State-business relations in post-1998 Indonesia
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Chapter 8: Summary and Concluding Remarks

8.1 Introduction

In this thesis we have discussed the changing nature of economic policymaking in Indonesia during the period 1999-2003, the period after the political and economic changes of 1997-1998 or the fall of the Soeharto regime. In particular, we focused on changes in the relations between the government and the business sector. We analyzed these changes by looking at the role of Kadin, the Indonesian Chamber of Commerce and Industries, in shaping economic policymaking. As we have made clear in this thesis, Kadin – being an organization encompassing many business associations at the sectoral level – was expected to represent private businesses and to defend their interests. In this position it had a role to play in the process of policymaking in Indonesia, at least potentially. We argued, however, that this role depends to a large extent on the political regime and the way the regime handles state-business relations. During the Soeharto regime, when a strong corporatist model prevailed and the government played a dominant role in policymaking, Kadin’s role was described in the literature as fairly marginal; it was simply not allowed playing a major role in the policy game, a view to which we largely subscribe. Kadin had been subdued simply as an instrument of Soeharto’s government to get legitimacy from the business sector. Kadin’s position before 1997-1998 has been discussed in Chapter 4 of this thesis.

Yet, as we have argued, the economic and political reforms starting from 1997-1998 provided a new and challenging environment, allowing Kadin to – at least potentially – increase its influence on policymaking. Our analysis of the three case studies in Chapters 5-7 aimed at illustrating whether and to what extent Kadin’s efforts to influence policymaking have been successful in the post-Soeharto period. As our discussions of the three case studies showed, the efforts of Kadin to become a more important player in the policymaking process were only marginally successful. One main reason for this is that Kadin remained to have the image of being an institution under the control of the big businesses in Indonesia. This image may have hampered Kadin’s attempts to devise a strong anti-monopoly law in Indonesia because it had to face public resistance against monopoly (chapter 5). Second, Kadin suffered from internal fragmentation: opposition from its own members (next to opposition from some government agencies) made its attempt to monopolize the organization of government procurements failed (chapter 6). Third, at times Kadin’s efforts to influence policy making was also constrained by the inconsistency of government’s policy directions. This was particularly obvious in case of the
process of creating and implementing labor legislation. In the process of developing new legislation, the government switched its position several times from being pro-labor to being pro-business back to being pro-labor again. This put Kadin in an awkward position. (chapter 7). A final main reason for the marginal success of Kadin was that in the post-Soeharto era Kadin was not the only organization that represented specific interests. The economic and political reforms had given room to many other representatives of societal interests to raise their voice. Moreover, in comparison to the Soeharto period, the government and parliament had become much more open to demands from society.

In this final chapter, in Section 8.2 we summarize the main issues and findings of the different chapters of this thesis. In Section 8.3 we draw conclusions regarding the role of Kadin in policymaking during the first five years after 1997-1998, substantiated by the results from our research on the three case studies. Finally, in Section 8.4 we briefly put the results of our analysis into perspective by discussing the role of Kadin in policymaking processes at the end of the first decennium of the 21st century.

8.2 A brief summary of the main findings

In Chapter 1 we briefly discussed the political economic reality of Indonesia before and after the regime switch of 1998, with a specific interest in the relationship between the government and the business sector. In this chapter, we also broadly described Kadin as the organization encompassing many business associations at the sectoral level. This description was instrumental to develop our main research question for the thesis, which focused on the changing nature of state-business relations due to the political-economic reforms Indonesia went through during the late 1990s and early 2000s. Thus, the research question central to this thesis was defined as follows:

Did the political and economic changes of 1997-1998 lead to a change in Kadin’s role in influencing economic policymaking by the state? If yes, what did change, how did it change, and why did it change?

In Chapter 2 we developed the theoretical framework we used throughout the thesis to analyze the changing nature of the state-business relationships in Indonesia for the Soeharto as compared to the post-Soeharto period. This framework consisted of two main components. First, we discussed the nature of state-business relationships based on the corporatist model. Second, we discussed three main determinants of the success of interest group representation within a corporatist model. The determinants on which we
focused were legitimacy, credibility, and institutionalization of interest group representation.

As discussed in Chapter 2, the political theoretical model of corporatism turned out to be very relevant for describing and understanding state-business relations in Indonesia before and after the political and economic changes of 1997-1998. Our analysis showed that Indonesia during the Soeharto regime was a clear example of state corporatism, as the state was authoritarian and very much controlled interest group representation. This was also the case with respect to business representation. The state legitimized Kadin as the formal representative of business interests, and in this capacity the organization was able to participate in the policymaking process. Moreover, as the state allowed Kadin to represent business, the involvement of Kadin in the policymaking process was also institutionalized. In practice, however, Kadin had virtually no autonomy in representing business interests. This strongly limited Kadin from effectively influencing the contents of business-related policies. Of course, the business sector was aware of the fact that Kadin was closely related to and dominated by the state and that therefore it played only a very limited role in policymaking. Consequently, the credibility of the organization among businessmen was low. This lack of credibility was reinforced by the fact that Kadin suffered from strong fragmentation of interest representation as different groups of businessmen, including small versus big business, Chinese versus Indonesian business, etc. had to be covered.

After the regime change in 1998 the state became much less dominant and the model of state corporatism was abandoned. Instead, a new political economy model was established, which we could perhaps describe as loose form of corporatism. In the new model, the state played a far less dominant role than it had during the past five decades. For Kadin this opened opportunities to become more independent from the state, providing – at least potentially – more room to effectively influence policymaking and serve the interests of the business society. The main question then was: how did Kadin perform in this respect after 1998?

Chapters 3 and 4 were instrumental in discussing the background against which we developed our answers to the above question. In Chapter 3 we provided a detailed description of the main developments regarding Indonesian politics since the independence of the 1940s. It described how under Soeharto’s New Order from the late 1960s to the late 1990s the state and its political institutions became very influential. Political power and influence were concentrated in the hands of the Indonesian President who was supported by the military – which played a crucial role in Indonesian politics – and the army-backed, dominating political party Golkar. State-dominated political and economic life and societal interests were dealt with only to a marginal extent. From the late 1980s Indonesian societal groups became dissatisfied and frustrated with the authoritarian regime. Slowly but surely, resistance started to
develop against the New Order regime in general and the dominant position of President Soeharto and his family in economic life in particular. Protests were raised increasingly, and people demanded political openness and democratization. Public outrage reached its peak in 1997 when general elections were held. The period of the election campaign turned violent as several people got killed or seriously injured during protests that were precipitated by police forces. Most importantly, the public seemed outraged by the fact that the government had tried to incapacitate PDI, the political party of which Megawati Soekarnoputri was the leader. Megawati was seen as a major threat to Soeharto’s position.

The breakdown of the Soeharto regime was expedited due to the Asian crisis at the end of the 1990s. This crisis also severely hit Indonesia. Within a short period of time the economic situation in the country became disastrous. This led to strong calls from society for the resignation of Soeharto. After the President resigned in May 1998, de-concentration of Indonesian political power began. Several political changes were set into motion. First of all, parliament became more independent from the country’s leadership when the constitution was amended in 1999 (followed by further amendments in 2000, 2001, and 2004), granting parliament more political power. Second, new laws were introduced in 1999 which aimed at effectively increasing the autonomy of local government and parliamentary councils. Third, another set of new laws opened possibilities to establish political parties, trade unions and NGOs, resulting in the emergence of many political parties, mass organizations, and NGOs. Finally, new laws substantially reduced the role of the military forces in politics. Thus, policymaking was no longer monopolized by the government; instead, democratization was introduced as different societal groups and organizations were allowed to participate in and have an influence on the policymaking process.

In Chapter 4 we discussed how Kadin developed since its official establishment in 1968. During the New Order regime within the corporatist structure, the government allowed Kadin to represent business. In practice this meant that in most cases the organization did not play an independent role in policymaking, even though it was formally recognized (or, formally legitimized in the terminology of the model discussed in Chapter 2) by the government with the establishment of Law No. 1/1987, it had close connections with Golkar – the main political party before 1998 – and it had direct access to the People’s Consultative Assembly through its seat in the Utusan Golongan Ekonomi, i.e. its relationships with the state were at least to some extent institutionalized (again using the terminology of the model in Chapter 2).

When after 1998 a new political reality emerged, Kadin had to reposition itself. On the one hand, the political changes increased the organization’s possibilities of influencing political decisions and serving business interests. The fact that Kadin’s role as a peak business representative was legitimized in
Law 1/1987, in combination with the fact that its relationship with the state was institutionalized through direct and indirect contacts with Golkar and parliament, positively contributed to the possibilities of influencing decision making. At the same time, however, Kadin also had to compete with various other parties, all lobbying for political support of the specific interests of societal groups they represented.

Next to the limited role Kadin was allowed to play in policymaking during the New Order regime, conflicts within the organization itself reduced its effectiveness of being the representative of business interests. In Chapter 4 we have shown that since its establishment, Kadin had to deal with several internal conflicts of interest and power struggles. In particular, conflicts arose between Indonesian and Chinese businessmen, as well as between small and large business enterprises. These conflicts of interest made Kadin’s role as the peak business organization a difficult one. The Indonesian business sector was characterized by a fragmentation of interests, i.e. different parts or segments of the national business sector had different interests, all of which competed for attention when state policies were being shaped. These internal conflicts remained strong, also after 1998 when major political changes took place. The fragmentation of interests and the resulting internal conflicts weakened Kadin’s credibility (again referring to the terminology used in Chapter 2) as a representative of business interest, both with the government as well as with society at large, reducing its impact on economic policymaking.

In Chapters 5, 6 and 7 we illustrated the difficulties of Kadin to effectively represent business interests after the political changes in 1998: we discussed in detail three case studies of economic policymaking during 1999-2003. In particular, we focused on the role Kadin played in shaping economic policies and on its interaction with the state and state organizations, as well as with other societal organizations.

Chapter 5 provided a detailed discussion of the process that led to the anti-monopoly law of 1999 and the role Kadin played in this process. One of the major reforms of the Indonesian economy after 1998 concerned the creation of a more liberal economic environment, in which competition between companies was encouraged. During the New Order, the Indonesian economy was characterized by monopolistic behavior, cartel practices, collusion, exclusive licensing and market allocation by government-supported conglomerate companies and/or companies that were directly linked to the Soeharto family. The analysis first of all confirmed the idea that during the New Order regime Kadin was not very influential in the policymaking process. Although it had raised its voice against the monopolistic practices of conglomerates, the government did not really listen to what the business organization had to say. After 1998 this situation changed: the government and the political parties in parliament were now willing to listen to the demands from society. Liberalizing the market was one of these demands, because the dominant position of the
conglomerates and companies related to the Soeharto family in the economy was seen as one of the main causes why Indonesia was so severely hit by the crisis. As the representative of the business society Kadin was one of the societal parties that became involved in discussions on how to reform the economy. One of the main issues in the debates was the drafting of a new anti-monopoly law.

Initially, Kadin’s position in the debate was half-hearted. On the one hand, it supported the drawing up of a new anti-monopoly law; on the other hand, it did not support the demands for high restrictions on the maximum percentage of market shares companies were allowed to obtain under the new law. Here, as we argued, the conflicts of interests of the different types of business Kadin had to represent became more prominent. Although small business was clearly in favor of breaking down the market power of large companies, large companies obviously tried to defend their positions as much as possible. On the issue of the maximum percentage of market shares, Kadin seemed to be inclined to support the interests of the large companies. At least to some extent, the conflicts of interests related to the contents of the anti-monopoly law were also reflecting the differences between Indonesian and Chinese businessmen. The largest conglomerates were owned by Chinese businessmen; Indonesians in most cases owned large, but smaller conglomerates. We suggested that Kadin’s involvement in the drafting of the law contributed to lowering the restrictions on the maximum market share the new law allowed companies to hold (50 instead of 30 per cent). After the law was finally ratified in parliament, Kadin also played an important role in the implementation. Most importantly, it was actively involved in a commission that was to monitor the implementation. Moreover, it introduced the law within the business sector by setting up information programs and seminars. To conclude, Kadin seemed to have been successful in shaping the contents of the new anti-monopoly law at least to a certain extent. Yet, in doing so it mainly supported the interests of only a small part of the Indonesian business sector. Kadin’s way of acting on this issue may have further sharpened the fragmentation of interests and views within the Indonesian business sector, especially between small and large business.

In Chapter 6 we discussed the case of the rules and regulations concerning the procurement of government projects. These rules and regulations established how companies could be involved in delivering goods and services to the government. Again, this was a hot issue in the debate related to how the Indonesian economy should be reformed after 1998. And again, as with the anti-monopoly law, it was extremely important to the business sector, as many of these government projects involved large sums of money. During the Soeharto regime government projects were assigned in ways that were not transparent in many cases. Consequently, many businessmen were not satisfied with the existing system and they were in favor of changing it to make it more
transparent and open. Since demands for changing the system were widely supported by society as a whole and the business community in particular, a new Presidential decree was established in 2000.

Soon after this establishment, however, controversy developed with respect to the implementation of the new procurement rules. An important aspect of the new rules was the obligation for businesses that wanted to tender for government projects to be a member of an accredited association and to obtain a quality certification. Kadin was supposed to play a crucial role in the issuing of these certificates. However, Bappenas – the state institution that also played an important role in the process of the procurement of government projects – objected to Kadin’s involvement in issuing certificates. Many business associations supported Bappenas in this. The controversy between Kadin and Bappenas built up until finally President Megawati had to intervene, after which the tension faded away. The intervention effectively meant that Kadin’s role in the process of the procurement of government projects was reduced. The most important message of our case study is that Kadin was not seen as a strong institution by the business community, the government and society at large; Kadin was not really accepted as the peak business organization representing business interests. Instead, Kadin’s way of acting with respect to the implementation of the decree on the procurement of government projects raised a lot of criticism.

Finally, in Chapter 7 we discussed the case of the creation and implementation of a new labor law. As discussed, the Soeharto regime was rather oppressive regarding labor. In line with the corporatist model, labor representation was organized through a state-controlled labor union. The marginalization of labor before 1998 did put business in a favorable position as it effectively had a very weak opponent in discussions concerning labor contracts and conflicts.

It was no surprise then that after the step-down of Soeharto demands for better labor rights were raised fairly quickly. The changing political landscape was conducive to reforming the legislation of labor rights. On the one hand, the government was more willing to listen to demands from society; on the other hand, many different interest groups, among which there were labor unions as well, were established directly after the fall of the New Order. Consequently, pressure from society as well as from foreign sources (in particular ILO) caused the government to draw up legislation in which labor rights were improved and more protected.

For Indonesian business, the rise of labor representation created a completely new political reality. Unlike before 1998, they now had to deal with a stronger opponent in discussions on labor rights. The description of the creation of the new labor legislation showed that during the period 1999-2003 both business and labor were pressing the government to draw up new legislation that would favor their interests as much as possible. Kadin, and
business in general, underlined the negative consequences of the new legislation because it would make labor too expensive, which would ultimately hurt the Indonesian economy. Labor representatives on their part made it clear that better labor rights were fair after decades of having been ignored. As the government had become more susceptible to demands from society, it changed labor legislation several times, giving in to demands from both business and labor. Ultimately, the disagreement between labor and business representatives was settled by tripartite negotiations that also involved the government.

The most important message of the case study in Chapter 7 was that Kadin had to face a new reality in which it had to negotiate with labor unions over policymaking regarding labor issues. Before 1998 this had not been the case. The case study is an excellent illustration of one of the main findings in this thesis, i.e. while on the one hand Kadin’s room for maneuvering with respect to influencing policymaking had increased due to the weaker position of the government, on the other hand influencing policymaking became more difficult because Kadin had to compete with other societal organizations (in our case study with labor unions) for state attention. We also remarked, however, that in our case study Kadin’s role as the representative of business interests was never seriously challenged by the business sector. There appeared to be no serious fragmentation of interests and views among Kadin business members. We argued that the main reason for this was that in this particular case the interests of all business people were more or less similar. For all business people, labor costs were an important factor in their total costs of production; rising labor costs would therefore seriously hurt their performance and competitiveness.

8.3 Conclusions: From Strong State Corporatism to Societal Corporatism

After having discussed the main findings of the thesis, we come back to the research question, which we discussed in Chapter 1 and which we repeated at the beginning of Chapter 8. The research question was defined as:

Did the political and economic changes of 1997-1998 lead to a change of Kadin’s role in influencing economic policymaking by the state? If yes, what did change, how did it change, and why did it change?

Based upon our analysis in this thesis, we formulate the answer to this research question as follows. To start with; yes, the political economic changes of 1997-1998 did lead to a change of Kadin’s role in influencing policymaking by the state. Before 1998, the Indonesian political economy model was characterized by strong state corporatism. The state played a dominant role in the
policymaking process and controlled societal demands by organizing and controlling interest groups. Business demands were organized by legitimizing Kadin as the formal representative of the business sector. In practice, this meant that Kadin would play a very limited role in policymaking. And even though it was formally legitimized and it had direct links to government officials and policymakers, the fact that it was the only recognized representative of business also meant that it had to take into account many different interests (e.g. small versus large business, Chinese versus Indonesian businessmen), which caused internal fragmentation and conflicts of interests.

After 1998, the political changes led to the breakdown of the model of state corporatism. The state stopped dominating the policy making process. New interest groups were established and were more independent from the state in recommending policies and representing interests. Still, some form of corporatism remained, also after the political changes of the late 1990s, as representation of interests was – at least to some extent – centralized in all-encompassing organizations, such as Kadin. Moreover, at least in the case of Kadin it was still strongly influenced by elites, as representatives of big businesses dominated the executive board, reflecting a weak ‘bottom-up’ process.

The Indonesian political economy model changed into what has been called a model of societal corporatism. According to the model of societal corporatism, interest groups and other organizations and institutions are more independent from the state and bargain with state institutions and/or with each other over allocating resources. The tripartite discussions as described in Chapter 7 of this thesis fit well into the model of societal corporatism.

Now Kadin had more room for making independent recommendations on issues regarding business interests. As compared to the new interest groups, Kadin had the advantage of being formally recognized by the government by way of Law 1/1987. Moreover, it had institutionalized contacts with government officials that were established during the New Order regime. Yet, it also experienced fierce competition from other, mainly newly established interest groups (such as labor unions; see Chapter 7), and from government institutions like Bappenas; see Chapter 6) with respect to influencing the policymaking process. Moreover, its fragmental internal nature continued to exist, even after 1998. Conflicts of interest between small and large enterprises and between Indonesian and Chinese businessmen continued to be present.

The new political economy model, in which there are more possibilities for representing interests but in which there is also more competition between interest groups with respect to influencing state policy decisions, has certainly changed the role of Kadin as a representative of business interests. Yet, it has not necessarily made it easier for Kadin to be more successful in demanding policies favoring these interests. The case studies in our thesis have provided evidence for this latter statement. At the same time, the case studies also
showed that Kadin was able to shape policymaking at least to some extent (see e.g. the contents of the anti-monopoly law and the legislation on labor rights) and that Kadin promoted the implementation of new laws by introducing them within the business sector by setting up information programs and seminars.

Based upon the discussions and analyses of the case studies in this thesis, the most important recommendations for Kadin we can offer are the following. First, the organization should accept the new political reality and should therefore focus on developing good working relations with representatives of the government, labor and other interest groups so as to ensure that business interests are taken seriously in policy discussions. In this respect, developing well-functioning frameworks for tripartite or multi-partite negotiations should receive attention from all parties involved. Second, Kadin should pay attention to reducing internal frictions as much as possible as this would increase its credibility in discussions on economic policymaking. Promoting the interests of small and medium-sized business, harmonizing the relations between Indonesian and Chinese businessmen, and offering more and better services to its members (databases, issuing of certificates, networking, organizing seminars, etc.) would certainly contribute to reducing these internal frictions.

8.4 Epilogue: Kadin and Indonesian Policymaking After 2003

As discussed in section 8.3 the analysis of the three case studies discussed in chapters 5-7 deal with Kadin’s role as a business representative during the first years after the step-down of Soeharto in 1998 until 2003. The question remains what happened after 2003? How did Kadin’s position as a business representative evolve during the remainder of the decade? Did they cope with internal frictions effectively? How did they deal with the competition between interest groups with respect to influencing state policy decisions? Events in the post-2003 indicate that, in line with the model of societal corporatism – in which interest groups and other organizations and institutions are more independent from the state and bargain with state institutions and/or with each other over allocating resources –, Kadin has been able to further develop its independent position vis-à-vis the Indonesian government. In particular, during the past few years, Kadin has come up with several policy recommendations that were not in line with proposals made by the government. Several cases can illustrate these observations; we will discuss three of them shortly below.

Revitalizing Indonesia’s industrial sector

The first case is concerned with the role of Kadin in preparing the so-called “industrial road map” for Indonesia. In 2004, Kadin – in cooperation with BI (the Indonesian Central Bank), business associations, the American Chamber of Commerce, and the Japanese Chamber of Industry, developed this industrial
road-map for Indonesia. This road-map was a comprehensive plan containing proposals on how the performance of Indonesian industry in general, and of some high-potential sectors in particular, could be stimulated. Among other things, it put forward detailed suggestions to reform the tax system so as to promote investments in general, and investment in sectors of specific interest for foreign investors in particular.

When drafting the road-map, Kadin invited many representatives of interest groups from inside and outside the organization (such as Kadin’s committee for Small and Medium-sized enterprises and co-operatives as well as numerous business associations) to participate in the process. By letting these representatives participate, the development of the road-map did not raise a lot of criticism, and frictions between different interest groups were avoided. This suggests that, at least in this specific case, Kadin was able to cope with internal frictions effectively. At the same time, the development of the road-map allowed the organization to put forward their own ideas on how to revitalize the Indonesian business sector, independently from the government. The road-map was finally sent to various ministries responsible for developing the economy as an input for discussions about how to develop the real sector.

Next to providing input for the industrial road-map, Kadin also submitted another document to the various ministries entitled “Revitalization of the Industry and Investment” as an input for further developing the Indonesian industrial sector. In this document Kadin made suggestions with respect to improving business law and taxation policy, business-friendly manpower policies, further empowerment of the private sector, support of regional autonomy, and policies promoting the development of small and medium-sized enterprises. These initiatives show that Kadin took its role as business representative seriously, being capable of offering practical solutions rather than simply criticizing government policies. Clearly, Kadin’s intention was to be considered as an important partner for the government in revitalizing the economy with special emphasis on policies favoring the business sector. Perhaps, one of the strongest signals of the government taking Kadin seriously as a partner in its plans to improve the Indonesian economy after 2003 was the appointment of M.S. Hidayat, chairman of Kadin, as Minister of Industry during the second period of Soesilo Bambang Yudhoyono’s presidency.

**Indonesia’s oil price policies**

The second case study discussed here concerns Kadin’s reaction on the government’s oil price policies. In 2006 and 2008, the government of President Soesilo Bambang Yudhoyono decided to raise the oil prices twice during a period of a global increase of oil prices. This was a very sensitive issue, since this was very likely to lead to inflation, which would be unfavorable for the economy as a whole, including most industrial sectors, but would particularly hurt the small and medium-sized enterprises. Not surprisingly then, these
policies were detrimental to the public support of the government. Indeed, as the price increases were announced, several political parties questioned this decision during several parliamentary meetings. At the same time, many societal groups, such as political parties, members of Parliament, non-governmental organizations, trade unions, professional associations, and so on, expressed their opposition in critical commentaries in the media, and in several cases also during mass rallies.

When the opposition against this government policy began to spread, Kadin joined the bandwagon by expressing their support to opposing the oil price policy. Kadin was particularly concerned with the adverse impact the policies would have on small and medium-sized enterprises. Therefore, in order to protect these smaller businesses, Kadin mobilized its special committees for these businesses to help them dealing with the possible adverse effects of the rising oil prices. Interestingly, Kadin changed its position on this issue after it had various meetings with government agencies involved in the oil price policies. It announced that it no longer opposed the oil price policy, apparently because it had become convinced that prices increases were inevitable and keeping prices fixed would even further hurt the economy as a whole. In particular, Kadin had become aware of the serious constraints the government budget would be confronted with if it would continue its policy of subsidizing the price of oil. A weak financial position of the government was seen as an important obstacle to economic success.

At the same time, however, Kadin requested that the adverse effects of oil price increases would be compensated by improving access to commercial bank credit for small and medium-sized enterprises, and by protecting the poor from adverse consequences as much as possible. So, Kadin decided to accept the government’s oil price policies, despite continuing pressures from critical elements in society, especially the urban poor, NGO activists and others. This shift of position illustrates that in the post-2003 years Kadin sometimes deliberately took an independent position vis-à-vis other forces in society when this was necessary to support business interests.

The ASEAN-China Free Trade Agreement
The third case study we discuss here deals with Kadin’s recent proposition to the government to delay the implementation of ACFTA, the ASEAN-China Free Trade Agreement, which was agreed upon in the year 2002 and was scheduled to commence early 2010. The business sector was shocked when at the beginning of 2010 the government rather suddenly announced that Indonesia – just as for any of the other ASEAN countries – was going to implement the trade liberalization agreement with China. Until then, the business sector had been under the impression that the implementation of the agreement had been postponed to an unspecified later date.
When the government announced the implementation of the free trade agreement, the Indonesian business sector heavily criticized the government for its failure to communicate this decision much earlier so as to allow the business sector to prepare for the consequences this would have for their activities. Actually, the business sector had already expressed its worries regarding the opening up of trade relations with China before the announcement that the trade liberalization agreement with China would be implemented. During the years before 2010, cheap Chinese products had increasingly invaded Indonesia’s domestic markets, leading to the closing of several Indonesian businesses and contributing to an increase of unemployment. Therefore, the harsh criticism the Indonesian government had to face after its announcement regarding the free trade agreement with China was no surprise. Several societal groups such as NGOs, business associations, workers, and also Kadin, raised their voice in early 2010.

According to Kadin, there were at least 228 items (including steel, textile and textile products, machinery, electronics, organic chemicals, petrochemicals, furniture, cosmetics, herbs, footwear, maritime products, and so on) that needed to be protected and to be excluded from the agreement with China. It therefore demanded the Minister of Trade, Mari Pangestu, to bring up this concern during negotiations with the Chinese government officials and to propose postponement of the liberalization of trade regarding these 228 items. The Minister gave in to these demands from Kadin, but unfortunately, the proposal was rejected by the Chinese negotiating team on the ground that an exception could not be given exclusively to Indonesia; a comprehensive renegotiation about an exemption of these items also with other ASEAN members would be too complicated. China, however, promised that it would reevaluate trade liberalization with Indonesia whenever it would lead to severe economic damage to the Indonesian economy. Although Kadin was clearly disappointed with the government’s decision to continue the trade liberalization with China, it nevertheless decided to stop pushing the government to change its policy regarding trade relations with China.

Instead, Kadin started attempts to influence implementation of the free trade agreement its own way by involving Indonesian businessman of Chinese origin in negotiations with Chinese officials about the implementation of the agreement and its consequences for Indonesian business. In particular, Kadin mobilized Perpit, the Indonesia-China Association of Businessmen, an organization founded in 2009, to conduct direct negotiations with their Chinese counterparts regarding co-operation and stimulating Chinese investments in small and medium-sized enterprises and labor intensive industries in Indonesia.

To conclude, this third case study shows that Kadin was actively trying to protect the interests of business, in particular those of the small and medium-sized enterprises. In their attempts to protect these interests, it operated
independently from the government, seeking for solutions outside the government-to-government diplomatic practices.

To summarize, the three case studies in this section do seem to corroborate one of the central arguments of the thesis, i.e. after 1998 Kadin has become increasingly independent from the government, maintaining its own view with respect to business sector interests and proposing economic policies that are not necessarily in line with government policy. At the same time, as was illustrated with the first case study, Kadin has shown willingness to take into account interests of various stakeholders when deriving at policy recommendations, leading to carefully drafted programs, and reducing the potential for frictions between different interest groups. This is not to say, however, that Kadin has always shown to give in to demands from these different interest groups (as was shown with the oil price case). It seems, therefore, that Kadin has developed into an organization that has become able to serve the interests of business relatively independently from government and society at large, without being completely immune to these other interests. Our conclusion therefore is that since 1998, Kadin has gradually become in good shape to be accepted as a representative of the Indonesian business community and as a critical partner for the Indonesian government in deciding on business-related economic policies.