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**POLITICAL ECONOMY OF BUSINESS  
AND COMPETITION ISSUES IN INDONESIA \***

*By*

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**Old Order Regime**

Up to the middle of 1950's, the direction of the Indonesian economy was still not obvious. There was no significant roles of entrepreneurs in the economy. The economic activities were mostly traditional and the income was only about 150 to 200 US dollar per capita per year. The roles of industrialists (recognised as the core of economic growth) were not in those activities. In this time, Indonesia was clearly categorised as a very low income country.

The Indonesian economy was only agricultural basis which was very traditional, without support of modern technology. The agriculture was also very unproductive and dependent on small lands (known as liliptan agriculture). The role of private business was not so essential and there was significant support of modern Industries in the economy. The population in rural area was very dominant, more than two third of the total.

The early businessmen progressing during the Old Order regime were mostly small and medium lev l. They were growing from the bottom and developed their own economic resources and opportunities at the local and national levels. The small and medium businesses were very dominant in almost economic activities with special characteristics of small capital, low profit, traditional management and technology.

Meanwhile, the big businessmen (tycoons), that were closed to the government, mostly involved in import activities, serving the demand of the state on the goods and services. The relatively great tycoon at that time were more directly and closely related to the state with inward looking orientation. Some of them were only rent seekers that received import licenses from the state and gave them to the others (Chinese Indonesian businessmen). They had advantages from the government facilities.

The economic and political situation in 1950's was still coloured by President Soekarno's heroism. He became the great leader with a clamorous social-political nuance. However, more than ten years after independence the economy was not managed prudently at all and was left behind further. It was even turned to an extra burden at the time when the politic was unable to settle its own problem.

The economic activity was only inward oriented in order to fulfil the basic needs of the people at large, mainly for foods, medicines and other durable goods. Even that could not be achieved in full as actually the economy in the country was stagnant within a long period after the independence. The government was only really interested in the politics to cover the weakness of the economic policy and condition. Such political attitude was also abandoning the rational economic policies.

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The Old Order regime was also glancing at the few tycoon and private business through the political accommodation of which these groups were made as its subordinate. They were also enjoying the chances, opportunities and licenses from the state. This pattern is usually occurred in closed and authoritarian regime in which the state remain as the prime mover of the business, main institution for initiating business activities. The business is only apart of the state and developing because of the wish of the state too.

There was an affirmative policy of government called "Benteng Program", which was then producing at least tens of tycoon closed to the palace. They were enjoying special licenses, mainly for the import activity as required by the state. The tycoon at that time was not apart of market dynamism, they were more like part of the state relations and initiatives which has also strengthened the structure of the state itself. The state was doing business directly and creating many corner of the privilege. The private business in this case just an instrument to implement the needs of the state through the import activities.

Market and competition was not in mind of the leaders and politicians. Large business activities were initiated by the state because the existence of modern business was insignificant. It is irrelevant to discuss the role of competition policy in this period. Firstly, economic system was still very traditional with only small and informal business activities. Secondly, there was no real consciousness among the leaders, politicians and the government apparatus to have policy based on market, competition and open market system. The new state was just learning to lead the people and the economic policy was not adequate to move the country forward.

The Benteng Program has been able to create several groups of great tycoon. Among others: Markam, Pardede, Hasyim Ning, Sudarpo, Bakri, etc. But after the fall of the Old Order, those groups of tycoon have also been encountering problem with the sustainability of their own corporations. As a result, only a few of the tycoon under Benteng Program could survive during the New Order regime.

This is understood because the market has never been developed. The tycoons were much dependent on the state and mostly not competitive, entrepreneurial and professional. Businessmen under Benteng Program existed because their special relations with the state.

Only few of them survived in the end of the Old Order (for instant Bakri, Hasjim Ning, and Soedarpo). That was because they have managed the business with their maximum efforts and carried the business on their own ability and entrepreneurship. But most of them apparently failed to carry on their businesses as their past rise was due to the state facilities and licenses granted by the government.

The existing groups of tycoon was actually too small to become a locomotive of industries and economic growth. Their existence was not more than a form of a corporatism in which the tycoon in a limited number were developing due to the state facilities. The economy could not be developed further because of absence of entrepreneurial efforts. The modern business had not enough foundation to grow continuously.

The following two decades after independence (August 17, 1945), the people were suffering from a stagnant economic growth and massive poverty. It was due to a trend of illness in economic policy which was not taken into account by the government (politic as the commander). The economy collapsed and hence became the main problem of the most people in the country. Ultimately the authority of the Old Order regime stepped down with so many problems, which were then inherited to the subsequent government.

The apprehensive condition of the economic like this during the middle of 1960's has made the political condition get rotten even faster. That has consequently accelerated the event of social and political

riots. Economic policy had never been managed properly by the government because all the government attention and priority was only politics.

There was nor proper policy to solve problems in basic needs of the people, like food production, trade, housing development, and health care. The government had fallen into deep mismanagement in the economic policy. Therefore, issue of the business competition was irrelevant to be discussed further because the government had those crucial and basic problems in the economy.

In the beginning middle 1960's, the national production level has been declining drastically. Food, nutrition, and health became critical which then influence politics and popularity of the government under President Soekarno.

The physical infrastructure was not maintained and damaged from time to time. There was not enough economic pillar, which could improve the condition of the people at large, especially their economic and social life. The people had not enough resources to fulfil their economic need and activities, which then followed by extremely low income and high level of unemployment.

The extremely high inflation rate (hyperinflation) was hitting the entire country, which was then plunged the purchasing power of the people. Nearly all the people (80-90 percent) was falling down under the poverty line with people in the rural areas living under a condition near to the level of subsistence.

To sum up, the Old Order Government (1945 to 1965) was the beginning of state formation. Many difficulties in the economy made the President Soekarno's regime could not survive anymore. The government could never manage economic policy appropriately and business activity was remain stagnant. Poverty incidence was massive, social and economic life dropped.

There was no issue of business competition policy during the Old Order because most attention of the government was only survival of the state. The competition policy became a very luxury issue. Modern business activities were not growing at all.

### **New Order: The Economy Without Justice**

Tiring of the politic during the Old Order, the new regime (the New Order Government) was directing its policy to the economic development. The economic team (educated in the United State) was starting the new economic policy, focusing on inflation control, macro economic stabilisation, and food policy. The team was directing its ideology toward capitalistic model of the west.

The government started to have closed co-operation with the Western Countries and the World Bank to support its macro-economic policy. To support it economic policy, the government developed economic confidence.

Investment law was created two years after the riots to give certainty and to attract foreign investment. The new loan under the World Bank was signed to fix the country that had just collapsed.

The new regime apparently has taken over the authority under a disorder political condition. It was including uncertainty of the people's economy as the prices were rocketing rapidly. This could not be affordable by the purchasing power of the people at large. This also was not an easy heritage and a very difficult situation to start new economic policy and to increase social and economic condition of the people. But the government had already chosen its main policy focusing on economic development.

Until several years at the time when the authority has been transferred, the economic issue remain as a complicated problem. But with such economic policies, gradually it could be settled as the economic development become the main attention of the new regime.

More appropriate economic policy was implemented to decrease inflation. Food development was also high priority under that policy. The government was also helped by the IGGI countries to import food. Other economic activities and investments were initiated through such policy

The government modified the development orientation drastically from politics to economy. Formerly politics was set as "the commander", then the economy was as "the commander" (locomotive). It was learned from the experience during the Old Order government. The New Order regime does not have any other choices, except to modify extremely the focus of economic development by an extraordinary means or policies in order to push the economic growth. This is needed to repair of the almost total damage of the economic system, and to transform traditional economy towards the modern economy and further process of industrialisation.

From the momentum point of view at that time, the focus of attention in the economic development (regardless politics) by the extreme methods was a quite drastic choice. The focus was only economic development that directly influenced collective consciousness of the people. The jargon of economic sentence was dominant, such as "the growth will drop to the bottom" and "there is no any even distribution without any growth as the distributed item is only poverty". That was ultimately became the part of the expression in the society. The government has won the momentum at that moment to develop economy, industry and business.

However, after fifteen years of New Order government the policy on economic equity was not adequate. It was ultimately creating problem after the growth has actually been achieved. The economy suffered with unequal economic distribution.

From the modification of focus of government policy from politics to this economy, the growth has really been realised by utilising the fund source from foreign loan, foreign investment, the natural resources, and oil export. Widjojo Nitisastro and team have driven the economy into a new direction. The result was a significant improvement and high economic performance with growth up to 8 percent during the period of 1967 to 1981.

This level of growth once has been slow during the middle of 1980's at the time when the decline of the oil price. However, during the 1990's, the level of growth has been increasing again up to 8 percent, before finally hit by the wave of Thailand's flu at the end of 1997. The crisis has changed all faces of political economy in Indonesia.

The United States has been a good partner of the New Order regime, despite of its previous antagonism with the Old Order regime. This country has an important role in IGGI, which has been the pillar of the sustainable fund of the New Order regime. Finally the US government, through the IMF, continued to obstruct the efforts of the New Order regime to settle its own problem independently. For instance, policy on CBS system was not able to be implemented. Finally, the authority of Soeharto was toppled down too by the reason of economy and currency problem.

Actually, the economic development with the basis of oil resources and foreign loan was managed in Bappenas, chaired by Prof. Widjojo Nitisastro. Other than the target of such level of economic growth, the level of the people's income could be improved significantly from only 150 US dollars per capita to 1,000 US dollars per capita. This outcome was recognised as the consequence of such high level of economic growth.

But the New Order regime failed to create an even distribution adequately. It has caused a social jealousy to spread everywhere when the process of the economic transformation took place. Even before the fall down of the New Order regime, the riots in various territories occurred one after another. The impact of such situation was the capital flight in the areas that could not be accommodated by the public institutions. There is a serious conflict between large-modern capital with small-traditional activities in the regions and urban areas. Such condition is recognised as the main issues in the middle and the end of New Order regime.

Collision of development took place between the people and the government as well as the House of Representatives. There was not standing policy at the side of the people that it has even further burdened the condition of the people, due to the widely opened gap of income. The non-government organisations such as LBH (legal advocacy) are loyally standing beside the people and are accompanying them as long as the unfairness is hitting them.

This is the lesson in which economic growth could not sustain without equity and justice in the economy. There was no legal support to make business fair because the government played dominant role and out of proportion in managing the economic policy. Policy toward equity was not appropriately implemented, and even left behind. Facilities, protection and many corner of privileges were given to the interest groups, closed to the president. The economy was growing fast, but the distribution was not because of unfair business practices applied by the government itself.

Authoritarian government established such corporatism in which only few tycoons got special relationship with the government, the office of the president. Parliament was only a "rubber stamp" at this time because almost political power was in hand of the president. Structure, behaviour and attitude in politics was shaping the unfair business during this New Order era.

### **From Growth to Bankruptcy**

Following the economic growth for three decades, the private business was then dominated by the conglomerates, large tycoon. This is an indication of the absence of the policy on economic equity and usual monopoly practices created by the government and interests group. They have a direct and closed relation to the presidential palace. The presidential institution is badly influenced by those interest groups. Facilities, special policies, and rent seeking become usual practice under this special relationship which make business activity is unfair.

The economy is growing with the specific role of large conglomeration, followed by a strong etatism, corporatism and cronyism. It has caused the tycoon to be divided into two parts, i.e. the palace tycoon and the tycoon beyond the palace. However, the core of that conglomeration was nothing but the first group has been enjoying the facility of the development projects by the support of foreign loan and other special government facilities since 1980's.

After the foreign loan was no longer reliable to push the economic growth in the middle of 1980's, the way out of the business expansion was sought by increasing the role of private business independently through series of economic deregulation. An open monetary system was designed to provide the incentive of the capital flow from overseas. Policy toward deregulation was started by opening monetary system in which government role was dominant (85 percent). This is then recognised as wrong policy in the real business activities was full of unfair and monopoly practices.

Therefore, deregulation in the middle of 1980's was misleading. Such incentive like the different of interest rate level created more attractive in getting the foreign loan. This attitude was uncontrollable which make Indonesian international reserve not enough to support the burden of foreign loan. At the same time, the Indonesian economic machine was wasteful and inefficient as indicated by high level of ICOR

(Incremental Capital Output Ratio). Almost private sectors were falling under category of highly leverage firms, big loan but small in their own capital.

As a consequence, the inflation rate was apparently high and this condition was highly appropriate as a basis for designing high interest rate level in domestic banks. The banks could not survive because the burden of such high interest rate level. The CAR of banks was inadequate.

The foreign loan during the New Order regime obviously was intoxicating as the proceeds of the capital injection into various development projects. The results were identified to be significant, although it was inefficient and extremely wasteful. The New Order regime (with the slogan of foreign loan as a supplement) ultimately was trapped too by this uncontrollable transaction. Its role in the national budget has been destructing the routine expenditure (specifically for the improvement of salary of the civil servants) as well as the development expenditure. The budget collapsed and missed its function to support the economic growth.

Such attitude in government policy together with its wastefulness and corruption finally was imitated by the private business. Private foreign loan increased sharply in the beginning of 1990's, few year before crisis (1997). Hence, there was flowing the short term capital into without any thought of the risks a macro level. The impact of its repayment after the maturity of the loans was not considered carefully.

The private business individually was enjoying it due to the striking spread of the interest rate level locally and overseas. This spread was the reason for the Indonesian big private business (conglomerate) in triggering the desire and addiction for loans from the foreign financial institutions. Such addiction was still continued because the government secured guarantee by the application of a managed float exchange. The government and Bank Indonesia (Central Bank) managed value of rupiah by a depreciation control up to the limits which are satisfactory to the private business (3– to 5 percent per annum).

However, at the same time, the government (in this case the monetary authority) also failed to monitor the cumulative volume of such foreign loan transaction in order to identify its impact on the foreign currency demand. The maturity of the loans was happened in 1997 and the currency could not be controlled anymore. At the same time the international reserve of Indonesia was not adequate to compensate the progress of the private loans. In short term, this situation created high deposit interest and panic.

Indonesian economy was unable to bear the burden of those loans collectively. Hence, the foreign investors ultimately ran away earlier, mainly from the capital market. The stock exchange index has also been sinking down only to the figure of 700 to 300. Finally the Indonesian economy, which was experiencing a bubble process since early 1990's, has really been like an exploding balloon and deflating when the exchange rate was sunken even down to 17 thousand rupiahs per dollar.

### **Competition Lawas New Culture<sup>‡</sup>**

A debate related with promotion of fair business competition has been started almost fifteen years ago. The Indonesian economy was growing fast during last two decades, but the business practice was very unfair. The state involved too much in decision making process as well as in the business level. It mostly created worse climate which make certain business elite around the president could take much more opportunity in a large number of businesses.

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‡. Adopted from my first previous paper (presented in this forum)

Almost two decades ago, the need of competition law was already recognised and debated in the public. Kwik Kian Gie from the opposition party of Partai Demokrasi Indonesia (now Minister of Development Planning) and other analysts (including author) had discussed publicly about the need to have competition law. In fact, Kwik Kian Gie was as a member of parliament at that time that proposed a draft of Anti Monopoly Law. But the ruling party did not accepted this draft because of group's interest reason.

The political power was actually not in hand of the parliament but concentrated in the president office. Soeharto was strong, the regime was authoritarian and controlling all political parties. This initiatives was not made possible because it was contradictory with the interests of the regime and its crony.

At that time, the economy was growing fast, but the business practice was unfair. But the state and authoritarian government had practised collusion widely in almost sectors with business actors, implemented crony capitalism and nepotism. The government had clearly promoted unfair business practices because there was no clear cut between the government roles and business roles. Public domain and private domain were mixed and interchanged each other that make business practices were full of collusion.

Therefore, there was no public room to promote anti monopoly and competition law since the government itself was the significant barrier for such initiatives. It was also difficult drafting the law since the regime was too strong and seemed not to support such legal draft.

The Anti Monopoly and Competition Law was possible to be made after the regime collapse (1998). The new government led by the President Habibie was pushed by the public to reform social, political and economic system. He then started to draft this law in the beginning of 1999 which finally approved by the parliament in September 1999.

From this short history about Anti Monopoly and Competition Law, it is clear that fair competition practice is a new thing in Indonesia. There is no significant experiences in this field and the authority is learning by doing. The institution is being built to develop its capacity and instrument. Therefore, the most important target for the government is to socialise this law that bring new culture of more fairness in business competition.