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Corruption, collusion and nepotism after Suharto: Indonesia's past or future?

When the Asian economic crisis struck Indonesia in 1997 it was generally thought to signal the end of a system of power defined by the corrupt and collusive relationships of KKN (*Korupsi, Kolusi dan Nepotisme*). Surely the days of the crony were over, and their corporate empires would be taken over by large international investors.

Richard Robison

Indeed, the future looked bleak for Indonesia's large conglomerates, consumed by unsustainable debts and last-ditch struggles to keep their assets from creditors. Nor was Indonesia in any position to resist the stringent IMF conditions for rescue.¹ Suharto's demise in May 1998 unravelled the regime that had provided the framework for the highly organised system of KKN and triggered a series of political and administrative reforms that would not only transform Indonesia into a formal democracy but shift administrative authority to the provinces and sub-provinces. Given the wave of popular opposition to corruption, a central feature of anti-Suharto politics, here, surely, was the opportunity for mass-based parties to form around the issue of clean and accountable government.

Dashed hopes

Yet, despite formal institutional reforms and efforts at building 'good governance', it was soon clear that there would be no unambiguous convergence to liberal markets and politics. The power relations that had previously defined Indonesia proved remarkably resilient, reconstituted within new administrative and political frameworks. Many of the same figures who had occupied centre stage under the Suharto regime remained pivotal players within the new power structures. Most of the old conglomerates survived, hanging onto assets, receiving government bailouts and rebuilding political relationships with the new political parties. Not only were attempts to prosecute the corruptors of the Suharto era ineffective, the whole mechanism of corruption and rent-seeking survived in a form that was, according to many neo-liberal observers, more corrosive and destructive because it was now more arbitrary and less structured.² No new reformist parties emerged. Instead, reformers were absorbed into the old parties, which became machines to capture and distribute resources, colonised by an army of opportunists, fixers and stand-over men. They were democratic to the extent that old arenas of patronage were now open to a wider assembly of individuals.³

Are we witnessing in Indonesia a period of 'savage capitalism' as private interests are released to do battle in an unconstrained marketplace? After all, stock exchanges, corporations, parliaments and financial systems in the early years of market capitalism in Britain and the US were characterised by corruption and collusion of the grossest kind before being progressively, but not wholly (as the resurgence of cronyism in Bush's America illustrates), subordinated to a systematic rule of law.

Will the new economic and political entrepreneurs of Indonesia now be forced to address the costs of crony capitalism by creating the institutions to resolve their growing collective action dilemmas – including the provision of effective courts and an honest judiciary? Will new democratic institutions open the door to reformist forces? Or are we seeing the natural evolution of a capitalist society as administrative oligarchy collides with neo-liberal globalisation in the early 21st century? Other similar neo-patrimonial market hybrids have shown amazing resilience. The Philippines, for example, has been mired in oligarchic money politics for more than five decades despite deep immersion in global markets.

Since the crisis and the fall of Suharto optimism has waned. Even the World Bank has admitted the loneliness of reformist technocrats operating in an indifferent and hostile environment.⁴ The failures of two presidents to drive reform suggest that defeat and humiliation (in the case of Wahid) or co-option and complicity (in the case of Megawati) are the only possible outcomes when dealing with powerful entrenched interests. But this view is balanced by arguments that reform is a long road, that the growing pressure of global markets will ultimately open the way for a triumph of technocratic rule and that liberated civil society will generate growing popular authority over state institutions.⁵

The logic of the machine

For many neo-liberal observers, including those within the IMF, the Asian crisis demonstrated the consequences of trying to resist the inexorable logic and discipline of global capital markets. The

lesson was that Thomas Friedman's anonymous and leaderless herds of fund managers and global investors would panic when they perceived the transgression of the rules of the marketplace.⁶ According to this view, enjoying the benefits of global markets requires governments to accept the fundamentals of good macro-economic policy and promote 'good governance', and that corporate defaulters repay their debts and repair their reputations if they are to be accepted again into the global marketplace.

But is reform in Indonesia really being enforced by the discipline of global markets? Huge inflows of foreign direct investment and other forms of financial capital into Southeast Asia before the crisis, made with the full knowledge that corruption and rent-seeking were central to the whole process of investment, suggest that global markets and at least certain forms of KKN can co-exist where investors calculate (incorrectly in the 1990s as it turned out) that levels of profits and promised political guarantees will offset the risks. The slow recovery of foreign investment in Indonesia after the crisis may be the consequence of perceived instability and uncertainty in the organisation of KKN rather than the fact of its continued existence. While global investors have been frightened by the difficulties of dealing with defaulters and by the way commercial courts and well-connected conglomerates have colluded to avoid debt and bankruptcy, the evidence suggests that they are prepared to engage with former defaulters where new opportunities seem to outweigh risks, especially in well-subscribed floats on the Jakarta Stock Exchange.⁷

We must also rethink the nature of those global markets that determine the flow of investment and finance into Indonesia and to extent to which they are now dominated by pools of finance located overseas by the very conglomerates that fled the rupiah in 1997, often with funds they had plundered from their own expiring banks, and for whom KKN is a normal and, indeed, necessary condition for commercial success. We must also assess whether the rise of China as a new market and source of investment for Indonesia implies rules of the mar-

ketplace quite different from those neo-liberal principles assumed to be universal and immutable.

The reforming power of institutions?

Many policy makers argue that the behaviour of individuals can be altered by constructing institutions that provide different incentives and constraints on choice. A key feature of IMF conditions for financial bailout included the recapitalisation of banks and new banking regulations, the introduction of new bankruptcy and commercial courts, extended external auditing of government departments, the establishment of anti-corruption agencies, new administrative procedures and regulations to control procurement and tendering. State agencies that formerly allocated monopolies and contracts, such as Pertamina and Bulog, were broken up or their powers drastically altered.⁸ The laws of 1999 opened the door for a system of representative and decentralised parliamentary government where society would triumph over the state.

Yet, while predatory and rent-seeking coalitions can no longer organise their power in the old ways, they have been able to survive within the new institutional frameworks. Money politics has subsumed the new democratic political systems.⁹ New legal and judicial arrangements, banking regulations and environmental regulations are often ignored.¹⁰ The questions for policy-makers is not essentially about capacity or program design but about politics: Why are these institutional changes not undermining entrenched interests or strengthening reformist coalitions? How are the former still able to attract investment and finance from global markets and under what conditions? And what accommodations and alliances must entrenched interests now forge and how may these open the door to unintended changes?

A shift in power relations

It was widely expected that the fall of Suharto would release a progressive and reformist civil society from its long hibernation and transform reformist sentiments into political action through new democratic and decentralised institutions. However, 'civil society' proved

to be a highly complex and internally-divided entity where illiberal and predatory elements were also released and proved highly successful in shaping the post-Suharto state. At the same time, reformers found that entering politics meant being drawn into the world of money politics, where the scramble for rents was the main currency for survival and alliances with military and extra-legal organisations were critical for access to the resources of the black market economy.

Must we therefore conclude that the seismic political and institutional reforms and upheavals have provided no new effective avenues through which reformist forces might impose their interests? This apparently depressing reality has driven the search for reform and reformers into three different areas. For neo-liberals, the path to reform is in the relentless impact of global markets, institutional reforms and the glacial grinding away of reformist politicians and technocrats from above. On the other hand, many reformers outside the neo-liberal camp look outside the parliamentary arena to seek signs of real reform among NGOs and grass roots social movements. Others argue that the grip of predatory alliances upon electoral and party politics may be exaggerated and that these new systems do offer opportunities to throw out or prosecute corrupt or unpopular politicians and for aspiring politicians unconnected to the main parties or the military to gain entry into the world of politics in a way not possible before.¹¹

Indonesia provides a laboratory where we can observe the collision of markets with highly illiberal, populist and predatory systems of power. It poses the question of whether the reform process set the country on an inevitable course towards a grand liberal triumph of markets, democracy and 'good governance', or whether the market dynamic is a more sinister one that preserves or even generates new systems of highly illiberal, regulatory state authority. <

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Notes

1. See: 1998. *World Development* 26-8; 1998. *Cambridge Journal of Economics* 22. See also: McLeod, R. and R. Garnaut, eds. 1998. *East Asia in Crisis: From Being a Miracle to Needing One*. London, Routledge; Robison, Richard et al, eds. 2000. *Politics and Markets in the Wake of the Asian Economic Crisis*. London, Routledge.
2. McLeod, R. 2000. 'Suharto's Indonesia: A Better Class of Corruption'. *Agenda* 7-2.
3. Hadiz, Vedi. 2003. 'Reorganising Political Power in Indonesia: A Reconsideration of So-called 'Democratic Transitions'. *Pacific Review* 16-4.
4. World Bank. 13 October 2000. *Indonesia: Accelerating Recovery in Uncertain Times*, East Asian Poverty Reduction and Economic Management Unit.
5. See chapter one 'Theories of Change and the Case of Indonesia' in Robison, Richard and Vedi Hadiz. 2004. *Reorganising Power in Indonesia: The Politics of Oligarchy in an Age of Markets*. London: Routledge.
6. Camdessus, Michel. 8-9 December 1997. 'Asia Will Survive with Realistic Policies'. *Jakarta Post*; Friedman, Thomas. 30 September 1997. 'Quit the Whining, Globalisation Isn't a Choice'. *International Herald Tribune*.
7. Robison R. and V. Hadiz, op cit.
8. Hart, Hamilton, N. 2001. 'Anti-Corruption Strategies in Indonesia'. *Bulletin of Indonesian Economic Studies* 37-1; Robison and Hadiz, op cit; Lindsay, Tim and Howard Dick. 2002. *Corruption in Asia: Rethinking the Governance Paradigm*. Sydney, The Federation Press.
9. Hadiz, V. 2004. 'Decentralisation and Democracy: A Critique on Neo-Institutional Perspectives'. *Development and Change* 35-4.
10. See, for example, the studies in Resosudarmo, Budy P., ed. 2005. *The Politics and Economics of Indonesia's Natural Resources*, Singapore, ISEAS.
11. Budiman, Arief, Barbara Hatley and Damien Kingsbury, eds. 1999. *Reformasi, Crisis and Change in Indonesia*, Melbourne, Monash Asia Institute; Meizner, Marcus. 18-19 November 2005. 'New Systems, Old Elites: the Local Elections of 2005 and the Legacy of the New Order'. Paper presented at the Conference on the New Order and its Legacy, ANU.