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CONCEPTUALISING ‘SOCIAL FRAGMENTATION’

Social fragmentation may be characterised as a state of institutional and inter-relational breakdown. There are at least three explanations for its emergence:

- The first explanation derives from Durkheim’s (1893) observation that industrialisation brings about sudden social changes, leading to a breakdown of norms governing social interaction, a condition he referred to as anomie (Greek: ‘lawlessness’). Some subsequent theorists emphasise the increasing individualisation of late industrial society, as indicated, for example, by ‘social bonds [that] are dissolving or never forming’ (Anderson, 2001) or by the fragmented state of social institutions (Beck and Beck-Gernsheim, 2002).

- The second explanation takes issue with seeing industrialisation as the only cause of social fragmentation (see Lukes, 1977: 91). Instead, it is viewed as ‘the fallout from inequity within institutions, the state, civil society, and the household…. A lack of trust in society’s institutions tends to reinforce people’s desire to seek security within group, rather than within society, which in turn exacerbates a cycle of insecurity, social exclusion, and increased levels of conflict and violence’ (Narayan et al 2000:219-220).

- The third explanation interprets social fragmentation as a constant in human society, due to certain choices made by individuals in their interpersonal relations (see Orbell, Zeng and Mulford 1996:1018-1019).

THE ASIAN FINANCIAL CRISIS AND SOCIAL FRAGMENTATION IN INDONESIA

Clearly, social fragmentation in Indonesia is not the result of industrialisation, individualisation and social complexity, as imputed in the Durkheimian explanation. Nor is it simply a human condition, as claimed in the third explanation. Rather, as argued in the second explanation, social fragmentation in Indonesia is the result of social inequities, the failure of state and public institutions, and a loss of trust in such institutions.

The Asian financial crisis in 1997 led to a crisis of legitimacy, causing President Suharto to resign on 21 May 1998, after thirty-two years in office. The legitimacy of Suharto’s New Order had previously been founded on two key grounds—

No country was harder hit by the Asian crisis than Indonesia. According to data from the International Monetary Fund (1999: 3, 13, 18, 42):

- The Gross Domestic Product (GDP) in Indonesia dropped from a growth rate of 4.95 in 1997 to a negative growth of −13.7% in 1998.
- The market price for domestic rice rose from 1,013 rupiah per kilogram in March 1997 to 3,010 rupiah per kilogram in September 1998.
- The consumer price index based on percentage change from the previous year increased drastically from 6.6% in 1997 to 58% in 1998.
- The Indonesia rupiah depreciated strongly from Rp 2,396 to one US dollar in January 1997 to Rp 8,025 by December 1998 (with the lowest being Rp 14,900 to a dollar in June 1998).

‘By the end of 1998 it was estimated that nearly half of Indonesia’s private corporations were technically insolvent and a 1998 survey found that 24% of all small and medium enterprises had halted operations’ (World Bank 2000: 1). Total government debt rose from a pre-Crisis level of around 25 per cent of GDP to nearly 100 per cent of GDP (see IMF, 2002: 7). Figures reported by the Central Bureau of Statistics in Indonesia government estimate that the proportion of the population below the poverty line has risen to 40% from a pre-Crisis figure of 11.3%, with 15 million workers having lost their jobs (cited from Pincus and Ramli 1998: 1).

Once livelihoods were so seriously endangered, political stability disappeared and the government lost all remaining legitimacy. This resulted in widespread social fragmentation, which has taken the form of massive social unrest, riots, ethnic conflicts, separatist movements, as well as crime and interpersonal violence. Although the fragmentation was catalysed by the financial crisis, it is actually more deeply rooted in the institutional dysfunctionality brought about by Suharto’s ‘New Order’. Even before the Crisis, social fragmentation was already present but had been papered over by an authoritarian government that did not permit the expression of political difference.

The closed and authoritarian political system [of the New Order] suppressed protests before they could develop into uprisings or rebellions…. As a result, there is a mistaken conclusion that the New Order was effective in bringing about unity and one-ness among the people, while the era of reformation has brought disaster (Kompas, 23 March 2001).

In other words, the Asian financial crisis merely sparked off the eruption of long smouldering discontent.
STATE CAPTURE AS SYSTEMIC CORRUPTION

Prior to Suharto’s resignation, Transparency International’s 1998 Corruption Perception Index had placed Indonesia as 80th out of 85 countries (see Robertson-Snape, 1999: 589). In the thirty-two years of Suharto’s regime, corruption in Indonesia has been institutionalised with structures set up to enable the transfer of public funds for private gain; it is neither *ad hoc* nor piecemeal.

A broad definition of corruption is the ‘misuse of public office for private gain’ (Robertson-Snape, 1999: 589). Studies show that there are three broad varieties of corruption—petty corruption, grand corruption and state capture (see Schacter and Shah, 2001: 3). My focus in this paper is not the lesser forms of corruption, but on state capture as a process of systemic corruption that weakens state institutions, rendering them dysfunctional.

The concept of ‘state capture’ was originally developed in the context of Central Europe and the former Soviet Union, but is now extended in usage to other parts of the world. However, hardly anything has been written about state capture in Indonesia.

State capture is defined as ‘the actions of individuals, groups, or firms both in the public and private sectors to influence the formation of laws, regulations, decrees and other government policies to their own advantage as a result of the illicit and non-transparent provision of private benefits to public officials.’… State capture takes many forms. At one end of the range, a single individual or family may exert control over both state and economy. Other forms include the development of oligarchies with a quasi-feudal structure of dependents, or a complex range of networks with more equal and reciprocal relations (Sutch and Philip, 2001).

In state capture, economic and political power is fused, with complex networks of elite interests colonising the interface between public and private spheres. Such networks are usually made up of ruling politicians and their family members, cronies, business people, civil servants, the police and the military. State capture differs from lesser forms of corruption in its systemic subversion of the very structure of the state. Consequently, laws and institutions themselves become the product of corrupt transactions (see Sutch and Philip, 2001).

State capture is the root cause of the social fragmentation that has occurred in Indonesia. The process that has brought this about is the systemic hollowing out and weakening of state institutions as a corollary of state capture. The result is widespread cynicism and distrust of the state and its institutions. This leads to social fragmentation, as the majority of people come to despair of their ability either to succeed in the corrupt mainstream or to reform it. In this context, the reduction of their interactions to smaller trusted groups appears as an
appropriate option. The multiplication of this process across the country generates nation-wide social fragmentation, with separatist movements as an extreme manifestation.

During the New Order, Suharto, his family and his cronies effected state capture through the pervasive control of state and economy. In post-Suharto Indonesia, state capture has not disappeared but has evolved into multiple oligarchies with their ramifying networks of dependents. In other words, the state is still being captured, though there are now competing élites involved in this process. Meanwhile, state institutions remain dysfunctional, leading to public cynicism that such institutions continue to function not as impartial public bodies, but as agencies for the consolidation of élite power.

Prior to the Asian financial crisis of 1997 and the subsequent fall of Suharto, the World Bank itself had tolerated corruption in Indonesia, believing that the economic growth generated by Suharto’s regime outweighed any leakages from graft. As a result, the World Bank lent US$25 billion to Suharto’s government over a period of 32 years, without asking too many questions. Hadi Soesastro, executive director of the Centre for Strategic & International Studies in Jakarta, opines that because Suharto was able to service the country’s loans on time, the World Bank was willing to develop a symbiotic relationship with him (see BusinessWeek Online, 17 April 2000).

Given the erstwhile support of the World Bank for Suharto, it is significant that nothing seems to have been written about state capture in Indonesia, because the current literature on ‘state capture’ is coming out mainly from the World Bank. It remains to be seen whether the World Bank itself is capable of institutional reflection on its previous support of state capture by Suharto and his family, on the premise that growth justified all.

A SUBVERTED DEVELOPMENTALIST STATE

Like other countries in Southeast Asia (especially Thailand and Malaysia), Indonesia has been dominated by a particular regime of accumulation that may be broadly identified as ‘developmentalist’. Southeast Asian developmentalism is characterised by a deep form of ‘nomenklatura capitalism’, where the management and control of business groups are closely intertwined with the state and party apparatus (see Wee and Jayasuriya, 2002). I argue that in Indonesia, this close intertwining amounts to a subversion of the developmentalist regime by élite interests.

A key component of Indonesian developmentalism, as in Thailand and Malaysia, has been its reliance on Foreign Direct Investment (FDI).

For years, Indonesia’s corruption was the kind of petty-favour buying and commission giving commonly found in the developing
world…. [But] Indonesia’s position as an up-and-coming star performer in the Asian economic miracle…brought a cascade of funds pouring into businesses and real estate. The World Bank estimates that between 1988 and 1996, Indonesia received more than $130 billion in foreign investment (Colmey and Liebhold, 1999).

This provided an opportunity for élite interests to capture a significant proportion of foreign funds. For example, a World Bank internal report estimated that ‘at least 20-30 percent of GOI (Government of Indonesia) development budget funds are diverted through informal payments to GOI staff and politicians, and there is no basis to claim a smaller “leakage” for Bank projects as our controls have little practical effect on the methods generally used’ (cited from Aslam, 1999).

Because of this subversion of the development process during Suharto’s regime, Indonesia has been slower to recover from the Asian financial crisis than other countries in the region. As noted by Mark Baird, World Bank Country Director for Indonesia, it has had a tougher time than the others in winning back investor confidence and attracting new foreign capital (see The New York Times, 28 August 2002).

The International Monetary Fund (2002: 3) confirms that ‘Indonesia’s recovery from the crisis has been weaker than that of other countries in the region. The principal factor behind the lagging macroeconomic performance has been the failure…to sufficiently accelerate reforms in key areas such as bank and corporate restructuring and judicial reform.’

Some indicators even show that the situation worsened in 2001. For example, after the sharp fall in 1999 to under 5 percent, the inflation rate moved steadily upwards, peaking at around 14 percent in mid-2001 and easing to 12-13 percent since then. Moreover, there was a steep depreciation of the rupiah through early 2001 from Rp 7,000 per dollar in early 2000 to a post-Crisis low of Rp 12,000 per dollar in April 2001. The rupiah has since recovered to less than Rp 10,000, but it remains about 40 percent below its exchange rate in early 2000 (see IMF, 2002: 5).

Some economists estimate that ‘close to half the working age population is unemployed or underemployed’ (Far Eastern Economic Review, 1 August 2002). The World Bank (2000: 2) observes that unemployment and underemployment will increase for some populations as the corporate and bank-restructuring programme gets seriously under way.

The World Bank (2002: 3) identifies ‘Indonesia’s weak institutional structure’ as the main reason for the continuing severity of its crisis. This, in turn, is the outcome of ‘corruption [that] has proven to be more severe and more firmly embedded in Indonesia than anticipated’ (World Bank 2000: 1). As I have argued, the severity and embeddedness of corruption in Indonesia is of the
magnitude of state capture—a situation which allows the same élites who have captured the state also to capture development funds, government funds, bank loans, and other resources. The prolonged crisis is due to the subversion of the recovery process, as a consequence of the subversion of the development process during Suharto’s New Order.

Examples of how the development agenda was subverted may be found in the ‘Growth Triangle’—a three-country economic sub-region comprising Singapore, Johor in Malaysia, and Riau in Indonesia. The aim of the ‘Growth Triangle’ is to forge a trans-national symbiosis based on the complementarity of economic difference. The key relationship in the ‘Growth Triangle’ is between resource-poor but capital-rich Singapore and resource-rich but capital-poor Riau. In this relationship, resources from Riau flow out (including fresh water, oil, bauxite, tin and timber) and capital from Singapore flows in, not to the people of Riau but to specific élite interests (see Wee and Chou, 1997; Chou and Wee, 2002).

My field research indicates that almost every large-scale development project in Riau has a Suharto family member or crony involved in it. This is still the case despite the fall of Suharto in 1998. During Suharto’s time, development projects were identified with the member of the élite who was the chief beneficiary—e.g. Bob Hasan’s project, Tutut’s project, Liem Sioe Liong’s project, and so on. (Mohamed ‘Bob’ Hasan is Suharto’s golf partner, Tutut is Suharto’s daughter, and Liem Sioe Liong is Suharto’s old friend.)

During his Presidency, Suharto himself was actively involved in seeking foreign partners for his relatives and cronies. For example, my research in 1987 on a golf resort on the island of Batam revealed that during the funeral of Emperor Hirohito, Suharto had sought the help of the Japanese government in finding a Japanese investor for his cousin in developing this resort. In such deals, the understanding was that the foreign investor would provide all the necessary capital, while the Indonesian partner (in the form of a Suharto family member or crony) would facilitate all the local arrangements, such as resettlement, compensation, labour recruitment and infrastructure development. But in these cases, foreign investors would often find that despite their investments, local services were not satisfactorily carried out—for example, compensation to resettled villagers or infrastructure development. Instead, the Suharto-related partners would simply pocket a large part of the investments as ‘rent’. At the same time, because of their relationship to Suharto, it was difficult for foreign investors to complain about such rent-seeking behaviour or to seek redress.

This pattern was duplicated nation-wide, particularly in the resource-rich provinces, such as Aceh, East Kalimantan and West Papua (see, for example, Aditjondro 1998). It is more than coincidental that these are also the sites of separatist movements. It has been estimated that in the thirty-two years of Suharto’s rule, US$73 billion in revenues and assets passed through his family’s hands (see Colmey and Liebhard, 1999).
Has this situation changed after the fall of Suharto in May 1998? Yes and no. The answer is ‘yes’ in that there are now new players in the game. Instead of a President Suharto sallying forth as the international salesman of his family members and cronies, there are now multiple marketeers approaching foreign investors. For example, in the case of the ‘Growth Triangle’, the Singapore government has been variously approached for investments by the governor of Riau Province, the head of the District of the Riau Archipelago, the mayor of Batam and the head of the Sub-District of Tanjungbalai Karimun. It is, however, questionable whether any of these would-be partners of foreign investors are more than rent-seekers in the mould of the Suharto relatives and cronies. In that sense, therefore, the situation may not have changed.

The impact of this situation on the local population is widespread cynicism not only about government institutions, but also about the developmental process. Each development project is seen by the people not as something that would benefit them, but rather, as an opportunity for members of the élite to enrich themselves. For example, after the fall of Suharto, a key factor for the widespread unrest that emerged in Riau Province was the grievances of many hundreds of thousands of resettled people who were not paid adequate compensation or were not paid at all for their appropriated land.

As pointed out by Pabottingi (1995: 224, 227), the majority of the rural poor in Indonesia did not benefit from the sustained growth that had occurred during Suharto’s presidency. On the contrary, large numbers suffered from the expropriation of their land and resources by élite interests, through mega-developmental projects, as well as forest enterprise concessions and industrial plantation concessions. However, they were not able to articulate their grievances about their losses until the authoritarian grip of Suharto was broken in the wake of the Asian financial crisis.

When Suharto resigned, the Japanese Prime Minister at that time, Ryutaro Hashimoto, urged the world to remember Suharto as Indonesia’s ‘father of development’ who had reached ‘great achievements’ in advancing the poor country’s prospects for more than thirty years (CNN News, 21 May 1998). However, the modicum of benefits that trickled down to the rest of the population was merely the leftover from resources captured by élite interests. Once economic growth ended with the Asian financial crisis of 1997, this trickle-down effect also stopped.

The Suharto-related interests, however, remain powerful forces in the economy. As observed by Tesoro (1999), the name ‘Suharto’ encodes ‘a variety of people and forces who have a stake in maintaining the status quo in Indonesia’. The following interview with the Indonesian Attorney General Andi Muhammad Ghalib confirms this view:
*Time*: ‘Why aren’t you investigating allegations of corruption in relation to the National Logistics Agency or the state oil company Pertamina?’

Ghalib: ‘Maybe the reason is, if we want to investigate all of them, because he was the President, so, of course, many of them are connected, including us.’ (*Time*, 24 May 1999)

The persisting presence of the Suharto-related interests has distorted the recovery process, as reforms are manipulated to protect and benefit them. For example, reforms in the banking sector continue to be impeded by these interests.

Many private banks were used during the Suharto era as cash cows by the conglomerates that owned them, often in violation of law and prudent banking practice. When the crisis forced the conglomerates to default on their loans from mid-1997 onwards, the biggest banks were pushed into insolvency. The state-owned banks were in even worse state after years of corruption, bad management and politically motivated lending (*Bad debt*, 13 March 2001: 12).

Most of the loans from Bank Indonesia (the central bank) and other state banks went to Suharto’s relatives and friends. Bank Indonesia’s former senior deputy governor Anwar Nasution described the bank as ‘a cashier for Suharto and the rulers’ (*Bad debt*, 13 March 2001: 12). According to the Indonesian Bank Restructuring Agency (IBRA), Suharto’s friends Liem Sioe Liong and ‘Bob’ Hasan owe Bank Indonesia US$5.4 billion and US$700 million respectively; his cousin and adoptive brother, Sudwikatmono, owes this bank US$214 million; his oldest son, Bambang Trihatmojo, owes other state banks US$2.6 billion; his youngest son, Hutomo ‘Tommy’ Mandala Putra, owes these banks US$556.8 million. Such loans constitute the overwhelming bulk of the US $22.7 billion non-performing loans that the Indonesian government must deal with, in addition to the $12.7 billion owed by bank owners to the government (see *Asiaweek*, 7 May 1999).

‘But bank restructuring has…been distorted by the attempts of interest groups to win control of funds or assets, either by legal manoeuvring or by lobbying politicians’ (*Bad debt*, 13 March 2001: 13). It is thus very telling the Indonesian Bank Restructuring Agency’s main success has been in the disposal of the loans of small and medium enterprises (SMEs) and retail loans, where 70 per cent has been resolved. But corporate loans and loans by bank owners that are connected to Suharto-related interests, continue to be largely outstanding (see International Monetary Fund, 2002: 39).
INSTITUTIONALISED CORRUPTION AND THE HOLLOWING OUT OF STATE INSTITUTIONS

Apart from pecuniary gain, a political reason for Suharto to institutionalise corruption was to accumulate unfettered financial resources for buying the loyalty of politicians, generals, ministers, businessmen and religious leaders. One of his favourite methods of doing this was to set up private foundations that became repositories of funds accumulated from both public and private sectors. It is unclear, even now, how many foundations Suharto set up and managed. Estimates range from twenty to over a hundred, with complicated connections to government ministries, the military, state enterprises and private companies (see, for example, Colmey and Liebhold, 1999).

These foundations were key vehicles for institutionalised corruption and the concomitant weakening of state institutions, because they absorbed funds that should have gone to the public sector. The recurrent pattern was as follows. A foundation would be set up by Suharto with an ostensible social goal, such as poverty alleviation, education, health care, promotion of Islam, etc. For example, the Dana Sejahtera Foundation was set up for poverty alleviation, the Supernemar Foundation for education, the Dharmais Foundation for health care, the Dakab Foundation for religious activities and the Amal Bakti Muslim Pancasila Foundation for the promotion of Islam.

The governing board of the foundation would include a mixture of public officials, Suharto and his family members, as well as owners of the country’s wealthiest conglomerates. There was a great deal of overlap among the board members of the various Suharto-managed foundations.

The foundation would be given tax-exempt non-profit status with the right to raise funds for itself, with no accountability for how these funds were to be spent. The fund-raising effort of the foundation would be assisted by Suharto in the form of Presidential Decrees, requiring state banks, civil servants and companies to make donations. For example, Suharto issued Government Regulation No. 16/1976 requiring banks to allocate 5% of their net profit to the Supernemar Foundation. He also issued Presidential Decrees No. 90/1995 and No. 92/1996 requiring the transfer of two percent of all personal taxes to the Dharmais Foundation (see Tempo Interactive, no date). Even after the fall of Suharto in 1998, civil servants and members of the military were still donating a portion of their monthly salaries to the Amal Bakti Muslim Pancasila Foundation, a foundation that he had set up to win Muslim support (see Colmey and Liebhold, 1999).

The Suharto foundations invested massively in private companies. For example, in 1978, certain Suharto-chaired foundations took control of 60 percent of Bank Duta, the country’s fifth largest private bank, eventually increasing their share to 87 percent (see Colmey and Liebhold, 1999). Eighty percent of the Nusamba conglomerate was owned by three foundations. Of its operating capital of US$1.5 billion, 30% was from Dakab Foundation, 25% from Dharmais
Foundation, and 25% from Supersemar Foundation. Suharto’s eldest son owned 10% and Suharto’s golf partner, Bob Hasan, owned the remaining 10%. The Nusamba conglomerate included businesses in mining, forestry, helicopter maintenance and other activities (see Asiaweek, 7 March 1997).

As major shareholders of private businesses, these foundations were involved in transferring funds to these businesses to provide capital or to cover losses. For example, an amount of US$312.5 million was transferred from the Dharmais foundation to the Nusamba Group for investments (Asia Times Online, 14 June 2000).

Companies owned by the foundations were protected from business failure, due to their owners’ political capacity to secure alternative funds. For example, in September 1990, Bank Duta announced a loss of US$420 million through high-risk foreign-exchange speculations. However, the bank was not liquidated, because 72 percent of the bank was owned by three Suharto-chaired foundations (Tempo Interactive, 1997). Because of this connection, two wealthy Sino-Indonesian businessmen, Liem Sioe Liong and Prajogo Pangestu, both cronies of Suharto, were prevailed upon to put in enough money to bail out the bank (Reuters, 26 May 1991).

To maintain their cover as tax-exempt, non-profit organisations, the foundations expended a small percentage of their funds on their designated charitable activities. According to Bob Hasan who chaired the following two foundations: ‘Supersemar gives about $20 million to $25 million in scholarships annually, [while] Yayasan Darmais helps 1,200 institutions for the blind, retarded children, orphanages and senior citizens. If we have more funds, we can use the money to do things like build hospitals’ (Asiaweek, 7 March 1997).

At the same time, Government ministries and state institutions that were supposed to provide social services had been milked of public revenue by these foundations posturing as charitable providers of these same services. For example, the education of the poor would have been better served if the Ministry of Education had more public revenue available to it, rather than have it siphoned off by the Supersemar foundation that then awards scholarships as an act of charity. Similarly, Dharmais Foundation owned three hospitals specialising in heart disease, cancer and maternity, with a combined worth of at least US$5 million. So rather than building up the capacity of the Ministry of Health, the President created a parallel health-case system through his own privatised hospitals. The net result of this systemic corruption is that state institutions have been hollowed out and weakened.

THE WEAKENING OF THE TAXATION SYSTEM

A telling case is the dysfunctionality of the taxation system, which should have been the bedrock of state revenue. In January 1995, the Indonesian Government inexplicably reduced the corporate and top individual tax rate from 35% to 30%. In December 1995, President Suharto set up the Dana Sejahtera
Foundation, with himself as Chair. Its ostensible aim was poverty alleviation—specifically, to help the poor to open savings accounts for buying seed and starting small businesses. The means of doing so was to raise funds by collecting two per cent of the after-tax revenue of the 11,025 top bracket taxpayers. To encourage donations, Vice-Chair Haryono Suyono, who was the Population Minister, announced that donors would receive a two percent reduction in the income tax they had to pay.

The irregularities of this situation are clear:

- the setting up of a private foundation chaired by the President to collect revenue from citizens (albeit rich ones)
- the announcement of a two per cent tax reduction for donors by the Vice-Chair, who is the Population Minister.

Not only that, the Director-General for Taxes and Customs was called upon to assist in calculating not the properly taxable income of individuals and businesses, but the amounts that they were supposed to contribute to the President’s private foundation. This was tantamount to a transfer of funds from taxation revenue to the private foundation.

The awareness of individuals and businesses about the essentially private nature of this foundation is reflected in the fact that many of them ignored Suharto’s fund-raising appeal. Finally, at the end of 1996, frustrated by their apathy, he issued a Presidential Decree to make contributions to the foundation compulsory for all those whose taxable income exceeded Rp 100 million (approximately US$42,553 with US$1 worth about Rp 2350 at that time).

This was not only an abuse of Presidential power but also a weakening of the taxation law and the institutional authority of the Directorate General of Tax. Poverty alleviation would have been more effectively and accountably achieved through increasing the taxes of the rich. Instead, the rich were ordered by Presidential Decree to pay a two percent tax to a private foundation with no accountability for the use of its funds and with no transparent links to the government, except for public officials sitting on its governing board.

The names and positions of the foundation’s governing board members reveal the network of cronies working together to siphon off funds from public tax revenue (see Table 1).

The involvement of the Director-General of Taxation in this irregular fund-raising vehicle weakened the authority and credibility of the Directorate General of Tax as a state institution. The governing board on which he sat included business tycoons from eight conglomerates that ranked among the twenty-five largest conglomerates at the time (Habir, 1999: 174-175). This spectacle of the richest people in the country contriving to levy a private ‘tax’ on their peers, supposedly for poverty alleviation, with the connivance of the President, several Ministers
and the Director-General of Taxation, called into question the process of taxation as a mode of redistribution.

Table 1: Names and Positions for the Dana Sejahtera Foundation

<table>
<thead>
<tr>
<th>Position on the Board of the Foundation</th>
<th>Public officials</th>
<th>Private sector tycoons</th>
<th>Suharto’s relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair</td>
<td>Suharto (President of the Republic of Indonesia)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vice-Chair 1</td>
<td>Haryono Suyono (Minister of State for Population)</td>
<td>Liem Sioe Liong (Head of the Salim Group)</td>
<td></td>
</tr>
<tr>
<td>Vice-Chair 2</td>
<td></td>
<td></td>
<td>Sudwikatmono (Suharto’s cousin and adoptive brother)</td>
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<tr>
<td>Vice-Chair 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director</td>
<td>Subiakto Tjakrawerdaja (Minister for Cooperatives and Promotion of Small-scale Business)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deputy Director</td>
<td>Fuad Bawazier (Director-General of Taxation) [my emphasis]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasurer</td>
<td></td>
<td>Bambang Trihatmodjo (Suharto’s son and Head of the Bimantara Group)</td>
<td></td>
</tr>
<tr>
<td>Assistant Treasurer</td>
<td></td>
<td>Anthony Salim (son of Liem Sioe Liong)</td>
<td></td>
</tr>
<tr>
<td>Board members</td>
<td>Inten Soewono (Minister of Social Affairs)</td>
<td>Prajogo Pangestu (Barito Group)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Saadilah Moersjid (Cabinet Secretary)</td>
<td>Eka Tjipta Widjaja (Sinar Mas Group)</td>
<td></td>
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<td></td>
<td></td>
<td>Mohamed ‘Bob’ Hasan (Indonesian Wood Producers Association)</td>
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<td>Rachman Halim (Gudang Garam Group)</td>
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<td></td>
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<td>Putra Sampoerna (Sampoerna Group)</td>
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<tr>
<td></td>
<td></td>
<td>Henry Pribadi (Metropolitan Group)</td>
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</tbody>
</table>

Source: Bourchier and Chalmers, 1997

Apart from this foundation, the taxation system was also weakened by massive tax evasions by Suharto’s children, estimated to amount to US$2.5 billion and $10 billion on commissions alone (Colmey and Liebhold, 1999). Suharto even helped his children to evade taxes, the most blatant case being the Presidential Decree of 1996 that gave his youngest son’s company, Timor Putra Nasional, the task of developing a ‘national car’. This was done by importing Kia cars from South Korea, exempt from luxury tax and import duties, thereby allowing the
company to sell the cars for about half of the price of its competitors. The fact that the ‘national car’ did not sell well, despite its cheap price, is perhaps an indicator of public disgust with the Suharto family (Asiaweek, March 22, 1996; Eklöf, 1999).

The taxation system has yet to recover from these abuses. In 2000, its tax revenue was only 11.1 per cent of GDP, a percentage much lower than other Southeast Asian countries. In 1997, before the financial crisis, its tax to GDP ratio was 10 per cent, while the Philippines’ was 16 per cent and Malaysia’s was 37 per cent (Bad debt, 13 March 2001: 12).

CONTINUING CORRUPTION IN POST-SUHARTO INDONESIA

Corruption in post-Suharto Indonesia continues unabated. The investigations that were initiated against Suharto’s foundations have stalled. Shortly after his resignation, an investigation was conducted by Soedjono, the Attorney General:

[He] discovered that one of the largest foundations, Supersemar, had dispersed 84 percent of its funds on unauthorized pursuits, including loans to companies owned by Suharto’s children and friends. Suharto, as chairman, had to sign any check over $50,000. Soedjono submitted a preliminary report on his findings to President Habibie in June 1998. He was fired five hours later (Colmey and Liebhold, 1999).

In December 1998, after leaving the Presidency, Suharto purportedly handed over seven of his foundations over to the state. However, he merely handed over their operations but not their assets. Suharto apparently continued to chair these foundations, even after they were supposedly handed over to the state. Furthermore, the Minister put in charge of these foundations was none other than Haryono Suyono, who had been Vice-Chair of the Dana Sejahtera and who then became Coordinating Minister for the Eradication of Poverty under President Habibie. Clearly, the handover was cosmetic (Time, 24 May 1999).

Post-Suharto Indonesia is thus characterised by a pattern of la plus ca change, la plus c'est la meme choses (the more things change, the more they stay the same). Hadiz (2002: 8) observes that political parties in post-Suharto Indonesia are now ‘populated by a variety of elements that were all a part of the vast network of political patronage that was the New Order. For such interests, parties and parliaments are the main avenue towards political power and control over state institutions’. State capture remains as the prevalent mode of governance. The main question that has arisen after Suharto is who is to capture the state, and not whether the state should be the object of capture.

There is widespread public awareness of this situation. A current political joke is that the real name of the current President is not Megawati Sukarnoputri (i.e. Megawati, daughter of Sukarno), but Megawati Suhartoputri (i.e. Megawati, daughter of Suharto). The implication is that she is now learning to be as
corrupt as Suharto was. Hendardi, chairperson of the Indonesian Legal and Human Rights Association, ‘stressed the need for Megawati’s to cut relations with former officials of the New Order regime’ (Uchida, 2001).

Significantly, Sophan Sophiaan, founder of her political party PDIP, resigned from the party in February 2002, because of ‘opportunistic elements’ that, he said, were primarily out for their own financial gain and were ‘thinking of themselves before their country’ (The Indonesian Observer, 11 February 2002). Indeed, the Indonesian media have been questioning the role of her husband, Taufik Kiemas, in several business and political deals.

‘If Megawati and high-ranking government officials really want to fight corruption, they had better start with their own families,’ George Junus Aditijondro said…. George also called on government official and legislators as well as those holding key state positions to give up all their positions in the business sector in order to avoid conflicts of interest (Uchida, 2001).

The lack of seriousness in tackling corruption extends to the Indonesian Parliament, which adopted a new code of ethics in October 2001. This enshrined the right to criticise the government and increased penalties for absenteeism, but left untouched misconduct involving bribery, collusion and the buying and selling of votes.

Unsurprisingly, public surveys show that the overwhelming majority of Indonesians still consider their country corrupt. An opinion poll conducted by the daily newspaper Kompas in July 2002 revealed that 85 percent of the 1,773 respondents in thirteen cities rated the Megawati government’s performance in fighting corruption as poor.

This is corroborated by A Diagnostic Study of Corruption in Indonesia (2002: 9-15), which reported the following:

- Approximately 75% of all respondents regard corruption in the public sector as very common. Household respondents consider it the most serious problem, ahead of unemployment and the poor state of the economy. About 65% of respondents reported actually experiencing corruption involving public officials.
- Companies that paid more bribes on procurement contracts (from 6% to more than 10%) did significantly more business with the government than companies that did not pay bribes or paid in smaller amounts. So rather than winning contracts based on criterion of lowest bids, it appears...that government contracts go to the “highest bidder”. Protracted corruption in this form can significantly decrease economic efficiency as uncompetitive firms win government contracts and deliver poor services.
- The number of bribes paid increased with the frequency of contact with the public institution. Corruption extracts a high cost from society with 1%
to 5% of household income, official salary or company revenue spent on unofficial payments.

INSTITUTIONAL DYSFUNCTIONALITY AND SOCIAL FRAGMENTATION

A Diagnostic Study of Corruption in Indonesia (2002) reports that even government ministries and departments have to pay bribes to receive their budget allocations. The percentages of the budget reported by public officials as having been diverted out of their ministries are shown in Table 2. The study commented:

This diversion of funds reduces the resources available to the agency administering the public service, thus lowering the quality of the public services (A Diagnostic Study of Corruption in Indonesia, 2002: 20).

In post-Suharto Indonesia, corruption is still siphoning off revenue from state institutions, making them continually weak and dysfunctional. Because of the difficulty that these institutions face in simply receiving allocated resources, they try to obtain additional resources from the public, for example, by demanding ‘facilitating payments’ as part and parcel of government contracts (BBC News, 16 August 2001, 06:03 GMT).

Table 2: Percentage diverted out of allocated budgets of state institutions

<table>
<thead>
<tr>
<th>State institution</th>
<th>Percentage diverted from allocated budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interior</td>
<td>7.9</td>
</tr>
<tr>
<td>Housing</td>
<td>5.9</td>
</tr>
<tr>
<td>Health</td>
<td>3.8</td>
</tr>
<tr>
<td>Industry &amp; Trade</td>
<td>3.8</td>
</tr>
<tr>
<td>Forestry</td>
<td>3.6</td>
</tr>
<tr>
<td>Finance</td>
<td>3.1</td>
</tr>
<tr>
<td>Education</td>
<td>2.8</td>
</tr>
<tr>
<td>Transportation</td>
<td>2.8</td>
</tr>
<tr>
<td>Local Government</td>
<td>2.6</td>
</tr>
<tr>
<td>Public Service Provider</td>
<td>2.3</td>
</tr>
<tr>
<td>Mining &amp; Energy</td>
<td>2.3</td>
</tr>
<tr>
<td>Police</td>
<td>1.9</td>
</tr>
<tr>
<td>Law</td>
<td>1.9</td>
</tr>
<tr>
<td>Public Works</td>
<td>1.1</td>
</tr>
<tr>
<td>National Land Agency</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: A Diagnostic Study of Corruption in Indonesia, 2002: 20.

In the following section, I provide examples of public cynicism towards the five most corrupt institutions—namely, the traffic police, the Customs Authority, the judges, the prosecutor and the Tax Authority.
The traffic police, considered the most corrupt of government officials, are known to stop drivers for bribes even when no traffic offence has been committed. So most drivers try to stay away from them as much as possible, leading to a serious under-reporting of traffic accidents. People involved in traffic accidents try to resolve their own disputes. At best, this may result in a compromise. At worst, it can lead to violence.

In traffic accidents resulting in death, it is not uncommon for bystanders to attack the driver perceived to be responsible, before the arrival of the traffic police. These bystanders think that once the police arrive, the driver would be able to bribe his way out. So they feel that they are the only ones who can mete out the summary justice. Violence can thus erupt as a response to the perception of state failure to administer justice and the rule of law. The result is an increase in hit-and-run accidents, as drivers fear to stop their cars once they hit someone. Indeed, the US embassy in Jakarta advises Americans driving in Indonesia not to stop at the scene of an accident but to drive to a police station instead (see Embassy of the United States of America).

The public regards the Customs Authority as the second most corrupt government institution in Indonesia. My respondents call Customs officers ‘green devils’ (hantu hijau), green being the colour of their uniforms. Customs officers who patrol the seas are known as ‘sea devils’ (hantu laut). According to respondents in Riau Province, these customs officers sometimes go outside Indonesian waters to arrest fishermen on fishing trawlers in the South China Sea, especially if these are boats from Singapore. The fishermen are then put in prison, with one of them sent back to Singapore to obtain ransom for his fellows.

Customs officers checking the goods of individuals and companies are known to openly demand ‘souvenirs’ (oleh-oleh), either in cash or in kind. A job as a customs officer is generally so lucrative that officers contrive to recruit their sons into the bureaucracy.

In Suharto’s time, there was so much international concern about the corruption of the Indonesian Customs Service that in response to this, he issued Presidential Decree no. 4 in April 1985, which stopped Indonesian customs officials from physically checking and verifying imports valued over US$5,000 and exports at Indonesian ports. Instead, the government contracted Société Générale de Surveillance S.A. of Switzerland (SGS) to verify all Indonesian imports in the country of origin (Fane, 1993:3 and McIntyre, 2001:12). However, this transfer of functions did not reform the Customs Authority. So when the customs system reverted from SGS to the Indonesian Customs Authority in April 1997, the entrenched corruption flared up, again bringing a lot of public criticism.

In this climate of distrust, smuggling has become rife, occurring not just among criminal elements, but also among ordinary individuals and businesses (including my respondents), because of their perception that any duties paid would go not to state coffers but into the pockets of the customs officers.
concerned. The result is revenue loss on the part of the state and a blurring of
the legal and the illegal, with customs officers being viewed as corrupt and
thereby criminal, while smuggling becomes accepted as a legitimate response
to evade the extortions of these officers.

This blurring of the legal and illegal is even more cogent when judges and
prosecutors are viewed as the third and fourth most corrupt officers of the state.
The systematic weakening of the judiciary and legal institutions during the New
Order has been studied by Lev (2000). Renoe (2002) notes that this weakened
legal system persists in post-Suharto Indonesia.

The judiciary is the last bastion of the Suharto regime, and this
goes a long way toward explaining why many of the efforts to
prosecute corruptors and human rights abusers from that era
have failed upon reaching the courts (The Jakarta Post 13 March
2000).

One problem is that the judiciary is still staffed by the same judges who
presided over the courts of the New Order:

One anti-corruption campaigner, lawyer Teten Masduki, estimated
that only a small number of the 51 Supreme Court judges are
clean—hence the debate over where the commercial and
Supreme courts will obtain their new judges. To overcome the
shortage of clean and skilled judges, a presidential adviser
suggested that Indonesia import Dutch judges to hear commercial
cases. But… this was legally impossible as under the law, only
Indonesian nationals could preside over its courts (The Straits
Times, South East Asia News, 6 April 2000).

Megawati’s appointment of M.A. Rachman as Attorney General, Bagir Manan
as Supreme Court Judge and Comm. Gen. Da’i Bachtiar as National Police
Chief has disappointed many desiring legal reform, because these appointees
are regarded as close allies of those who are corrupt. ‘Analysts say Megawati
seems to be emulating Suharto, who left the economy in the hands of
responsible technocrats, but kept a firm rein on the security apparatus and the
legal system’ (McBeth, 2001: 2).

The Office of the Prosecutor, both at the level of the Attorney General and the
level of provincial prosecutors, is also notorious for its corruption. ‘Many legal
observers linked the prosecutors’ apparent lack of professionalism to their
original recruitment’ (Uchida, 2002). The two criteria of recruitment are
apparently the right family connection (such as being the child of a prosecutor)
and a bribe of 30 million rupiah (approx. US$3300).

Because of the widespread distrust of the legal system, many people in
Indonesia are now said to ‘play at being judges’ (main hakim). This has led to
many instances of mob justice. A recent example of this occurred on 20 June 2002 when a thief caught stealing a television set and a video compact disc player from a house in Tangerang, West Java, was beaten and then burnt alive by an angry mob (see ABC News Online, 22 June 2002).

Apart from such anarchic mob justice, there is also a nation-wide movement—the Alliance of Archipelagic Customary Societies (AMAN)—that is advocating for local communities to govern themselves and control their own resources through their customary law. Many local communities now use customary law to adjudicate disputes and conflicts, rather than turn to the national court system (Acciaioli, 2001).

Acciaioli (2001: 5) notes that perhaps the ‘most resented usurpation of local rights’ was the appropriation of land and resources through concessions granted by the government—namely, forest enterprise concessions and industrial plantation concessions. Barber (1997) points out that the New Order regime used the judiciary as a pliant tool to issue hundreds of such concessions, bestowing rights to exploit oil, minerals, and timber, as means to co-opt potential opponents and to bind allies and clients. Under Suharto, multinational corporations—such as British Petroleum, Caltex, ExxonMobil, Newmont Mining, Freeport-McMoRan Copper & Gold, and Rio Tinto—colluded with him to win long-term concessions, splitting the revenue with his family members, cronies, and the military (see, for example, Business Week Online, 20 May 2002). Despite the fall of Suharto, these concessions remain in force as legal acts, continuing to give rights of resource extraction to these interests.

It is in this context that social fragmentation has emerged as a strategy to reclaim local resources. It is being reproduced in various forms and in varying degrees of intensity throughout the country. Significantly, many of the concessions given out by the Suharto government are located in current hot spots—Aceh, East Kalimantan, Riau, West Papua, which are precisely the provinces rich in oil, gas, minerals and forestry products (Wee, 2001: 14).

Such fragmentation is exacerbated by the view of the taxation system as a means of resource extraction, taking away local wealth. This view prevails particularly in the Outer Islands, outside of Java, where people feel that they are powerless to influence events in Jakarta.

It is significant that the Regional Autonomy Law, which took effect in January 2001, was created during the administration of the only non-Javanese Presidency in Indonesia. The architect of this law was Dr Ryaas Rasyid from south Sulawesi, who became Minister for Regional Autonomy under the post-Suharto Presidency of Dr BJ Habibie, also from south Sulawesi. This law gives the country’s 26 provincial governments and 300 districts greater control over everything from taxation to public contracts, with each province now entitled to:

- 15% of oil revenue
- 30% of gas revenue
• 80% of the proceeds from mining and forestry in the province
• 90% of property taxes collected in the province (see BusinessWeek Online, 2002, May 20).

This legal devolution from above, initiated by non-Javanese interests, has meshed with demands for local autonomy from below. It is this top-bottom coalescence of non-Javanese interests that most seriously challenges the Jakarta-based interests related to Suharto. But it is questionable whether this fundamentally alters the New Order’s mode of governance described in Indonesia as ‘nepotism, corruption and collusion’ or whether it merely substitutes for one Suharto, a multitude of ‘Suhartos’. My research indicates that people across the country see the latter happening.

CONCLUSION

Indonesia would not have fallen into such a prolonged state of chaos after the Asian financial crisis, if a long process of institutionalised corruption had not been going on. The financial crisis merely brought to a head the institutional failures that had long subverted the country’s development.

With state capture still the primary mode of governance in Indonesia, ordinary citizens continue to find themselves systematically excluded from regimes of accumulation that concentrate wealth and power among élite interests, even if these have now fractioned into multiple competing interests. While democratisation is a current trend in Indonesia, this alone cannot effect change, without economic redistribution, the eradication of corruption and institutional reform.

Social fragmentation has emerged as a strategy for reclaiming local resources. The result is an ever-finer splintering of local interests, from province to district to village, as resource claims become increasingly contested by competing groups. The answer to this is neither more devolution nor more centralisation, but rather, the release of the state from its capture by kleptocratic élite interests, regardless of whether these interests are centralised or decentralised. Only then can state institutions be restored as impartial public bodies and corruption at all levels eradicated. If social fragmentation is brought about by the loss of trust in the institutions of state and thereby the state itself, then social re-integration can come about only when trust in the state and its institutions is renewed.
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