State-business relations in post-1998 Indonesia
Hartono, I.

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2011

Link to publication in University of Groningen/UMCG research database

Citation for published version (APA):

Copyright
Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

Take-down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): http://www.rug.nl/research/portal. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.
Chapter 4  Business Representation in Indonesia: 
The Role of Kadin

4.1 Introduction

This chapter discusses the organization of business representation in Indonesia during the past few decades. In particular, it focuses on Kadin as the peak organization representing the interests of the Indonesian business sector. In Indonesia, each business sector has its own association that represents the specific interests of companies within this sector. On top of all these associations is Kadin, the Indonesian Chamber of Commerce and Industry. Particularly important is the question to what extent Kadin can play a role as the peak business organization. As was argued in Chapter 2, its real functioning may depend on: (1) its legitimacy, which is linked to the question whether its operations are recognized by the state and/or by society as a whole; (2) its credibility, i.e. whether it can be seen as an organization that is capable of managing and defending business interests in general, as well as adequately handling internal conflicts with respect to diverging business interests of different groups of the Indonesian business community; and (3) its degree of institutionalization of channels and mechanisms to represent interests with the state concerning policymaking.

This chapter deals with these issues and describes to what extent Kadin has developed since its foundation (in 1968) in terms of its legitimacy, credibility, and institutionalization. Before these issues are discussed, Section 4.2 provides a brief description of the history of Kadin, followed by a discussion of the efforts of the Kadin leaders to get formal recognition of the organization (Section 4.3). This was seen as an important step towards its legitimacy by both state and society. Section 4.4 provides an overview of the organizational structure in order to put the discussion of Kadin’s legitimacy, credibility and institutionalization in a clear context. Section 4.5 describes the recent efforts of Kadin to institutionalize channels of communication with important decision making institutions to support its aim of influencing the policymaking process. The credibility of Kadin, especially within the business society (i.e. internal credibility), is discussed in Section 4.6. In particular, the existence and nature of conflicting interests between the different groups of the business community are discussed, emphasizing the challenges Kadin has been faced with in its aim to represent its members’ interests. As will be argued (and discussed in more detail in the concluding remarks in Section 4.7), the apparent fragmentation of the Indonesian business society has made it difficult for Kadin to operate as an effective business representative.
4.2 A Short History of Kadin until 1987

The earliest traces of collective business representation in Indonesia go back to the formation of a chamber of commerce during the colonial era. During the Dutch colonization, collective business was organized by the 'Kamers van Koophandel en Nijverheid', the chamber of commerce and industry established in 1863. It mainly dealt with the interests of the five big Dutch trading companies (Borsumij, Jacobson van den Berg, Internatio, Lindeteves, and Geo Wehry), which dominated the Indonesian economy in those days, as well as with the interests of some private companies owned by Chinese businessmen.

The business interests of indigenous businesses, which mainly produced agricultural products, were barely taken into account most of the times. Yet, from the early 20th century until 1945, a period during which the people's resistance against the colonial power was growing, collective native business representation came into being. This representation usually had a religious background and focused on empowering native businessmen to resist the colonial economic structure and the Chinese businesses that acted as intermediaries between the natives and the modern (colonial) economy.

After the independence and during the reign of Soekarno (1949-1965), business representation was organized through the establishment of the Central Economic Council of Indonesia (Dewan Ekonomi Indonesia Pusat/DEIP), which represented a large number of industry-specific associations. Organizing business representation in this way fitted into Soekarno’s wish to develop a centralized system of governance and policymaking. The establishment of the Central Economic Council did not lead to appropriate control over business, because several associations remained independent, resulting in the fragmentation of business representation. Therefore, the government created two new organizations in 1956: the national Council of Business and Trade (DPP), and the regional Assembly of Business and Trade (MPP). Yet, this did not prevent business from establishing new associations, leading to a further fragmentation of business representation. The main goal of these associations was to oppose the dominance of Chinese businessmen in the economy.

The Soekarno government made a third attempt at reforming business representation and increasing its control over the business sector by establishing the national Business Council (BAMUNAS) in 1964. This peak organization was established to act as an intermediary between business and the government; it was supposed to represent business interests. As argued by MacIntyre, BAMUNAS was one of the precursors of the corporatist organizations that were to be established later during President Soeharto’s New Order. In practice,

187 This section draws from MacIntyre (1991, pp.40-56). See also Chapter 3 of this thesis.
188 MacIntyre (1991). See also Chapter 3 of this thesis.
BAMUNAS did not function as an intermediary between business and government. Rather, the organization acted as fundraiser for the government.

After the overthrow of the Soekarno government and the establishment of the New Order, the corporatist relationship between government and business was further strengthened. Soeharto aimed at stronger controlling business and their representatives. He first abolished BAMUNAS in 1967, and in 1968 a new peak business organization was established: Kadin-Indonesia. Kadin-Indonesia started off in November 1967 as a local business organization focusing on Jakarta (Kadin-Jaya, or Greater Jakarta-Kadin, also known as Kadin-DKI), which was supported by city governor Ali Sadikin. This initiative was followed by the establishment of other regional chambers, equivalents of Kadin-Jaya. These regional entities were financially supported by the government. During a national congress in September 1968, where many regional chambers of commerce and industry were present, Kadin-Indonesia (in this thesis referred to as Kadin) was established. It was decided that this organization should become the main intermediary between business and government. This was not to say that there were no other forms of business representation, but Kadin was supposed to be the most important of these.

During its first years, Kadin was led by representatives from the military who were closely related to the political leaders. Under the Soeharto leadership it was common practice that military officials were given strategic positions in corporatist organizations like Kadin. In this way, the President was better able to control the organization and its members. Moreover, it increased the bond between the President and the military. The President gave the military access to crucial positions in the economy, of which they could profit. In return, he asked loyalty from the military, which he needed to stay in power. In theory, this construction linked the business sector closely to the President and his government, but only if the military leaders of Kadin were willing to listen to their demands and were willing to help shape policies that would support business interests. In practice, during their leadership Kadin’s role as a business representative was weak, since these military leaders did not focus primarily on representing business interests. On the contrary, they represented the interests of the President and the government. Kadin was firmly linked to the government, and there was little room for independent views on business interests.

In the 1970s, Kadin’s position became more and more formalized. It was the organization itself that insisted on the formalization of its position. A major breakthrough in this process was the centralization of Kadin’s organizational structure in 1972, when the constitutions of the regional chambers of commerce and industry were integrated into the constitution of Kadin. The efforts of Kadin finally led to the official recognition as the peak business organization by way

189 In Chapter 3 of this thesis the role of the military in politics during the Soeharto regime has been discussed in more detail.
of Presidential Decree no. 49 in 1973. Further improvements of the internal organization and structure of Kadin were made in 1976 and 1982. This was followed by an official mentioning of Kadin in the so-called State Policy Outline document (GBHN) in 1983, and later by an official mentioning in the fourth Five Year Development Plan (Repelita IV) in 1984. Kadin’s role as an intermediary between business and government became fully recognized with Law No.1 of 1987, – which will be discussed in more detail below. Sukamdani Gitosardjono, a private sector entrepreneur who was chairman of the Sahid Group – one of the largest business conglomerates of Indonesia – was President of Kadin during the 1980s, and his leadership was important in gaining formal recognition.

In spite of its efforts to become formally recognized, during the first two decades of its existence Kadin did not gain a strong position as a representative of business interests in communicating with the government. This was mainly the result of the low appreciation by both the business community and the government.

The business community merely saw Kadin as a government tool and its leaders as self-interested, instead of representing more general business interests. Businessmen became members for opportunistic reasons mainly. Membership was almost a necessity, since on the one hand it showed that they accepted the dominant role of the government, and on the other hand it allowed them to at least participate in project procurements of the government. At the same time, the costs of membership were rather modest.

Yet, many businessmen, especially those connected with large business conglomerates, had more direct channels to the government to get things done, even if they were members of Kadin. The links of the leaders of large business conglomerates with the government were especially important in the 1990s when the network between the President and business leaders became tighter. The importance of direct informal relations of large business representatives with the government made life difficult for Kadin as the formal representative of Indonesian business.

With regard to the government’s appreciation of the organization, MacIntyre argues that the government and government officials did not take Kadin seriously. In general, in communications on economic plans and policies with ministers, Kadin did not play an important role. Kadin was hardly ever consulted before or even after the introduction of new policies. There were several reasons for this. First of all, there may have been cultural and ideological reasons. Senior government officials generally considered businessmen to be inferior. Moreover, within Pancasila – the official

---

190 MacIntyre, 1991, pp.43-56.
191 See Chapter 5 for a discussion of the role of the Indonesian conglomerates.
192 This issue will be discussed in more detail later on this chapter.
Indonesian state ideology, with its emphasis on collectivism and co-operation – profit making and the market economy condemned. Pancasila was very influential in policymaking.194,195

Next to these ideological and cultural reasons, Kadin also had little credibility among government officials due to the fact that several of its leaders were involved in patronage. Moreover, often these business leaders were not seen as serious partners in discussions on economic policies. According to government officials, leaders of Kadin were not well-prepared and were ill-informed with respect to economic developments.196 Perhaps most importantly, however, the government could see its power reduced the moment it would listen to the demands of Kadin. Put differently, in the corporatist model of the New Order regime, corporatist organizations such as Kadin were to be heard, but not to be listened to.

4.3 Formal Recognition of Kadin: The Law of 1987

Almost from the beginning of its establishment, the leaders of Kadin sought for official recognition in terms of a law ratified by parliament, to strengthen Kadin’s position within business and policy circles, i.e. to establish its legitimacy vis-à-vis society. To start with, such a law would make it more difficult for the government to ignore Kadin, as it had done during 1945-1965 with an organization like for example BAMUNAS. Moreover, a formal legislative basis would increase Kadin’s role in policymaking, especially if the law were to explicitly refer to Kadin’s role as an advisor or consultative partner with respect to economic policymaking.

Apart from legal recognition, Kadin’s leaders also aimed at making membership of the organization compulsory for all existing business associations. They hoped that this would reduce opposition against Kadin, while at the same time it would strengthen Kadin’s position in communications and policy discussions with the government. It appears that the government realized this latter interest, since in official communications they stated that Kadin was already seen as the peak business organization and that therefore there was no need for compulsory membership. Apparently, the government saw compulsory membership as a threat, since it could make Kadin stronger and more influential in political decisions.

194 See also Chapter 3.
195 Pancasila aims at striking a balance between individual possession and collective and/or state possession. This is also stipulated in Chapter 33 of the UUD-1945, the Indonesian constitution, which is the main source of all legislation and policy of Indonesia. Pancasila consists of five main principles; the fifth principle refers to social justice (based on an interview with Satjipto Umar in 1999, the then secretary general of Kadin).
196 See MacIntyre, 1991.
Another reason for claiming compulsory membership was financial. Kadin appeared to be unable to finance its operations from the fees paid by its members. For example, in 1985, only 75 per cent of the members paid their fees to Kadin. In order to continue during the 1980s, Kadin had to rely on financial support from several influential businessmen, of whom Liem Soe Liong – a Chinese businessman and the leader of the largest business conglomerate of the country – was the most important.\textsuperscript{197} Liem Soe Liong’s involvement in Kadin was aimed at bridging the gap between the Indonesian and Chinese businessmen. Sukamdani, at the time chairman of Kadin, supported this intention, although several Kadin leaders and the native Indonesian businessmen did not appreciate his involvement. Again the government seemed to be unhappy about the idea of Kadin being financially independent. In fact, the Ministry of Finance decided that Kadin would have to be financially self-supporting and did not give Kadin any financial support.\textsuperscript{198} A financially weak Kadin would make it easier for the government to neglect the business sector when drawing up economic policies.\textsuperscript{199}

The process towards legal recognition in 1987 was a long and difficult one. First, the statutes (AD/ART) of the organization formalizing its existence had to be established, so that legal recognition was possible based on an act ratified by parliament. This process of establishing Kadin’s statutes started in 1981 with the formation of Team-Enam (Team of Six), chaired by Sukamdani. This team had to draft first versions of the statutes and act that would be acceptable to the government. In order to achieve this, Sukamdani started to contact government officials in high positions, among whom were representatives of the military, some ministers, and the chairman of Golkar.\textsuperscript{200} Legal recognition of Kadin could only be achieved if it was officially supported by high-ranking government officials, and especially by the President. After consulting these officials and after visiting and receiving approval by President Soeharto, the statutes were formally approved and established in September 1982.

Next, the act on which Kadin’s legal recognition would be based had to be drafted and approved. This approval followed a similar route. After President Soeharto ordered the act to be discussed in parliament for approval, it was

\textsuperscript{197} MacIntyre, 1991.
\textsuperscript{198} In some cases, the Kadinda, the regional branches of Kadin, received financial support from local or regional governments in return for Kadin’s support for the regional authorities’ plan to empower the business sector in their regions.
\textsuperscript{199} The weak financial position of Kadin may explain why the organization was so eager to play a dominant role in the certification and accreditation of businesses (which they need for government procurement of projects), as this would be a potentially important source of financial income. Chapter 6 provides an in-depth analysis of this issue.
\textsuperscript{200} At the time this was Mensesneg Sudharmono.
finally enacted by parliamentary decision on 28 January 1987 with the establishment of Law No. 1/1987 on Kadin.

However, the question remains to what extent the final version of the law contained any references to Kadin’s potential role in economic policymaking processes. Of course, with the legal recognition confirmed by this law, Kadin was the only business organization that had an official role in policymaking. This gave it, at least potentially, a stronger position as compared to other business representatives when talking with the government. But did the law actually give Kadin a role in policymaking? When looking at the contents of both the statutes and act, there are no references to clearly formulate this. For example, one of the main articles of the act is Article 7, Chapter IV, stating that:

... [Kadin] shall perform the activities, among others: a) giving information on the government’s policy in the economic sector to the Indonesia entrepreneurs; b) giving information on the world economic problems and developments, that can influence national economic life and business, to the Government and all entrepreneurs; c) channeling the aspirations and interest of the entrepreneurs in commercial, industrial, and service sectors in the framework of its participation in the economic development; d) implementing useful education, training, and other activities in the framework of promoting and developing the ability of the Indonesia entrepreneurs; e) implementing and improving relationship and cooperation supporting and profitable to each other, including development of relationship between industrial sector and other economic sectors; f) making effort to maintain union on the one hand and prevent unhealthy competition on the other among the Indonesia entrepreneurs, and realize a harmonious cooperation among the state owned undertakings, cooperatives, and private companies and create equalization of business opportunities; g) implementing and improving the relationship and cooperation between Indonesian and foreign entrepreneurs together with the requirements and interest of the economic development in accordance with the objectives of the National Development; h) implementing domestic and foreign promotions, statistical, analysis and business information center; i) making effort to balance and preserve the nature and prevent damages and living environment pollution.

(Article 7, Chapter IV of the Act)

Although the above article contains a long list of tasks, especially pointing at Kadin’s role as intermediary between government and business, there is no clear reference to its role as an advisor or consultative partner with respect to economic policymaking. One of the few explicit references can be found in
Based upon the above discussion it can be concluded that Law No. 1/1987 did not really fulfill the hopes of Kadin’s leadership. The law did not contribute much to strengthening Kadin’s position vis-à-vis the government. Moreover, it did not help to strengthen Kadin’s position with respect to its members either. The law did not comply with the wishes of the leaders of Kadin to make membership of the organization compulsory for business associations. What is more, the law stipulated that Kadin should also take into account the interests of state-owned enterprises (SOEs) and co-operatives, as from now on these organizations could also become a member of Kadin. In discussions with the government to obtain formal recognition, Kadin’s chairman Sukamdani could not prevent these organizations from becoming members. In the opinion of the Indonesian business society, this weakened Kadin’s internal and external position. First of all, now it had to take into account more interests that were potentially conflicting. Second, it seemed that the government, by including state-owned enterprises as members, meant to increase its control over Kadin. This impression was further stressed by the fact that the new chairman of Kadin in 1988, Sotion Ardjanggi, used to be a high-ranking government official. His election was not appreciated by the business society, because it reinforced the impression that Kadin was simply an extension of the government. Apparently, they saw Ardjanggi’s election as a government attempt to increase its influence within Kadin.

Thus, one possible and actually rather plausible interpretation of the contents of Law No. 1/1987 was that the government did not aim at retreating from the corporatist model of the New Order. To the contrary, the law seemed to underline the corporatist relationship between state and business as it was envisioned by President Soeharto and the political leaders of the country.

### 4.4 The Structure of Kadin

During its inception, Kadin structured the organization hierarchically. The organizational structure consisted of three main parts: Kadin Indonesia (the headquarters of the organization), regional branches of Kadin (Kadinda), and the sectoral and subsectoral industry or business associations. At least until the late 1980s, the Kadinda were relatively passive, basically following directions

---

201 See for instance the text of Article 7 above, in which state-owned enterprises and co-operatives are mentioned explicitly. The role of state-owned enterprises and co-operatives in the Indonesian economy will be discussed in more detail in Chapter 5, Section 5.2.

202 This perception was prompted by the fact that his candidacy was strongly supported by Soedomo, then the Minister of Social, Political and Security Affairs.
of Kadin Indonesia. The Kadinda played the role of intermediary between the national level of Kadin and the sectoral and subsectoral business associations. Moreover, within the Kadinda, Golkar played an important role, as many regional branch leaders were members of the party. This way the government could maintain control over the business sector – also at the regional level.

Of special importance during the first ten years were the (sub) sectoral business associations. Although most associations were rather passive, some were challenging Kadin Indonesia and demanded a better representation by Kadin’s leaders. During the 1970s and part of the 1980s, there was a real struggle within Kadin between the passive Kadinda and some of the more active sectoral associations. The struggle between the Kadinda and the business associations also played an important role in the establishment of Law No. 1/1987. As was discussed above, Kadin leaders and especially Sukamdani had lobbied for a legal recognition of the organization for many years. One reason why this took so long was that the government was skeptical about the fact that – given the internal conflicts between the Kadinda and the business associations – Kadin would be the best organization through which it could control the business community.

When Sotion Ardjanggi was chairman of Kadin (1988-1994), one of his goals was to harmonize the organization. Under his leadership, several organizational changes were introduced focusing on reducing friction between the Kadinda and the business associations. This appeared to be difficult, however. One relevant example is the struggle in the 1980s, concerning the differences in voting rights given to the Kadinda and the business associations. In the 1982 revision of the Kadin statutes, these institutions had been given different positions. While the Kadinda received the status of distinctive member (anggota luar biasa), business associations were given the status of ordinary member (anggota biasa). This difference was linked to the voting power within Kadin with respect to decisions concerning policies and programs. Only ‘distinctive members’ were able to influence Kadin’s decision making with their vote; ordinary members did not have this opportunity. Choosing the chairman and members for Kadin’s board of directors was one of the main issues where the voting right was involved. The business associations only had the right to propose candidates, not to choose or to vote for them. This was a radical change from the period before 1982, when the Kadinda and business associations had the same voting power. The decision to change the voting power was made by the Kadin leaders, because it feared the dominance of some business associations within the organization. They felt that these associations had gained too much influence, and that this trend needed to be halted.

Obviously, the business associations were opposed to this. The tension continued, even after a new internal constitution was adopted in 1995, giving the business associations limited voting right: the number of votes by business associations could not exceed 20 per cent of the number of votes by the
Kadinda. Clearly, this implied that Kadinda’s choice of chairman and members of the board of directors could hardly be challenged by the business associations.

Ardjanggi’s successor was Aburizal Bakrie, someone from the private business sector. From 1994 to 2004 he led Kadin for two terms. This was a hectic period, which includes the economic crisis of 1997-1998 and the fall of the New Order regime in 1998. Aburizal Bakrie was and still is a very successful businessman. In the early 1970s he was one of the founders of HIPMI, the influential Young Entrepreneurs Association, an association residing under Kadin that was rather critical of Kadin’s role in representing business interests towards the government. In 2007 he was the richest man of the country according to Forbes.\textsuperscript{203} During Bakrie’s leadership the voice of the private sector within Kadin became much stronger.\textsuperscript{204} In 2004, after resigning, he became Minister of Economic Affairs. From 2004 Kadin was led by Mohamad S. Hidayat, also from the private business sector. The history of the different Presidents of Kadin since the late 1960s shows that the role of the military within Kadin waned over the years and that the role of the private sector increased.

Since its establishment in 1968, Kadin developed a rather complicated internal structure. This reflects the fact that the organization incorporates several different stakeholders with different interests. The organization is led by the executive board of which the President (or chairman) of Kadin is the most important member.\textsuperscript{205} The selection of the President has always been an issue. Given the weak financial position of Kadin, the President should be someone who is able and willing to financially support the organization and/or have a network from which financial support can be obtained. Moreover, he should have a good relationship with high government officials. The incentive for someone becoming the President of Kadin and providing support to the organization is that this position is generally seen as an ideal springboard for anyone with political ambitions.\textsuperscript{206}

Directly residing under the President of Kadin are several vice-Presidents, who are heading two to four so-called compartments. These vice-Presidents are all members of the executive board. The compartments are classified based on functional or sectoral considerations. There are 56 compartments in total (1999-

\begin{footnotesize}
\begin{enumerate}
\item Forbes, 24 December 2007.
\item Based on interview with Harmon Barmawi Thaib.
\item For a complete list of former presidents of Kadin, see Appendix I to this chapter.
\item Aburizal Bakrie, president of Kadin from 1994 to 2004 is perhaps the best example. After he resigned as president of Kadin, he became the co-ordinating Minister of People’s Welfare (Menkokesra). Jusuf Kalla, vice-president of Indonesia from 2004 to 2009 and leader of Golkar, used to be the chairman of the Kadinda of South Sulawesi. In 2009, Hidayat, the current chairman of Kadin, has also been appointed as a minister in the second period of Yudhoyono’s presidency.
\end{enumerate}
\end{footnotesize}
The executive board is supported by several institutes and boards. One of these is the Institute for Economic Research, Studies and Development (LP3E, a research institute of Kadin).

The actual members of Kadin are business associations and associations of entrepreneurs; these reside under the compartments. In 1999-2004 there were 157 business associations and ten associations of entrepreneurs that were members of Kadin. Some examples of these business associations are the National Private Banks Association, the Indonesia National Construction Works Contractors, the Indonesia Mining Association, and the National Association of Oil and Gas Distribution. The members of these associations are individual companies. The business associations represent the specific business interests of their members. According to some estimates, around 57,000 companies are currently a member of one of the business associations connected to Kadin.

In contrast, the associations of entrepreneurs focus on supporting the claims made by specific categories of entrepreneurs. Examples of associations of entrepreneurs are the Indonesian Veteran Economic Council, the Indonesian Small Scale Industry Association, the Indonesian Young Entrepreneurs Association (HIPMI), the Indonesian Indigenous Entrepreneurs Association (HIPPI), and the Indonesian Women Entrepreneurs Association. Next to these associations of entrepreneurs, Kadin also contains Apindo, the Indonesian Employers’ Association, which was founded in 1952 (as PUSPI, later renamed in 1985). One of the main tasks of Apindo is that it is responsible for representing Kadin in relation to labor affairs in tripartite meetings with government and labor. As we will see in Chapter 7, Apindo played an important role in dealing with the changing laws on labor after 1998.

Next to companies, individual businessmen may also become a member of Kadin. The membership of individual businessmen is in fact rather important. Most individual members are influential and wealthy people who bring in funding and personal networks.

Finally, as has been mentioned above, since 1987 state-owned enterprises and co-operatives may also be a member of Kadin. However, their role in the organization remains relatively small.

---

207 See Appendix III for a full list of all compartments.
208 Sources within Kadin, April 2009
209 HIPMI, Himpunan Pengusaha Muda Indonesia.
210 HIPPI, Himpunan Pengusaha Pribumi Indonesia.
211 Apindo, HIPMI and HIPPI are all associations of Indonesian entrepreneurs. HIPMI and HIPPI aim to promote native Indonesian business. Apindo is a broader association, where businessmen of Chinese origin can play a leading role.
212 An example of the important role of these individuals will be given in the next section.
4.5 Kadin and the Institutionalization of Business Representation

In order to be able to represent business interests, Kadin has always aimed at developing networks of communication with internal and external parties, through internal committees, workshops, etc. Discussions with its members (private businesses, individual businessmen, state-owned companies, and co-operatives) are important for the Kadin leaders if they want to stay informed on important interests. Moreover, the main external partners for Kadin in achieving its goals are the state institutions in general, and the President, members of parliament, as well as high officials at the ministries – including the ministers themselves – in particular. The fact that Kadin is legally recognized as the peak business organization gives it leverage in the contacts with these state institutions.

The relationship between Kadin and the government has evolved during the period after the reformasi. With respect to the relationship with ministries, especially since the fall of the New Order regime, representatives of Kadin’s leadership are involved in policymaking forums of the ministries, the so-called Rapat Kerja. Here, discussions take place about the kind of policies that should be developed. For Kadin it is important to be present at these discussions, since it provides information about the government’s view on economic developments, its policy initiatives, and its perception of the possible constraints with respect to economic and business-related issues. Kadin representatives also participate more directly in the implementation of economic policies. In particular, after ratification of a new law Kadin may help to introduce the new law by organizing seminars amongst its members to discuss and explain the law, by participating in monitoring the implementation of the law by its members, etc. \(^{213}\) Through these relationships with ministries, Kadin has, at least theoretically, a chance to represent business interests and to influence policymaking in such a way that these interests are taken into account when political decisions are taken.\(^ {214}\)

Next to these relationships with the ministries, Kadin has direct contacts with the President. The chairman of Kadin may be invited by the President to exchange views on economic developments and policymaking issues. Moreover, representatives of Kadin and the President may meet during cabinet meetings, at meetings and forums of Indonesian and foreign businessmen (organized by Kadin or a foreign chamber of commerce) at which the President is expected to speech, and during the President’s trips abroad for which influential businessmen are also invited. Also these discussions may enable

---

\(^ {213}\) See Chapter 5 of this thesis for a case study on how Kadin participated in the socialization of the anti-monopoly law of 1999.

\(^ {214}\) Further details on how Kadin intended to influence policymaking and how they used their relationships with the government will be provided in the three case studies in Chapters 5-7.
Kadin to influence policy decisions in favor of business interests. It must be said though that since the fall of Soeharto direct contacts with the President of Indonesia has become far less effective, since nowadays the President does not have the same power as Soeharto used to have.

With respect to parliament, again Kadin’s position appears to have been affected by the developments since 1998. Before 1998, Golkar was the dominant political party in parliament (DPR). At the same time, as we have seen in Chapter 3, many members of Kadin (among them chairmen like Sukamdani, Aburizal Bakrie and Hidayat, as well as several vice-Presidents) were also a member of and/or had close connections with Golkar. This provided Kadin with good opportunities for direct access to members of parliament. After 1998, Golkar continued to be an important party in parliament, which means that access to members of the parliament has not stopped. Apart from their close contacts to Golkar party members, Kadin is able to communicate with members of parliament at parliamentary hearings, where they can discuss business interests and other issues related to economic developments.

Still, the possibilities to influence parliamentary decisions seem to have diminished. Before 1998, Kadin also had access to the People’s Consultative Assembly (MPR), where it held one seat in the Utusan Golongan Ekonomi, the representative from the economic community. Yet, during the political reforms after 1998, with the termination of the Utusan Golongan Ekonomi Kadin’s active role in the MPR ended.

Apart from the above channels through which Kadin aims to influence government policy, it also uses other channels, like the media. Especially after 1998, when the freedom of press was greatly improved, the leaders of Kadin often used the media, by making public statements, to voice the interests of its members. As we will see in our case studies, on many occasions Kadin leaders voiced their views on the creation of the new anti-monopoly law (Chapter 5) and labor law (Chapter 7) by giving interviews and writing columns in newspapers. Another way of communicating business interests is organizing conferences and seminars. At these conferences and seminars the business sector can communicate its concerns and demands to members of parliament and ministries.

Kadin’s role in policymaking and its relations with the government in this process will be discussed in more detail in Chapters 5 to 7. In these chapters, we provide detailed descriptions of cases of specific government policies and the interaction between Kadin and the government in forming these policies.

---

215 The relationship between Kadin and parliament will be discussed in more detail in the three case studies presented in Chapters 5 to 7 of this thesis.
4.6 Kadin and Internal Conflicts of Interest

As discussed in Chapter 2, the effectiveness of a business association in representing the interests of its members depends among other things on its credibility with its members. Do members accept the association as the representative of their interests? And does the government see the association as the one they need to talk to when discussing business interests? It is argued that an organization’s credibility depends on the extent to which it can maintain a stable internal organization by adequately managing its internal conflicts of interest. The more it has to deal with internal conflicts of interest (or the less stable its internal organization), the lower its credibility with business members and government officials, the lower its effectiveness in terms of representing business interests. Below, these issues will be further discussed. In particular, we focus on describing the internal conflicts of interest Kadin has had to deal with over the past few decades. Such a discussion is important for evaluating whether and to what extent Kadin has had (and still has) credibility problems.

As the discussion in Section 4.4 above shows, Kadin has a rather complex internal organizational structure, which is highly hierarchical – very much like the government and Golkar organized relations with society from the top, right down to the provinces, municipalities and towns. Kadin as the peak business organization is also very broad in its coverage. Its task is to represent business in general, it has members from all kinds of industrial sectors and subsectors, and it has to deal with members who may have very different backgrounds. This also means that it may sometimes have to represent conflicting interests from different parts of the business community. For example, the interests of exporting companies on some occasions are probably different from those in the import-competing industries: while the first group will profit from exchange rate depreciations, the second will be hurt by them. Moreover, since 1987 Kadin also represents state-owned enterprises and co-operatives. These groups of businesses, at least in theory, add to the different interests Kadin has to serve.\footnote{In general, state-owned enterprises do not seek profit but provide public goods; co-operatives mainly serve the economic needs of the less fortunate. This conflicts with the goals of private companies, which are to maximize profit and efficiency. It must be said, however, that in practice state-owned enterprises and co-operatives tend to play a rather passive role in Kadin. Still, the fact that state-owned enterprises and co-operatives were allowed to become members after 1987 led to the establishment of FKAP (Forum Kerjasama Asosiasi-asosiasi Pengusaha) in the 1990s by private sector entrepreneurs, initiated by the former president of Kadin, Sukamdani Gitosardjono. FKAP was supposed to be a special forum for discussions between private sector entrepreneurs. In particular, FKAP was seen as a place where these private entrepreneurs could meet and draw up recommendations to the Kadin leadership, in order to be able to voice more strongly their demands and to communicate their interests. Because private entrepreneurs were an influential part of Kadin, and because FKAP was initiated by a senior person at Kadin who used to be the Kadin chairman, Sukamdani Gitosardjono, this initiative was taken seriously by the Kadin chairperson, Gitosardjono.}
All in all, the chances of there being conflicting ideas and interests among members of Kadin are relatively high.

The challenge for the Kadin leadership has always been to take into account these different interests when communicating with the President, ministries, and members of parliament about the policies to be carried out. The better the leaders are able to handle the different demands, the higher Kadin’s credibility among its members, as well as with the government. As will be shown later on in this thesis, however, the different groups represented by Kadin had at times very conflicting interests, which in practice made life very difficult for the leaders to represent businesses properly. In this section on the conflicts of interest and power struggles within the Indonesian business sector, we take a broad perspective and focus on two main issues: conflicts of interest between indigenous and Chinese businessmen, and conflicts of interest between large, small, and medium-sized enterprises.

Conflicts of Interest between Indigenous and Chinese Businessmen
The Indonesian business sector consists of companies led by indigenous and Chinese businessmen. As such the Indonesian business sector reflects the main conflicts within the Indonesian society as a whole, i.e. the conflict between the indigenous and Chinese (and to lesser extent the Indian) population, which at some occasions in the past few decades led to ethnic conflicts and riots, especially during the economic crisis of 1997-1998. These conflicts were severe and several times Chinese businessmen needed to be protected by the military, the police or influential indigenous Indonesians in order to be able to maintain their business.

With respect to the business sector, before the independence in 1945, the Europeans, together with the Chinese businessmen, dominated the economy. These two groups controlled the main industrial and trade companies of the country. The Indonesians were mainly active in small businesses in the traditional sectors, such as agriculture and handicrafts. After 1945, the indigenous Indonesians gained political and economic power. However, with respect to economic power, the Chinese kept their dominant position in trade and business. This dominance is perhaps most obvious when we look at the success of the Indonesian business groups. Chinese conglomerates such as the Salim Group, Lippo Group and Gajah Tunggal Group became highly successful after the economic liberalization programs the government initiated since the 1980s. Although indigenous Indonesian conglomerates such as the Bimantara Group, Humpuss Group and Bukaka Group also profited from the liberalization leadership. During the leadership of chairman Bakrie, the forum was allowed as long as it had no formal status. Private entrepreneurs saw this as a signal that their demands were taken seriously.

In Chapters 5 to 7 of this thesis, we will discuss three case studies, showing the limited role of Kadin in influencing policy decisions and in policymaking.
programs, they were not as successful as the Chinese. Moreover, in the 1990s many Chinese conglomerates seemed to be able to profit from their direct link with the government, and particularly with President Soeharto. They used these connections to obtain privileges such as exclusive import licenses, protected market shares, price controls, etc. In contrast, only a few indigenous conglomerates were able to obtain such privileges; if they were successful, members of the Soeharto family were usually directly or indirectly involved.

As was mentioned earlier in this chapter, in the late 1960s Kadin-Jaya, the predecessor of Kadin Indonesia, was founded in order to protect the indigenous Indonesian interests against the domination of Chinese businessmen. The domination of the Chinese led to frictions between the indigenous and Chinese Indonesians and these frictions could also be noticed within Kadin. In particular, the indigenous Indonesians found it difficult to accept the economic dominance of the Chinese. One example of the ponderous relationship between the indigenous and Chinese Indonesians within Kadin during its first years refers to the establishment of the Indonesian Indigenous Entrepreneurs Association (HIPPI) in the 1970s. This association was used as a forum to criticize the dominant position of the Chinese in the Indonesian economy. At the same time, however, criticizing the Chinese was also difficult and potentially dangerous if one wanted to do business, mainly because of the Chinese dominance. In later years, and especially since the presidency of Sukamardani, Kadin aimed at bridging the gap between the Chinese and indigenous businessmen.

Still, tensions were real and focused on the dominance of the Chinese businessmen in the Indonesian economy. In the 1950s President Soekarno launched Program Banteng, which aimed at giving indigenous Indonesian businessmen preferential treatment with respect to import licenses. However, the program was not very successful, since many indigenous businessmen sold the licenses to Chinese businessmen and made a lot of money. In a similar vein, in 1980 the government launched Presidential decree No. 14-A/1980, which established prioritization of indigenous business over Chinese business, in order to reduce the gap in economic power between both groups. Thus, the decree was an attempt of the government to effectively stimulate indigenous Indonesian business activities.

A final example of the conflicting relationship between Chinese and Indonesian businessmen was triggered by the economic crisis of 1997-1998.

218 See Chapter 5 for a discussion of conglomerates in Indonesia.
219 Apart from the fact that their dominant economic position was disliked by the Indonesian businessmen, complaints against the Chinese businessmen were voiced regarding the fact that they formed a very close community with tight informal relationships. This is a general characteristic of overseas Chinese business communities (Wai-Chung Yeung and Olds (eds.), 2000). The closeness of the Chinese community made it very difficult for outsiders to enter this community, also from a business point of view.
Many people accused the conglomerates of being the main cause of this crisis, since they had borrowed huge amounts from abroad for which the people and the government had to pay. As a consequence, the Chinese and indigenous conglomerates bickered about who was to blame most for the economic downturn. When the public decided that the Chinese were to blame most, Aburizal Bakrie proposed to the government to redistribute assets from business people with Chinese origins to the native Indonesian business people. However, after numerous big businessmen with Chinese origins fled from Indonesia, he called upon them to come back to help build up the economy.220

The Chinese in turn tried to protect their vulnerable position against the influence of the indigenous Indonesians. Many Chinese businessmen were not interested in becoming a member of Kadin, because they saw Kadin as a business organization that was dominated by indigenous people. Instead, they decided to seek direct and personal contact with government officials to protect their interests.

At the same time, when Kadin was faced with financial deficits in the 1980s because its operational costs were too high to be covered by membership fees, Liem Soe Liong – a Chinese businessman and one of the most influential persons in the Indonesian economy – together with a few other Chinese business leaders financed the deficit. Their main incentive for doing this was that they hoped that Indonesian businessmen would no longer criticize their business activities.221

Over time, the economic dominance of the Chinese slowly diminished as more and more indigenous Indonesians became successful businessmen and/or held crucial management positions, even in companies that were owned by Chinese. At the same time, several Chinese businessmen became involved in the organization of Kadin. For example, Liem Soe Liong was appointed as a member of the Dewan Pembina Kadin, an advisory council to the board of executives of Kadin on economic matters. Other Chinese businessmen such as Prayogo Pangestu (from business group Barito Pacific), The Ning King (business group Daya Manunggral) and Syamsul Nursalim (Gajah Tunggal), also held advisory positions.222 James Riady (son of Muchtar Riady, head of the Lippo Group – one of the largest financial conglomerates of the country) became involved in Kadin as a member of the Committee of Investment, which is also an advisory council to the board of executives. It must be said, however, that the Chinese businessmen preferred to play only a modest role within Kadin. Although the Chinese businessmen never actually came on the executive board, they were still able to play a role in decision making.

220 Aburizal Bakrie, Suara Karya, July 3, 1998. See also Chapter 5.
221 MacIntyre, 1991.
Despite the abovementioned developments, the rivalry between both groups remained fierce. According to some, this rivalry led to the impotence of the business community to undertake collective action in terms of specific demands for policy actions by the government that could have helped reduce the negative impact of the Asian crisis in Indonesia.\textsuperscript{223} One example of this are the attempts to support the small business sector that had been severely hit by the crisis of 1997-1998. Several large business groups came up with plans and actions to help reduce the impact of the crisis. In this way they tried to reduce the outrage in society about the role they had played in triggering the crisis. Yet, initiatives were launched by different groups of large businesses, which were formed along ethnic lines.\textsuperscript{224} The initiatives these groups launched were not very successful in combating the adverse impact of the crisis on the small business sector. Kadin did not succeed in co-ordinating the various initiatives that might have improved their success.

Conflicts of Interest between Large and Small and Medium-Sized Enterprises

A second and very important conflict of interest within Kadin was that between the small and large companies. Especially the small companies felt that their demands and interests were not taken seriously by the Kadin leadership.\textsuperscript{225} This conflict had been important since the foundation of Kadin, but it seems to have worsened over the years, especially after the fall of the Soeharto government and the subsequent democratization, when small company entrepreneurs were disappointed about voicing their demands. As discussed briefly in the previous section, the small business sector had suffered a lot during the crisis. In the case studies described in Chapter 5 (on the anti-monopoly law) and Chapter 6 (on the procurement of government projects), the conflict of interests between large and small enterprises is discussed in more detail. In these two case studies we refer to complaints that were often made by small enterprises about the dominance of


\textsuperscript{224} There were two groups of large businesses launching initiatives. Jimbaran was a group of businessmen of Chinese origin, representing about 50 business groups including Danamon, BCA, Subentra, Salim, Bank Bali, HM Sampoerna, Ciputra, Gemala, Hero, and Dharma. Interestingly, this group was chaired by Sudwikatmono, the head of the Studio-21 group and a native businessman who happened to be related to the president. The other group was BKPK-Kunas, which consisted of a group of native Indonesian businessmen, representing 79 business groups including Sahid, Texmaco, Kalbe-Farma, National Gobel, Gramedia, and Aspac. The relationship between these two groups was not particularly harmonious.

\textsuperscript{225} Formally, there are several associations that focus on empowering small and medium enterprises, such as the Small-Scale Industries Association, the Indonesian Small-Business Association, the Indonesian Society of Small and Medium Scale businessmen, and the Indonesian Small-scale Business Entrepreneurs Association.
big business and to the demand for preferential treatment to support small business.

The role of large enterprises in Kadin was particularly pronounced in some of the larger business associations. As was already discussed in Section 4.2, although they were a member of Kadin, many business people – especially those connected to large business conglomerates – had direct channels to the government to get things done. They used their contacts for their own business interests. Especially during the 1990s, the role of large businesses had become stronger. In the cement industry nine large cement factories, which were all members of the business association ASI (Asosiasi Semen Indonesia), controlled the prices and distribution of cement; effectively, they had established a cartel. The business association for the forestry industry, Apkindo (Asosiasi Panel Kayu Indonesia), was dominated by its chairman Bob Hasan, who had developed a very close relationship with President Soeharto, which gave him a very powerful position within the forestry business. Bob Hasan obtained a monopoly on issuing licenses for exporting timber. Prayogo Pangestu of the Barito Pacific Group was also an important player in the forestry sector. The fluor industry was dominated by PT Bogasari, a company owned by Liem Soei Liong. In the clove industry, Tommy Soeharto, son of the President, controlled KUD (Koperasi Unit Desa, the village co-operatives) and monopolized the sector. PT Chandra Asri, a private company which was partly owned by the Soeharto family, dominated the chemical industry. These examples all illustrate the fact that large businesses were members (and often also chairman) of business associations and of Kadin, and that they dominated several of these business associations because of their close connections with the government. In their role as members of Kadin they were hardly interested in representing the interests of other businesses in the same sector, in particular the medium and small business.

It must be admitted that Kadin developed several initiatives aiming at reinforcing and supporting the position of small and medium-sized enterprises. Kadin organized several exhibitions to help promote business activities of these enterprises. Moreover, it established a special compartment for small and medium-sized enterprises, focusing on promotion. Finally, several associations were established to empower small and medium enterprises, such as the Small-Scale Industries Associations, the Indonesian Small-Business Association, the Indonesian Society of Small and Medium Scale Businessmen, and the Indonesian Small-Scale Business Entrepreneurs Association. However, these initiatives were not very successful in terms of improving the position of small and medium enterprises within the Indonesian business community.

---

226 Actually, according to some he was more influential than the Ministry of Forestry.
In the early 2000s, the disappointment among small businesses about the lack of support from the government and from Kadin even led to the initiative of Elias Tobing to establish a new peak business organization: Kadin-UKM, which should represent small business interests. Such initiatives were a direct reaction to the disappointment of small business entrepreneurs concerning the new accreditation-certification rules, allowing enterprises e.g. to tender for government projects. They were particularly disappointed about the role of Kadin in the process of establishing these new rules. They felt that Kadin had not paid attention to their demands concerning this important issue. One of the main complaints was that under the new rules the possibilities for small companies to obtain a certificate were reduced due to the high costs.

The initiatives to set up Kadin-UKM led to reactions from the President of Kadin, Aburizal Bakrie, who pointed out that according to Law No. 1/1987, Kadin is the only peak business organization that is formally accepted. Establishing a new organization for small businesses only, especially when using the name Kadin, would therefore be illegal. Also, other high Kadin officials like Datubara, representing Kadinda-DKI, were strongly opposed against the initiatives of Tobing and his supporters. Datubara pointed out that, within Kadin there were several other channels (such as the various conferences organized by Kadin) through which small companies could express their views.

The conflict between Tobing and his supporters versus the Kadin leadership was finally brought to court. The court decided that Tobing had to stop his initiatives, as it supported Aburizal Bakrie’s claim that Kadin was the only formally accepted peak business organization and the only organization that could use the name Kadin. Notwithstanding this defeat, dissatisfaction among small business entrepreneurs with respect to Kadin’s role in representing their interests continued and is still fairly strong, although it is not always expressed openly.

### 4.7 Conclusions

This chapter has discussed Kadin as the peak organization representing the interests of the Indonesian business sector. In particular, we have focused on discussing to what extent Kadin can play a significant role as the peak business organization by influencing policymaking decisions. The theoretical framework

---

228 See Chapter 6 of this thesis for a case study of these rules and the role of Kadin in shaping and implementing these rules.
229 Based on several discussions with small business entrepreneurs at Kadin meetings in Hotel Indonesia (2003).
230 Chapter 6 will discuss the issue of the new accreditation-certification rules in more detail.
231 Based on an interview with Datubara, 30 July 2003.
presented in Chapter 2 states that an effective business representation depends on the legitimacy, credibility and institutionalization of a business association vis-à-vis the state and society. This chapter has discussed all three aspects.

With respect to the legitimacy of Kadin, the discussion focused on the establishment of Law No. 1/1987, which formally recognized the institution as the peak business representation. As the discussion in Section 4.4 shows, although this law formalized Kadin’s role in state-business relations, it did not do much for its influence on state policy concerning issues related to business practice. To some extent, the law even seemed to have reduced Kadin’s position vis-à-vis the state and the business community, as it stipulated that Kadin should now also represent interests of state-owned enterprises and cooperatives.

When it comes to the institutionalization of Kadin’s channels and the mechanisms it uses to represent business interests, the discussion in Section 4.5 showed that the nature of these channels have changed over time. In the past, a major channel of representation was its relationship with Golkar, the most important political party during the Soeharto regime. Moreover, Kadin had direct access to the People’s Consultative Assembly through its seat in the Utusan Golongan Ekonomi. After 1998, these channels became less effective, because Golkar’s role in parliament had been reduced, while at the same time Kadin lost its seat in the Utusan Golongan Ekonomi. At the same time, however, the political reforms and the related process of democratization after 1998 have opened up possibilities for Kadin to be actively involved in policymaking forums and to have direct discussions with ministries on policy decisions. Moreover, over the past few years the Kadin leadership has had intensive contacts with the President, discussing economic development and policy issues. It must be acknowledged, however, that after 1998 this direct link with the President became less important when it comes to influencing policymaking, simply because nowadays the President is far less influential than Soeharto used to be. Finally, Kadin increasingly used the media to increase its role in influencing policymaking. The possibility of using the media for this purpose is a direct consequence of the political reforms after 1998, one of which was the increasing freedom of press.

The discussion in Section 4.6 showed that since its establishment, Kadin has been faced with several internal conflicts of interest and power struggles. These conflicts of interest have made Kadin’s role as peak business organization a difficult one. The Indonesian business sector was characterized by the fragmentation of interests, i.e. different parts or segments of the business sector at the national level had different interests. Because so many different groups of businesses need to be represented by Kadin, it turned out to be very difficult to satisfy all demands from all these different groups. This affected the organization’s credibility, both among its own members (e.g. the conflict of interest between the small and large business entrepreneurs) and with the
government (e.g. the conflict between the business associations and the Kadinda). This fragmentation of the Indonesian business sector made Kadin less effective when trying to represent the interests of the business sector vis-à-vis the state and society.

In Chapters 5 to 7, where we discuss three case studies of economic policymaking and the role of Kadin in forming these policies, we will further explore the role of its legitimacy, institutionalization, and credibility. The three case studies aim at showing that the effectiveness of Kadin’s interventions depends on specific conditions under which the policymaking process takes place. The discussion of the case studies reveals the nature of these conditions, establishing to what extent Kadin was or was not effective after the reformasi. The analysis of the three case studies 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.