Business Relations in Democratizing Indonesia

Ignatius Ismanto1
1University of Pelita Harapan, Karawaci-Tangerang

Keywords: Government, Business Relations and Inequality

Abstract: The economic crisis in 1997 is regarded as a blessing in disguise. The Liberal economists believe that the crisis is a momentum in promoting market-oriented economic policy, as a necessary basis for the economic recovery. The economic crisis, therefore, has revamped dirigisme economy that had been grown quite strong in a long period of time. A series of economic liberalization (trade and investment) has been adopted, and caused a deepening economic integration of Indonesia into the wider economic system (regional and global). One thing that is important to note that the economic crisis has also brought a widespread impact on political changes. Since 1998 Indonesia has undergone a dramatic political changes. However, the political change has been increasingly characterized by the tendency of the rise of oligarchy (Robison & Vedi R. Hadiz, 2004). Access to political power becomes an important issue in business relations. Ironically, the political changes are not supported by improving transparency in economic policy. Rent-seeking activities have increasingly institutionalized amidst the changing Indonesia's economy. In fact, rent-seeking activities has become increasingly vulnerable to abuse of power practices. Widespread corruption will increasingly worsen the problems of economic inequality in the midst of economic and political changes in Indonesia.

1 INTRODUCTION

Before the economic crisis in 1997, Indonesia experienced a relatively high and continuous economic growth that lasted for quite a while. This growth followed by a significant capital accumulation and the increasing strength of national capital within a short period of time. Despite of this rosy picture, substantial economic growth was not the panacea to overcome the challenges of poverty and economic disparity. The birth of big national businessmen was made possible by the role and support provided by the government economic intervention. Economic dirigisme opened the opportunity for the rent-seeking activities. Relationships between businesses and the state power holders, or authorities who distribute 'rent', became an important factor for capital development. Dramatic economic progress that followed Indonesian capitalism resurgence was made possible by political stability and lasting authoritarian regime.

1997 economic crisis brought wide impact to the economic and political landscape. The crisis pushed economic liberalization and deepen economic integration of Indonesia into the global economic system. The economic changes further demanded transparency in economic management, including the curbing of rent seeking activities. Furthermore, political changes in 1998 ended the New Order authoritarian regime and galvanized democratization process. Nonetheless, the dramatic political changes did not trigger significant departure toward economic transparency. Rent seeking activities spreads out of control. In the new Indonesian economic system, the rent seeking activities create opportunities for authorities who abuse power. This article analyses: (i) why rent seeking activities that become the signature of business relations has remained in the midst of political changes since 1998, (ii) the challenges for economic development from rent seeking activities, especially in fighting social-economic inequality.

2 LITERATURE REVIEW

Business and government relation has been special topic in Indonesian politics following the
country’s changing economy. Many scholars examine on the development of capital by emphasizing different questions, such as: why and how is the role of the government in facilitating the process of accumulation, how is the characteristics of business and politics relations, how economic and political change affects the relation of business and government, why the development of capital is so vulnerable to corruption for the country in promoting democracy. They also develop different approaches in analyzing the changing of polices and economy in Indonesia. There are two different approaches: the modernization-functional approach and structural-Marxism approach. Modernization-functional approach assumes that development of economy is a pivotal instrument in promoting democracy. Conversely, structural-Marxism approach is pessimistic that integration of Indonesia’s economy into the global economy (development of economy) would bring to democracy.

Most important issue of those studies examine the important role of the government (state) in the development of capital. The state played significant role to the emerge of big companies in Indonesia (Robinson, 2008; MacIntyre, 1994). Another interesting issue of these studies also highlight that rent-seeking activities is important aspect to the development of capital. Rent seeking is not only the characteristics of the development of capital in Indonesia. Rent seeking is also important aspect of the development capital in most industrializing economy of East Asia. Rent seeking is adopted to promoting and protecting infant industries. Rent seeking, therefore, should be temporary along with the advanced of the economy. Jomo and Sundaram (2000) explained that rent seeking can be legal and illegal practises. Why state played dominant role in the development of economy and capital? According to modernization-functional approach, developing countries are ‘under-develop society’ in social, economy and politics. The under-development of developing countries roots as internal problems. States in most developing countries should play as an “agent of social change” or as an “agent of development”. States in developing countries are also responsible to development of nation-building. The development of economy is a necessary condition or prerequisite to development of democracy. Conversely, structural-Marxism approach has different assumption in understanding the under-development of developing countries or the Third World countries. Under-development roots as external problems. What does it mean with external problem? The external problem in this case relates to global system that is conflictual and exploitative. The under-development of developing countries was caused by their historical experience, colonialism. Colonialism was responsible to the under-development of developing countries. The development of economy that promoting integration of developing economy in global would only bring the Third World into “under-development”. Why state plays dominant role in development of economy according to structural-Marxism has different argument with Modernization-functional one.

According to Structural-Marxism, state played a significant role in the development of economy because state is the only dominant social forces in the society. Hamzah Alawi promotes the concept of ‘autonomous state’ in describing states of developing countries in post colonialism. Robinson, the proponent of Structural-Marxism, explains the dominant state of Indonesia by examining the origine the New Order state. According to Robinson (1985, p: 300-3006), state was the only dominant social forces in the society because of (i) weakness of social classes, most imprtantly the absent of a powerful national bourgeoisie, (ii) the failure of the state in promoting import substitution industrialization, and the failure of social revolution. All of those factors left the state the only social dominant in Indonesian society. The role of state become so important in the economy following the increasing financial capacity, especially in 1970s and 1980s. But, the economic crisis, both in mid of 1980 and 1997, weakened the role of the state in the economy.

The development of economy sponsored by state has encourgaed the accumulation of capital and the emerge of big business. As Robinson (in Robinson, 1985, p: 323) stated that “those business groups which have flourished in Indonesia have so far benefited greatly from access to licenses, import monopolies, construction and supply contracts, credit, distributionships, and forestry concessions allocated by power center within the state apparatus. In this case, the state plays important role in distributing ‘rent’, by providing licenses, monopolies and concessions. Rent seeking, therefore, was strong characteristics in the development of capital. Another important aspect on the development of capital is how to get access of power to state apparatus. In this case, political link is important element in the relation of business and politics. Therefore, patrimonialism is strong characteristics of the development of capital in Indonesia.

How patrimonialism works in the development of capital? Robinson (1985, p: 123) argued that “the relationship between state and capital is, to a significant degree, a relationship between specific power groups and specifics companies where in the success or failure of individual companies is heavily
dependent upon access to political patronage”. How patrimonialism will survive along with the Indonesia’s liberalizing its economy in important issue of democracy. Modernization functionalist argues that patrimonialism can be a serious challenge of Indonesia in promoting its liberalizing economy. The country’s changing in the economy needs substantial changes in politics. How to promote transparency of the economy is pivotal agenda of democratization (MacIntyre, 1994a). Conversely, the structural-Marxism approach is pessimistic on the idea of economic liberalization. The basic idea is that globalization is process development of capitalism. The global economy that was characterized by global capitalism, according to structuralism-Marxism, is exploitative. Therefore, economic liberalization that encouraged Indonesian economy into global economy would be perilous.

Chalmers (1994, 1996) provided interesting analysis. The adoption of liberalizing economic policy as a response to economic crisis hit in 1980s and 1990s has encouraged internalization of capital. What is political implication of internalization of capital? Internationalization of capital has provided an opportunity for national companies to build international link with international capital. National companies that are able to build a global networking with international capital are more concerned on the important of transparency in the economy. They support liberalizing economy as important agenda in promoting democracy. Conversely, national companies that failed to have international link with global company seek protectionism. They refused to the idea of economic liberalization. The globalization of economy is serious threat to their economic interest. They promote economic protectionism as a response to the economic globalization.

Issue of democratization in Indonesia following the country’s changing economy gives concern on pro and cons of economic liberalization. Crisis of economy in 1997 has brought a widespread implication for the democratization. Indonesia has experienced a dramatic change in politics. But, such a dramatic change in politics has not brought a substantial democracy. Political parties and parliament have played pivotal role in politics. The institutions are the locus of power struggle. Whose interests are they representing - people or capital is a debatable issue. Mitzner (2013) states that most of political parties have substantial problem in financing their own, internal activities. Lack of party’s financial capability, fierce of political competition for power and high cost of power struggle have encouraged capitalists entering to politics. Political reform has provided “the old capitalist” to influence the process of consolidated democracy. Who are the old capitalist, and why they are interesting entering into politics? The old capitalists are the rich people who were born during authoritarian regime. They benefited from protectionism provided by state apparatus. They are interesting in politics to secure its economic interests. The dramatic political change has generated oligarchy in Indonesia’s politics (Robison and Hadiz, 2004). Oligarchy does not only undermine the problem of social equity, but also weaken democratization.

3 AUTHORITARIANISM, CAPITALISM AND DEMOCRACY

Richard Robinson adopts the concept of “state capitalism” in depicting economic revival in Indonesia. Often used to provide economic situation in some Eastern Asian countries along with their economic changes. What is the meaning of state capitalism? In general, state capitalism means economic orchestrated by the states’ huge role and intervention. The idea to build state capitalism has flourished since the beginning of independence. Nationalization of foreign businesses in 1950’s, for instance, strengthened the state capitalism idea. Even so, during Soekarno’s regime, state capitalism went through difficulties (read: bankruptcy), especially caused by the limitation of state finances. The change of regime from Soekarno to Soeharto did not eliminates the state capitalism idea. The very revival of it during Soeharto New Order regime was caused possibly by the stronger state financial capacity, especially obtained through oil and gas production since 1970’s to the mid 80’s.

State capitalism revival, thus, was distinct from the revival of capitalism in the Western Europe in the mid centuries. European capitalism developed along with the pressure to limit government role and intervention in economic activities. On the contrary, state capitalism revival in Indonesia, was allowed in line with the increase of government role and intervention in the economic development. (Haireij, 2006) explained the government role and intervention in capitalism building not only in (i) investment financing, especially toward sectors or industries considered as strategic by the state, but also in (ii) pushing the growth of national capital strength. In the third world, countries tend to play an important role in developing their economy. State as the agent of development. Industries that are considered strategic received economic support by the state. Furthermore, state also plays a dominant...
role in pushing for social changes. State dominant role is often linked with the feature of post-colonial third world states. Long colonial history in Indonesia did not produce strong capital ownership such as land owners or big traders. Colonialism only left small farmers and traders. Big companies that become the source of economic strength are controlled by foreign power. Post-colonial state, thus, became the only dominant social power.

One of an interesting aspect from the capitalist system that has not yet developed is the characteristically relative autonomy of state. The meaning of autonomic state here is a country with ability to formulate and materialize its national interest without facing meaningful challenges from developing social forces in the society. State’s dominant role and intervention in economic development is strongly influenced by the social context. Even so, state autonomy is not a static concept. State autonomy seems like an authoritarian state. Capitalistic economic development in some East Asian countries is characterized by the existence of authoritarian regime. Why the authoritarian regime tends to follow state capitalistic development? First is to ensure foreign investment that is needed for country to finance strategic sectors and industries. Second, the authoritarian regime existence is necessary to prevent social revolutions, a potential caused by the difficult choice between growth and economic disparity. Yet, the authoritarian regime only last temporarily. The transition from the authoritarian regime towards democracy is believed to occur along with the economic advancement where growth has been followed by the lessening of economic disparity.

### 4 RENT SEEKING ACTIVITIES

During the Soeharto New Order regime, Indonesia experienced impressive economic shift. It marked by relative high growth, average on 6 – 7% per year, maintained for a long period of time. The World Bank (1993) positioned Indonesia as one of a country in the East Asia region to experience economic miracle. The understanding of the economic miracle is the phenomenon where economic growth is followed by the improvement of socio-economic inequality. Yet, why is the miraculous economic development was not immediately followed by political change toward democratization? The wave of democratization did occur in the mid of 1980’s in the form of pressure to push for economic management transparency along with the economic difficulty faced by Indonesia. But it was a wave easily shut. The economic growth and advancement served as the source of legitimacy for the continual of the authoritarian regime. The idea that the present of an authoritarian regime that was thought to last temporarily, only persist to remain for a long period of time. Economic crisis in 1997 was a determining factor to end the New Order Soeharto regime. The crisis weakened the legitimacy for the very regime to push the rising of social powers to end it. It raises the question why economic advancement in Indonesia was unable to promote democratization process?

Relative high economic development sustained for a relative long period has been followed by a substantial capital accumulation process. In a short period of time, the economic development has enabled the birth of national capital power. Big national businesses (similar to Keiretzu in Japan or Choebol in South Korea) was most likely caused by government intervention. And the birth of big capital power in the 1970 – 1980s reminds the phenomenal birth of businesses during the Benteng Program in the 1950s. Pushing for the growth of national capital power has been a growing obsession since Indonesian independence. The idea to end foreign power dominion in national economy through building strong national capital is the feature of economic nationalistic sentiment. It is only possible that the anti-foreign domination in national economy and political interest to protect national economy remains vulnerable for exploitation in the midst of globalization era today. Supported by state’s financial ability, especially motivated by the overabundance of oil in the 1970 – 80s, New Order government has the ability to allocate big funding to finance projects or industries considered has strategic importance. The development of state financial ability also re-strengthen the state economic role and intervention. The national capital power came from a series of economic policy that meant to protect new sectors and industries.

Capital growth in Indonesia is often linked to the strengthening of rent seeking activities. What is rent seeking activities? How does rent seeking encourage the capital accumulation process? “Rent” in this understanding can be seen as income gained by someone, in which the income is considered beyond appropriateness. In relation to that, “rent” is a tempting income and thus everyone desire to gain or keep it. The effort to fight for or maintain the rent is called rent seeking activities. (Khan & Kwame, 2000) identifies rent sources: (i) new innovation, (ii) economic protection policy to protect newly developing industries, (iii) illegal practices such as: drug transactions, money laundering, to human trafficking. With this understanding, rent seeking activities can be both legal or illegal. New innovation, for instance, is a legal rent source. An
interesting part of the rent sources in this article is related to protection policy given by the government to protect new industries. Import license issued by the government can also be a lucrative income source for the license holder. Yet, the awarding of license always requires transparent economic management support. Economic protection can only be correct if the purpose is to protect newly developed industries. Economic protection for developed sectors or industries only will discriminate other economic practitioners, promotes moral hazard that costly to the general public. With that, providing protection requires the consideration of the level of maturity in the industry. From the political dimension, the issuance of licenses can promote moral hazard. Many regulations, including giving licenses without support of political transparency involves a high risk of abuse of power.

Rent seeking activities will be able to stay in a long period of time, especially in protectionist economic situation. The irony is, the rent seeking activities tend to institutionalized in the midst of Indonesian economic changes that is becoming more open. In a more liberalized economy, many regulations and protections given by the government— that allows for space for rent seeking activities is opening opportunities for corruption. Even since political reformation in 1998, rent seeking activities is still rampant. Many corruption cases related to rent seeking activities has been a part of Indonesian political development. To the rent seekers (read: businessmen) having political connection with state bureaucrats is an important aspect. State (through its bureaucrats) has the power to distribute ‘rent.’ Government officers has the authority to set regulations, to allocate subsidies and provides monopoly facilities, such as: export license, import license to business people. Relations between businessmen and authorities often is seen as patron-client relations. In this pattern of patron-client, patron is seen as the representative of government officers who has the power to create regulations. While client represents the business world. The patron-client relations is benefiting each other (mutualism-simbiosis), where patron has the interest to provide protection to client by setting the regulation. While client is interested in giving support and loyalty as a form of reward to the patron from the protection given.

5 Oligarchy Capitalism

Yoshihara Kunio (1990) uses ersatz capitalism to give a picture of capitalism development in Southeast Asia. The fake capitalism is seen to produce non-independent capitalists, that heavily rely on the government protection to survive. Non-independent capitalists also identic with business people who cannot compete in the global economy. Furthermore, non-independent capitalists cannot be expected to be an agent of social change, to promote democracy to end the authoritarian system.Fake capitalism is contrary to a thesis by Moore that says “no bourgeoisie, no democracy”. The thesis shows how important is the role of capital owner in pushing for change. Capitalism revival in Europe has an important role to push for change, that is to end the monarchical system. On the contrary, fake capitalism only produces what Richard Robinson calls as “the New Richmen” who are afraid of change.

Neo-Marxist approach pays a significant attention, especially in seeing capital-state relations to the third-world economic development. In the development of state capitalism, state usually has relatively strong autonomy, including in facing big domestic capitals, as well as taming the international capital powers. Yet, state and capital relations featured by state role domination is dynamic, along with the domestic capital power revival. Furthermore, it is not impossible that country can be an instrument for capital powers to compete. Economic crisis in Indonesia in the mid-1980s and 1997 is an interesting phenomenon in understanding state-capital relations. Both of the crises has weakened the role of state in the economy. Economic liberalization to overcome the economic crisis has been followed by the process of capital internationalization, that enabled domestic capital powers to build network with international capital powers. Domestic capital power who are able to build this important network obviously will have different interest than those who failed to do so.

Domestic capital powers who built network with international capital powers adopt the “economic liberalization” agenda to support their economic interest. They tend to demand transparency in economic management. Thus, they are less likely to rely on old ways in capital development, such as political connection and patron client in their business relations. While the businesses that failed to build the network with international capital powers will be strongly against economic liberalization. They rely on their old ways, that is protectionist economic policies to protect their economic interest. The competing interest of these economic powers has influence political changes in Indonesia since 1998. The state has become the arena for competing capital powers’ interests.

Political reformation developing since 1998 has pushed for dramatic political change. This change ended hegemonic party system and promotes the
progress of very competitive multi-party system. Political party developed into important political institution to gain power. Political party is not only play an important role in the parliamentary membership recruitment process, but also in direct presidential election. Parliament developed to become the competition for power. Political powers in the parliament resulted from election process followed by many parties truly reflects the highly fragmented politics post the New Order regime. Political changes has pushed for political competition to become more potent and consequently has driven the cost high (Saputra, 2018). Several interesting political phenomena to observe. First, the increasingly cut-throat political party competition caused difficulties in financing political activities. Financial strain in parties drove them to seek funding through illegal measures (Mietzner, 2013). Second, political change follows by high political cost has pushed capitalistic interest in Indonesian politics.

The idea to strengthen presidential democracy followed by multi-party system has brought along several challenges. Direct presidential election followed by many party system has resulted in minority government. The minority government in this context is president who reached the absolute vote in presidential election, yet the elected president does not have strong political support in the parliament. Since 2004, government led by Susilo Bambang Yudhoyono to Joko Widodo are minority government. This type of government opens space for the development of political coalition. The shaping of cabinet is often pursued by calculating political powers in the parliament. Political coalition in the midst of high political fragmentation tend to become political compromise vulnerable to transactional politics. Political reformation since the fall of the New Order regime has become a fertile ground for capital power to influence political changes. (Robison & Vedi R. Hadiz, 2004) named political development in Indonesia after the New Order as oligarchic capitalism.

6 SOCIAL DISPARITY AND CIVIL SOCIETY

Economic crisis occurred in the mid 1980’s has indeed opened opportunity for political change. Democratization demand in the mid 1980’s has flourished alongside the economic changes followed by the weakening role of government in the economy. Demand for democratization is mostly focused on the pressure toward the importance of transparency in economic management. From the theme, political demand has reflected more of the economic interest of the capital power, especially those who created network with international capital power. They are able to detect the importance of the state to control rent seeking activities alongside Indonesian economic changes. Democratization demand is more elitist since it only becomes the attention of intellectuals (higher education) and less interest in the general public. The demand for democratization is viewed over premature and thus easily controlled by the New Order authoritarian regime. On the other hand, the demand for democratization pushed the New Order authoritarian regime to consolidate the powers growing in the community.

Mochtar Mas’oed (1987) explains the concept of state corporatism and societal corporatism in understanding the mechanism of organizing developing interests in the general public. State corporatism is a model to organize public interests that grew in authoritarian political system. In this system, the existence and continuation of organization or public powers are very much determined by the state. In pursuing interest, they are being demanded to obey the rules made by the government. While societal corporation is the existence of organization or public powers that has more relative autonomy. Bargaining is an important aspect for the continuation of the public powers. They are not easily intervened by the government. In the authoritarian political system, repressive and co-optative ways became common mechanism to organize public powers. Thus, the role of civil organization or public powers in authoritarian political system are hardly be expected to serve as an effective platform to fight for members’ interests. On the contrary, civil organizations has become a tool for state to control the society. (MacIntyre, 1994) argues that ‘corporation has been a central feature of political life throughout the New Order period serving as a guiding principle for government efforts to organize and control political representation.’ Organization of public powers can be inclusionary or exclusionary. It can be a strategy to divide and rule. A long standing state corporatism is one reason to influence weak and fragmented society.

The end of the New Order authoritarian regime has weakened state corporatism, and thus it opened a wide space for the rise of growing public powers known as the civil society. Civil society is an element that receives less attention in the democratization process in Indonesia. The political change in the New Order since 1998 is seen with significant improvement, especially in promoting democracy institutionalization. Some important
political changes that has been achieved so far, such as: military reform, that emphasized more on the civil supremacy over military, multi-party system, decentralized government system, direct presidential election, bicameral system institutionalization in the legislative body, to press freedom. Viewed from the electoral democracy institutionalization, the political change since 1998 has brought Indonesia to become a big democratic country in the world. But, the dramatic political change has not been able to answer the challenge that deliver social justice. Corruption practices remains everywhere with the implementation of decentralization. Poverty issues continues to be worsen by economic crisis of 1997 and remains as a serious challenge in the midst of economic recovery in Indonesia. Even the growing political reformation to end the New Order authoritarian regime has been stabbed by the old powers (Robison & Vedi R. Hadiz, 2004). The revival of oligarchy capitalism is a serious challenge for the strengthening of civil society, as a necessary element to build substantial democracy in Indonesia.

The entry of capital power in Indonesian politics alongside with the strengthening of electoral democracy institutionalization is an interesting phenomenon. Winters (2011) offers a different perspective in understanding the strengthening of political oligarchy post the New Order. This approach based on the assumption that unequal distribution of wealth is a determining factor for inequality of power distribution. The wider the gap of material wealth distribution, the bigger the power and influence of the wealthy in their political motives and purposes. The involvement of capital power in Indonesian political changes post the New Order can be seen as a strategy to secure business and affluent survival. While in the New Order regime, business and political pattern in capital development is more characterized by patron-client relations. The fall of Soeharto New Order regime, thus, has ended the patrimonialistic business relations. The involvement of capital power in the political arena as seen in the business world involving in the practical political activities such as: becoming political party administrators, involved in the candidacy of parliament members to district election – viewed as a strategy to maintain wealth. In the oligarchy political system, material source is an important factor to achieve influence and power. Ironically, capitalism built by oligarchy will not bring meaningful influence in ending economic disparity.

REFERENCES


