Old wealth reborn in new Indonesia
By Megawati Wijaya

JAKARTA - More than a decade after the downfall in 1998 of former Indonesian strongman Suharto, and despite myriad economic reforms aimed at narrowing a yawning wealth gap and creating a more level business playing field, politically connected conglomerates maintain an outsized influence over Southeast Asia's largest economy.

A list of Indonesia's 150 richest businesspeople published this year by Globe Asia magazine showed that a handful of family businesses linked to the former dictator are still dominant, despite the country's growing integration in the global economy and rising foreign investor interest in its local markets and natural resources.

A sustained boom in global commodity prices has given many conglomerates a new lease on corporate life. Many of them have successfully diversified or expanded into the mining and agriculture sectors that have benefited from booming exports to China, including in palm oil, coal, and metals. Many of the country's top business families have now seen their fortunes vacillate wildly from rags-to-riches-to-rags-to-riches.

Topping Globe Asia's recent wealth list was Suharto-era tycoon Eka Tjipta Widjaja, whose Sinar Mas Group empire now sprawls across industries as diverse as pulp and paper, real estate, banking and finance, agribusiness, telecommunications and mining. His personal wealth was estimated at a whopping US$12.5 billion.

The Salim Group, Indonesia's largest conglomerate now under the leadership of recently deceased founder Liem Sloe Liong's son, Anthony Salim, cigarette tycoon Robert Budi Hartono's Djarum Group, Susilo Wurwodjiwojo's Gudang Garam Group and Aburizal Bakrie of the Bakrie Group - all companies established under Suharto's patronage - were represented prominently on Globe Asia's wealth list.

Wealth-X, a global intelligence and wealth due diligence firm, estimated in its latest Indonesia country report that 775 individuals in Indonesia are worth more than US$30 million, a statistic that underscores the country's still yawning wealth gap. Out of those 775 high net worth individuals, at least 41 had two or more family members on the Globe Asia list.

The top tier 25 were all worth more than $1 billion, with at least five having two or more family members on the list, including Djarum Group's Hartono, Sinar Mas's Widjaja, and Muryadaya Widyawimarta, founder of the Central Cipta Murni Group.

Many of them have made extraordinary financial comebacks, recovering lost wealth amid political and economic turmoil. When the 1997-98 Asian financial crisis hit, many financial analysts predicted that Indonesia's conglomerates would collapse under the weight of their debts. As the rupiah plunged from 2,400 to 14,000 to the US dollar within a calendar year, by July 1998 several conglomerates that depended on bank loans for their working capital and business expansions were technically bankrupt.

Marleen Dieleman, senior researcher at the National University of Singapore (NUS) Business School, said that while all Indonesian businesses were severely hit by the financial crisis, conglomerates, especially those owned by ethnic Chinese, faced twin crises. With their outsized wealth and political connections, they were seen by many Indonesians as symbols of the excess and corruption that epitomized Suharto's fallen regime, she said.

When violence targeted Chinese minorities in Jakarta, mobs set fire to the Salim family's private residence. People demonstrated on the capital's streets carrying Liem's portrait and their Bank Central Asia (BCA), the biggest privately owned bank in Indonesia with two of Suharto's children on its supervisory board, suffered a run on deposits. The group ultimately lost most of their assets and Liem fled the country for the safety of majority Chinese neighboring Singapore.

Usman Admadjaya, owner of Bank Danamon, saw his indebted financial institution eventually sold to Singapore's DBS and Germany's Deutsche Bank. He was later banned from leaving the country and faced prosecution for bribing officials to gain access to central bank financing. Timber baron and close Suharto crony Bob Hasan was forced to forfeit his monopoly concessions and eventually was jailed for fraud worth $75 million.

Other conglomerates struggled for years to repay international and domestic debts. Barito Pacific, the Pangestu family-owned conglomerate engaged in petrochemicals, wood manufacturing, property and plantations, at the height of the crisis defaulted on 8.4 trillion rupiah (then around US$600 million) worth of loans. The Bakrie Group at one point owed 6 trillion rupiah to state-owned banks but has re-emerged as one of the country's most influential players in the country's lucrative energy and mining sectors.

The country's three largest conglomerates - Salim, Astra International, and Sinar Mas - at one point were estimated to owe $5.5 billion, $5.1 billion, and $3.8 billion respectively to foreign creditors alone. Economist and recently elected head of the government's Investment Coordinating Board (BKPM) Chatiib Basri estimated that on average Indonesian conglomerates lost 25%-30% of their assets following the crisis. Yet many have survived to profit from the country's new commodity export driven boom.

Exclusive era

Indonesian conglomerates flourished under former strongman Suharto's brand of crony capitalism and industrialization-led economic growth. Ethnic Chinese businessmen leveraged on close connections to Suharto to secure monopoly privileges such as exclusive import licenses, protected local markets, government-imposed price controls, favorable tax rates, and easy credit from state-linked banks to finance their ambitious expansions.

Many emerged from iconic rags-to-riches backgrounds. Liem, also known under his Indonesian name Sudono Salim, for example, arrived on boat in Medan, Indonesia in 1936 as an impoverished 21-year-old from Fujian, China. He started his business by trading clove that is rolled into Indonesian kretak cigarettes before expanding into textiles, banking, and food businesses. By 1997, Liem's Salim Group had amassed assets worth $20 billion (two and a half times more than what his son controls now) with over 600 companies and 200,000 employees.

Liem's conglomerate-owning contemporaries included the late William Soeryadjaya, who owned 285 companies under Astra International covering automotive, heavy equipment, agriculture, infrastructure, information technology and financial services. Widjaja's Sinar Mas Group, meanwhile, owned 153 companies engaged in palm oil, paper, and banking.
Mochtar Riady's Lippo Group was another major player in banking, property and infrastructure development who under his son Stephen Riady has bounced back from the crisis to expand into media. Not surprisingly, Suharto's direct and extended families represented perhaps the country's largest conglomerate, which at its height in 1998 owned 1,251 registered companies, 300 of which were owned by Suharto's five children.

Two-hundred conglomerates dominated the local economy, making up 58% of the national gross domestic product at Suharto's zenith, according to Revisond Baswir, an economy lecturer at the Gadjah Mada University and writer of several books on the subject. Indonesia's state-owned enterprise made up 24% of GDP, foreign investment 10%, and local small-medium enterprises a mere 8%, according to his research.

The top five conglomerates, the Salim Group, Astra International, Sinar Mas, Gudang Garam, and Lippo Group, had annual sales totaling 112 trillion rupiah (US$47 billion) prior to the 1997 financial crisis. After Suharto's 1998 ouster due to street protests, many Indonesian conglomerates saw their businesses and personal fortunes collapse.

Economic reforms were introduced to steer the economy away from the past oligarchic arrangements established under Suharto's New Order regime and to shift assets and preferential attention away from the conglomerates to small and medium enterprises. Many conglomerates, however, underwent painful restructuring and have since managed to rebuild their financial strength and dominant market positions.

"The political landscape has changed - but the changes have not been deep enough to alter the very characteristics of the system that once brought the conglomerates into being," said Christian Chua, University of Frankfurt lecturer and writer of Chinese Big Business in Indonesia: The State of Capital.

Democracy and well-intentioned free market reforms were not backed by concurrent reforms to judicial institutions, law enforcement agencies and regulatory bodies that govern commerce, Chua argues.

"Thus many of them have managed to survive - and indeed have flourished in the new political environment. Of course it was helpful to adjust to a post-authoritarian regime, but it was crucial - and possible - to still rely on long-standing networks and connections," he argues.

Chua believes that successive democratic governments quickly realized how indispensable the conglomerates' capital was to jumpstart the crisis-ravaged economy. These governments tried to lure back many of the ethnic Chinese entrepreneurs that fled the country with their capital, mainly to Singapore, in the wake of the anti-Chinese sentiment that exploded in 1998.

"Conglomerates are a product of their time, but their time is still not over," said Chua. "As long as the underlying structure perseveres, conglomerates will remain a popular business model, regardless of changing parties, politicians, and laws."

Other analysts believe the corporate landscape is slowly but surely shifting. "The highest tiers of [wealthy] individuals in Indonesia are made up of the first generation entrepreneurs as well as second or third generation business leaders," said Wealth-X chief executive officer Mykolas Rambus. "But if we see how wealth is created, it is always possible for individual entrepreneurs to break into the list. We have seen these newcomers in our list, coming from mining or telecommunication sectors."

Corporate comebacks

Many old conglomerates have proved surprisingly resilient. NUS academic Dieleman, who has written a corporate biography on the Salim Group and conducted extensive research on Salim's rise from the crisis, noted that Anthony Salim managed to rebuild from assets salvaged from the crisis. He brought in professionals to run the family businesses and remained well-respected among Indonesia's business community.

The fact that the Salim Group continues to exist and thrive despite Suharto's fall "proves that it is not entirely dependent on Suharto's connection," Dieleman said. She said that a key to survival has been putting in place credible generational succession plans from their ageing founders to a new generation of professional managers.

"Research proves that on average only 15% of family businesses can last to the third generation. For conglomerates, due to their large diversified businesses, succession plans and the need to employ outsiders becomes [more crucial] because there are simply not enough family members to run the businesses," she said.

If conglomerates choose to keep power in the family, certain corporate succession plans have succeeded by selecting the next leader from among the founder's children, as has been the case with second generation leader Anthony Salim of the Salim Group.

The family is now preparing its third generation leader, Anthony's second son, Axton, who is in his 30's and a director in one of Salim Group's largest businesses, PT Indofood. Others, such as the Sinar Mas Group, have carved out and divided conglomerate businesses among many children.

Despite their personal wealth and corporate success, Indonesia's post-crisis conglomerates have struck more modest public images in the country's new democratic era than they did under Suharto's protection and patronage.

"Conglomerates then were open because of their Suharto's connections, but since their godfather fell from power, these conglomerates have chosen to keep a low profile," said Revisond Baswir, economy lecturer at the Gadjah Mada University and writer of several books on conglomerates. "They fear scrutiny or being targeted for questioning, as what had happened to Suharto," he said.

Despite a changed external environment and more robust domestic markets, experts believe that conglomerates will be a permanent feature in Indonesia's foreseeable economic future. Many of them are especially well positioned to leverage into regional economic trends, including China's emergence as a major consumer of commodities.

"Traditional Indonesian conglomerates, mainly of Chinese descent, benefited from the established network between overseas Chinese network in Indonesia, the rest of Southeast Asia, and Greater China [China, Hong Kong, and Taiwan]." Baswir said. "As China continues to rise, this Chinese network will continue to benefit them."

Political connections have by some measures become less important since power is now less centralized on a single leader and governments come and go through the electoral process, Dieleman said. She and others have argued that the country's future conglomerates will rise more on their own management merits than monopoly concessions and political connections.

Despite their significant roles in job creation and local economic activity, Indonesia's conglomerates are still frequently criticized for their corruption, collusion, nepotism and anti-competitive practices. Indonesia's new anti-monopoly laws were designed specifically to address such corporate malpractices but their implementation on the ground has been lacking, experts say.

"The actual economic situation is conducive to the emergence of a bunch of new entrepreneurs, but as long as doing business as a diversified, big conglomerate is accepted, profitable, and even fostered, there is no reason for an SME [small or medium-sized enterprise] to remain an SME and not follow in the footsteps of the business groups - with all the learned patterns of corruption, collusion, and nepotism traditionally leading to success in Indonesia," Chua said.