament because he was accused of being involved in two corruption scandals (Brunei Gate and Bulog Gate) and failed to bring corrupt officials to justice. Such examples at the highest level discouraged many people. And even in parliament, cases of corruption and misuse of public funds occurred. This was most painful, since parliament was considered as the main institution to fight KKN.

A great scandal was the accusation of parliament’s spokesman Akbar Tanjung. Both the local court and the Court of Appeal had convicted

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166 See also Robison, 1982, p.142; Hadiwinata, 2003, p.59; and Besnan, 1993, p.257.
167 The term Brunei Gate was used in the media. It refers to a grant from the Sultan of Brunei given to president Wahid (Hadiwinata, 2003, p.260).
168 Bulog Gate refers to the illegal use by the president of the equivalent of approximately US$ 400,000 from the Indonesian Food Logistics Agency Bulog (Hadiwinata, 2003, p.260).
169 Denny, 2002.
Tanjung, a member of Golkar party, of being guilty of misusing public funds. Tanjung was urged to resign from his position as spokesman. He refused to step down. The affair attracted a lot of public attention, but despite the public anger,173 he stayed in office. A Golkar member174 of parliament defended Tanjung’s case: as Tanjung had given the money back, there was no longer a problem. Since there was no rule that said that a sentenced person could not perform his/her duty in the house, the spokesman was allowed to stay. The case of Akbar Tanjung damaged the image of parliament very much, especially after his release by the Supreme Court.175

In recent years, several corruption cases were uncovered by the anti-corruption commission KPK.176 One complex case stems from the aftermath of the 1997 Asian crisis, when many banks and companies had great problems.177 The Central Bank of Indonesia played a pivotal role in the distribution of capital provided by the IMF to support banks and companies in trouble. At some point, the Central Bank agreed to distribute 100 billion rupiahs through a foundation178 from 2003. The installation of this foundation coincided with a new law on the tasks and rules of the Central Bank. The foundation’s budget was mainly used to pay the costs of legal processes for five senior staff members of the Central Bank and to secure amendments of the Central Bank law; another part of the budget was passed to parliament. Investigations by the KPK, published in 2005, showed that part of the money could not be traced. In 2008, several high-ranking officials of the Central Bank were arrested and brought to justice, including the former governor of the Central Bank.

Other corruption scandals also received a lot of public attention. The case of licensing conservation forests on the island of Bintan was one of these scandals.179 In April 2008, a member of the Fourth Commission180 of parliament was arrested by the KPK in the Ritz Hotel in Jakarta, while negotiating a deal with a local official from Bintan. Part of the deal involved bribing several members of parliament. The Member of Parliament was fired from the PPP, his political party.

171 Pengadilan Negri, also called Court of First Instance.
172 Pengadilan Tinggi. The courts in Indonesia consist of Pengadilan Negri (local court/Court of First Instance), Pengadilan Tinggi (Court of Appeal), and Mahkamah Agung (Supreme Court).
174 Mahadi Sinambela.
176 Komisi Pemberantasan Korupsi.
177 Tempo, 7-13 July 2008.
178 Yayasan Pengembangan Perbankan Indonesia.
179 Jurnal Nasional, 8 July 2008.
180 Fourth Commission: commission in parliament that deals with issues of transportation and infrastructure.
Another case dealt with the tender for the construction of ships for the government. A member of the Fifth Commission parliament was caught by the KPK in Jakarta when he received a bag with a lot of money from the businessman who had won the project.

These examples clearly show that KKN had apparently infiltrated into the house of parliament. Several factors may have contributed to this development. First, compared to the days of Soeharto when the members of parliament had little say, after 1998 the members of parliament became influential in economic matters and therefore were vulnerable to bribery. One of the often mentioned reasons of the KKN appearing in parliament is the financing of election campaigns: in the elections after the reformasi, there were many political parties with many local branches, scattered all over Indonesia. The small amount of money that the Indonesian government could put aside for helping political parties to set up their election campaign was not enough. The political parties had difficulty financing the campaigns of their candidates and requested a contribution from the candidates. Often the Calegs had to make a financial contribution to the party and finance a large part of their own campaign. Formally, there were no objections against the Calegs doing so. However, if they had to invest a lot of money, they could be tempted to try and earn back this money during their time as a member of parliament. In other words, the financing of election campaigns could be a source of corruption in parliament, which would harm parliament’s image. Pipit Rochijat found that political parties had indeed received large amounts of money from the Calegs. He argued that political parties should finance campaigns, instead of individuals. If the parties needed extra help, they should ask the members of parliament rather than the Calegs.

Other researchers who investigated the procedures of selecting candidates for local legislative organs found similar results. Moreover, these researchers show that the majority of the candidates had a business background, and therefore they could afford to contribute to the party or invest in their own campaign. By electing wealthy businessmen in national and local parliaments, the business sector increased its direct influence on processes of legislation and policymaking. In the next chapters, we will shown that wealthy

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181 Kompas, 2 July 2008.
182 Fifth Commission: special committee of parliament, dealing with industry and trade.
183 Calon Legislatif, a parliamentary candidate.
184 Denny, 2003, November.
185 Media Indonesia, 11 November 2003. Rochijat’s investigations concerned PAN, PKB, PPP, PBB, and Golkar.
186 In 2004 Arbi Sanit researched the legislature candidate selection in Padang, province of Agam, and Padang Pariaman in Western Sumatra; see Sanit, 2004. In 2004 Sri Nuryanti did a similar research in the provinces Medan and Simalungun, see Nuryanti, 2004. The results were pretty much the same.
businessmen can also try and find other ways of influencing these processes, for example as officials in Kadin or as chairmen of business associations.

3.6 Conclusions

This chapter deals with the background of our research on state-business relations in Indonesia. It describes important developments from the period of the Soeharto regime until the years after the reformasi. The historical review in this chapter confirms that the nature of Soeharto’s regime had all the characteristics of state corporatism, discussed in Chapter 2. It was a centralistic regime; the state, i.e. the President, controlled almost all important political and economic affairs. Participation in decision making was only possible for a limited number of societal organizations, which were strictly controlled by the ruling elite through the selection of the leaders, the approval of statutes, etc. The fact that the state managed to stay in control of political and economic affairs was largely due to the regime’s strategy of Golkarisasi: Golkar, the military backed and ruling political party maintained its majority in parliament by forcing many local officials to sign statements of loyalty and mobilize votes for Golkar. Moreover, the regime used the Pancasila ideology, rooted in the constitution of Indonesia since independence, to impose its own ideology on schools, universities, and various mass organizations.

We have shown that the transfer from the New Order to a more liberal democratic political system after the reformasi implied a wide range of changes: the amendments to the constitution, the emergence of many political parties, Presidential elections, coalitions in the government, the increasing importance of mass organizations, the phenomenon of mass rallies, the role of critical debates in the mass media, etc.

This chapter serves as a background for the case studies in Chapters 5-7, which mainly deal with legislation on business practices and the role of various stakeholders in the processes of initiating, drafting, discussing and ratifying new laws. This phenomenon is quite new. During the New Order, the role of parliament was marginal, if any. The government itself took the initiative for new laws, and the government presented drafts to the parliament only after the drafts were approved by the President. It was extremely rare for parliament not to approve the proposals. Parliament was an extension of the President’s power, in spite of its officially independent status. After the reformasi, the situation changed radically. Parliament became very active; it fully exploited its independent position and gradually became the centre of political debate.

In this chapter, we highlighted some institutional changes that allowed parliament to play such an active role, for instance the amendments of the constitution, the withdrawal of the military from the political scene, and the multi-party system. We also shed some light on the phenomenon of KKN
(corruption, collusion and nepotism) and have shown that KKN infiltrated parliament as well. This is embarrassing since the general public had counted on parliament to fight KKN.

In this chapter, we also discussed some background features that are indirectly related to business and in particular to the attitude of businessmen. The features are very characteristic for Indonesia and have a huge impact on political and social life in Indonesia, but their impact on business and on the attitude of business people is still debatable. We refer to the role of Islam, of Pancasila, and of the ideas of an integralist state as reflected in the Indonesian constitution. In later chapters we will get back to their possible influence on e.g. the attitude of the Indonesian business people.