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11 Understanding the influence of vested interests on politics of anti-corruption in Indonesia

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1 ABSTRACT

The aim of conceptual article is to consider the available literature regarding associations between the role of vested interests and its impacts on anti-corruption measures in Indonesia. Research focusing on vested interests as a side-effect of political-economic reforms in the Indonesian context is limited, although there are extensive studies regarding the impact of neo-liberal reforms consisted of democratization, market liberalization and institutional reforms on the effectiveness of anti-corruption approaches in developing countries. Indonesia is one of the developing countries applying neo-liberal reforms expected to curb corruption more effectively. Because vested interests are very persistent and likely to be more influential to the anti-graft approaches during the transitional periods in Indonesia, there is a need to understand the ways in which the vested interests work. The key outcome of this article is to highlight the need to better understand how the persistent corrupt forces have created an unpredictable and uncertain future of Indonesia's anti-graft agenda. Recommendations for future research regarding associations between the role of vested interests and effective or ineffectiveness of anti-corruption machines are provided to stimulate more empirical attention to this area to support Indonesia to create more transparent and accountable politico-business environment.

4 KEYWORDS

Corruption; Anti-corruption Agency; Vested Interests; Civil Society; Democratization; Market Liberalization

Corruption is a very complex phenomenon that occurs in many different ways under many different conditions. While low and petty corruption can be tackled by implementing technocratic reforms in public administration, bureaucracy, and public finance, the grand forms of corruption involving state capture will need much more serious anti-corruption actions. Many studies consider that eradication of high-level corruption requires a structural approach which is strongly influenced by the market-centred definition of corruption formulated by Klitgaard (1988) wherein corruption is understood as emerging in conditions of 'monopoly plus discretion minus accountability'. The implications of this definition are that to fight against corruption would require eliminating the monopoly over power, enhancing competition, limiting discretion, and clarifying the rules of business and political competition (Bhargava & Bolongaita, 2004; USAID, 2006; World Bank, 2000).

When facing the 1997/1998 devastating Asian economic crisis, Indonesia was one of developing countries applying the structural approach which is consistent with the neo-liberal development literature in the late 1980s to 1990s. Supervised by IMF, World Bank and USAID, Indonesia conducted democratization, market liberalization and institutional reforms especially by establishing Corruption Eradication Commission (KPK) supported by media and civil society to combat corruption more effectively. However, while the neo-liberal reforms could play its some progressive roles, the limited capacity of the reforms also facilitate the reconsolidation of vested interest groups effectively demoralizing and frustrating anti-corruption actors in Indonesia. Many Anti-Corruption Agencies (ACA) across the globe such as the Sri Lanka's Commission to Investigate Allegations of Bribery or Corruption (CIABOC), Anti-Corruption Agency of Bhutan, Philippines' Ombudment (OMB), Anti-Corruption Agency of Bangladesh, and also India's Central Bureau of Investigation (CBI) have experienced and encountered formidable legal, bureaucratic and political difficulties, resistances and threats in developing their capacities while the corrupt political-economic environment remained unchanged and the vested interest groups are able to reconsolidate their most powerful coalition against anti-corruption agencies and reformist actors (Bolongaita, 2010; Quah, 2017; Umam et al., 2020; Umam & Head, 2020). Despite this interest in other developing countries, the role of vested interests and its implications for anti-corruption measures has received relatively little attention in Indonesia.

In this article, we aim to make accessible information that may be valuable to support anti-corruption agenda in Indonesia as it adapts to the more effective and vigilant efforts. A number of research implications are discussed, particularly the neo-liberal anti-corruption reforms adopted by Indonesia resulting in unpredictable implications including the emergence and reconsolidation of vested interests continuously frustrating anti-graft works in the country, with the aim of stimulating more empirical attention in this research area. In the following sections, a summary of different concepts of the capacity of vested interests and its impacts on anti-graft agenda is provided, after which consideration is given to the Indonesian context. Finally, the likely implications of vested interests on the future of Indonesia's anti-corruption agenda will also be presented. While primarily seeking lessons for Indonesia, it thus has broader implications for other countries undergoing similar transitions of newly democratic societies and encountering similar difficulties in struggling to combat corrupt practices as part of a broader search for clean and responsible government and social justice.

Neo-liberal anti-corruption reforms and its challenges

In the context of anti-corruption reforms, extensive studies advanced by neo-liberal academic scholars have argued that democracy has a positive impact on the effectiveness of anti-corruption processes. Democratization is seen as encouraging leaders to adhere to the principles of participation, and high standards of integrity, transparency, openness, and accountability. These pillars, in turn, are seen as enhancing the people's political literacy and consciousness. They can then actively demand, critique, and participate effectively in political and governmental processes to enhance legitimacy and develop reciprocity of trust between the leader and the led (Rose-Ackerman, 1999; Doig & Theobald, 1999, p. 16; Theobald, 1990). Democracy is also seen as supporting citizens in their

demands for accountability and transparency within governments, independent judiciaries and law enforcement, political checks and balances, and also freedom of the media. Hence, it becomes a convincing postulate³¹ that the higher the level of democracy, the greater the capacity is to deter corruption (Sandholtz & Koetzle, 2000, p. 38; Blake & Martin, 2006, p. 9).

Support for the concepts and practices of democracy has become more widespread since¹⁸ the end of the Cold War and the collapse of Soviet Union in the early 1990s. Some experiences of post-communist countries have confirmed that democracy can be a pivotal factor in effectively reducing corrupt practices that had long been prevalent under non-transparent authoritarian regimes. It is argued that corruption has decreased in more democratized systems because public leaders and officials tend to change more frequently, creating uncertainty about whom to approach without fear of exposure (Hellman, 1998). Also, freedom of the media, an independent judiciary, and civil liberties—conditions associated with democracy—are seen as providing effective means for ensuring that public officials act according to fair procedures and public interests (Rose-Ackerman, 1999).

However, there are examples of adverse experiences that counter-balance successful examples of democratization. Many researchers have warned that democracy will remain highly vulnerable to corruption when the national economy is weak. According to the argument proposed by Dahl (1998) and Rock (2009), democracy will only flourish in countries with capitalist market economies, never in the³⁷ non-market economies. Within the non-market economies, power over state policies is most likely concentrated in the hands of a few business actors. The concentration of economic power can facilitate the capacity of business actors to capture the state's policy making processes. Alternatively, when the business actors do not control key aspects of the policy-making process, state officials may nevertheless perpetuate corruption by extorting bribes from the business sectors.

To anticipate these situations, it is necessary to minimize the state's excessive monopoly and intervention and to introduce improved business and trade competition, transparency and accountability to discourage corrupt practices within market and government operations (Putzle, 1997). Hence, conceptually, the democratization initiatives must be supported by attempts to liberalize the state economic system to facilitate anti-corruption reforms.

Turning to the impact of liberalization, the principal idea of a neo-liberal economic system is structural reform to reduce the power and discretion of state officials and state monopolies and to enhance market competition through privatization and deregulation. Within the neo-liberal economic framework, the state must abstain from economic intervention and give individuals the freedom to participate in all aspects of the self-regulating market system. State intervention in the economy is seen as a disruption which potentially undermines the basic principle of liberal markets and reduces economic efficiency. Market liberalization is believed to be an effective way to allow individuals to develop their entrepreneurial spirit, which is perceived as fundamental for rapid economic development and improved quality of life, through giving priority to strong individual³⁰ property rights, free markets, and free trade.

In addition to liberalizing the political and economic system (i.e. the market-based approach), neo-institutional theory argues that the anti-corruption project needs to be

strengthened by advancing institutional reforms (Quah, 2008; Sakib, 2019; World Bank, 2000). The major premise of this institutional-based approach holds that the anti-corruption agenda in the market transition can be strengthened by introducing a set of policy measures directed towards the establishment of strong institutions focused on these goals. These institutional policy measures can be realized by introducing or strengthening the existing anti-corruption laws, re-empowering law enforcement institutions, or establishing new special anti-corruption agencies tasked with monitoring, investigating or prosecuting corrupt practices like the Corruption Eradication Commission (KPK) in Indonesia. Other measures include improving competition mechanisms within political and market life, and also resurrecting civil society participation to assist state leaders in navigating uncertainties within the transitional period. Even though this institutional-based approach reflects a more empirical evidence-based policy, there is clearly some ambiguity and inconsistency in relation to other aspects of a neo-liberal anti-corruption framework. Whereas a market-based approach enthusiastically diminishes the role of state, the institutional-based approach places state actors back into a central position within anti-corruption policy debates, while still requiring significant participation and support from civil society actors.

In short, by opening and liberalizing their markets, democratizing their governments, as well as introducing new anti-corruption institutional policy measures, states are expected by neo-liberal scholars to deliver benign change and good technocratic governance, eliminating large-scale political patronage and thus avoiding misappropriation of state resources (Graeff & Mehlkop, 2003; Saha & Su, 2012; Treisman, 2000). The neo-liberal argument is basically that establishing a stable market economy is the foundation for progress and the strongest guarantee against future corruption.

However, even though the theory is widely accepted, there is no empirical proof of an automatic connection between the adoption of democracy, market liberalism, institutional change and effective corruption eradication. Extensive research in many developing countries has shown that democracy has paradoxically produced unanticipated outcomes when it has been implemented under the conditions of market-liberalism (Piketty, 2014; Robison & Veda, 2004). While economic growth has been fostered in some cases, there is a concern that weakly regulated democratic and market systems can trap countries into market imperfections which in turn can proliferate and intensify corruption, bribery, and other illicit enrichment practices; and that this will have negative impacts by deepening socio-economic inequalities and increasing social injustice (Graycar & Prenzler, 2013, p. 13; Peet, 2001, p. 9; Sun & Johnston, 2009). These unanticipated political and economic outcomes, in turn, are likely to disrupt, or possibly negate, the efficacy of market-oriented institutional anti-corruption reform policies.

Defenders of neo-liberalism may claim that these unanticipated outcomes are merely temporary effects arising from rapid changes, and that they can be overcome only by deepening the wholesale strategy of economic liberalization (Mohtadi & Roe, 2003; Rock, 2009; Treisman, 2000). For the liberal pluralist school of North American behaviourist political scientists, such as Liddle (2013) and Dahl (1998), the ironies and paradoxes during market transition are acceptable as part of the uneven transition towards a rational marketplace. Therefore, to some extent, rampant corruption in the post reform era is often regarded merely as a temporary 'intrusion' which is unavoidable during attempts to embed the new political and market functions. This understanding



is basically in line with the neoclassical economists' perspectives considering corruption and bribery as 'payments for goods and services that are determined by non-market forces' (Liddle, 2013, p. 66). However, although realizing that the 'persistent conflict' born by the marriage of democracy and market capitalism will always produce major challenges, the liberal pluralists remain optimistic that this conflict will eventually subside, delivering a benign outcome and greater equality driven by the choices and actions of individuals. Furthermore, neo-liberal theorists argue that reforms will need adequate time for adjustment while economic growth will produce greater income equality in the long run (MacEwan, 1999).

On the other hand, other researchers have asserted that the more intensified corruption trend emerging after the reforms clearly cannot be regarded as a temporary 'intrusion', but rather as clear evidence of the failure of neo-liberalism in securing and moderating changes. One of the strongest criticisms comes from the structural political economic approach, as advanced by Robison and Vedi (2004), and also Winters (2013) who consistently challenge the logic of neo-liberalism. Informed by neo-marxism and structuralist notions emphasizing the primacy of class analysis and material wealth as the source of both economic and political power, the structuralists thus reject the neo-liberal argument that the political-economic transitions are 'technical' adjustments. In their view, this perspective that overlooks the imperatives of politics, power and interests that surround the market and political transitions in an inter-connected way (Hadiz, 2006, p. 80).

Structuralists argue that neo-liberals fail to understand how the elements of market liberalization and formal democratic reforms have failed to make governance more transparent and accountable. They instead show how these processes have in fact facilitated the growth of private or corporate wealth accumulation and its fusion or close linkages with political authorities controlling public institutions. This blindness to economic power is considered the main source of error underlying the neo-liberal understanding of the nature of corruption and eradication strategies in transitional periods.

As a consequence, both market-based and institution-based approaches are accused of failing to anticipate the complexity of political-economic configurations within transitions. It is argued that in such contexts power may be dominated by deeply entrenched interest groups incubated under previously corrupt regimes, which continue to use their power to resist reforms, maintain the status quo, and create market distortions, thus ensuring the corrupt nature remains well-established, representing the game of 'politics of wealth defence' (Winters, 2013). Such 'counter-intuitive developments' are further considered as instrumental in the formation of 'bourgeois democracy' that exacerbates material and political inequality, as well as disrupting the anti-corruption coalitions in social and political life. These critical postulates were further conceptualized by structural political-economic scholars in the influential concept of 'oligarchy' or represented by the coalition of vested interests, defined as 'a system of power relations that enables the concentration of wealth and authority and its collective defence' (Robison & Vedi, 2004; Winters, 2013).

Indeed, it seems to be impossible to reconcile these two conflicting schools of thought. Nevertheless, both approaches contain insights and weaknesses in understanding the nature of corruption and its eradication within contemporary political-economic perspectives. However, based on experiences in developing countries (Hadiz, 2006; World

Bank, 2000), vested interests have always attempted to block reforms and innovations to maintain and protect benefits they receive within the status quo. They may not only confine their anti-reform behaviour to direct economic and legal battles, but are likely also to establish long-term social-political alliances to reinforce their channels of influence used for discouraging the changes and reforms (Imai, 2009; Umam & Head, 2020). Vested interests comprise not only the old actors nurtured by the previous institutional system but also those raised within the new system who see their interests aligned with opposition to liberalization and accountability. Both new and old vested interests may interact and reconfigure their tactics to determine whether the new reforms they collectively face will ⁴survive and succeed or be weakened and eviscerated' (Moe, 2015, p. 297; Umam & Head, 2020). The convergence of illicit interests among these various actors underlies the phenomenon of the 'coalition of vested interests'. This informal alliance may include either 'old or new' politicians, business actors, governmental, bureaucratic, or law enforcements officials, and ⁴various non-state actors. What holds them together are patterns of mutual benefit ⁴based on reciprocity and mutual trust within the available incentive structures.

However, in this context, strong business actors, especially those who exercise some control over the economic structure, will have the greatest opportunity to influence or subvert the weak state institutions for the sake of their narrow interests. Their motivation may focus not only on specific opportunities to obtain assistance, support, concessions, and more flexible rules to survive in a competitive environment, but also on sustaining and strengthening their long-term economic domination. In countries where democracy is at a nascent stage and institutions of public accountability are weak, the nexus of vested interests may operate more openly. The greater the economic capacity of the business actors, the more powerful they can be in infiltrating and subverting democratic and governmental systems to maximize their rent and economic benefits. In the next section, all these postulates will subsequently be contextualized in Indonesian context.

Neo-liberal anti-corruption reforms and the reconsolidation and persistent entrenchment of vested interests in Indonesia

The dynamics of corruption under Soeharto's reign in the Cold War era were significantly driven by the government's concern to accelerate domestic economic development. After inheriting the economic distress of the Soekarno era, economic advancement was sought through liberal capitalist transformations based on a conception of 'democratic pluralism'. As noted by Liddle (2013), the democratic pluralist view was that economic growth would have positive effects on democracy. Almond and Verba (1963), for example, had argued that political-economic development processes would encourage a stronger middle-class society that would champion liberal values such as freedom, transparency, rule of law and participation. This would in turn constitute a stronger basis for 'social capital' (Putnam, 1993) as the pivotal foundation for the long-term developments.

These ideas strongly affected the debates on Indonesian political and economic development policies under Soeharto's polity. Guided by international development agencies cooperating with Western-educated Indonesian technocrats, commonly dubbed 'the Berkeley Mafia', Indonesia's initial capitalist economy eventually reached its peak

during a decade of windfall oil-boom revenues between 1973 and 1982 (Quah, 1998, pp. 58–66). Soeharto's leadership won plaudits from global development agencies when petrodollars filled his government's coffers, with a dramatic increase from Rp 41 billion in 1973 to Rp 592 billion in 1983 that triggered the notion that Indonesia had become an 'Asian little tiger' (Hill, 1996, p. 103).

When the global oil price collapse of the mid-1980s impacted on Indonesia's current account deficit, President Soeharto accelerated neo-liberal transformation by embarking on structural reform packages based on the principles of the Washington Consensus, such as abolishing public sector monopolies in trade and public infrastructure, deregulating banking sectors, and relaxing foreign investment restrictions and trade barriers. In turn, this stimulated more vibrant private sector activity within the economy. However, these policies also facilitated the formation of Indonesian private oligopolies. Public monopolies which were previously implemented by the state to protect the strategic sectors such as banking, public infrastructure, forestry and telecommunications, were ultimately transformed into private economic fiefdoms dominated by Chinese-domestic conglomerates, Soeharto-related families, and Soeharto's various cronies. These groups enjoyed privileges that allowed them to (among other practices): monopolize certain imported commodities through state-owned companies; inflate government contracts, leases, and credit allocations; gain easy access to departmental off-budget slush funds; benefit from mandated bank lending to the favoured and well-connected; and authorize the diversion of development funds for personal uses (King, 2000, p. 610). In short, Indonesia was transformed into a 'crony capitalist state' which was protected from global competition through the state's restrictive trade and investment policies.

As explained by Hadiz and Robison (2013, p. 42), the crony capitalist state became more entrenched with the adoption of Huntington's (1968) non-pluralist conception of modernity which emphasized the institutionalization of state power and the ability to maintain political order and stability. This doctrine had significant ramifications not only in political, security, and social domains, but also in governance, law enforcement and anti-corruption to guarantee smooth economic development. To homogenize political aspirations, Soeharto had strengthened his political control by imposing a fusion strategy for the political party system in the early 1970s, under which there was a forced simplification into three parties, namely United Development Party (PPP), Indonesian Democratic Party (PDI), and *Golongan Karya* (Golkar). As Soeharto's political instrument, Golkar enjoyed numerous privileges, significant political funding, massive logistical support, and a capacity to bypass every state rule that hindered the party and its elites' interests (Crouch, 1979, p. 579). The structures and processes of political opposition were tolerated as long as they were not harmful to the government.

Meanwhile, in an effort to ensure a passive populace isolated from the political processes, Soeharto applied repressive regulations on the freedom of the press and used coercive military pressure whenever civil society critics were seen as potential threats to 'national stability'. The role of the military was central in implementing the 1978 Campus Normalization Law, which was intended to repress political activities at universities, and the 1982 Press Law, which strictly controlled critical discourse, news, and other journalistic works seen as capable of undermining the regime's legitimacy (Snape, 1999, p. 591). At the same time, the military also exercised significant control over the civil bureaucracy on behalf of its 'dual function' (*dwifungsi*): a combination of military and

civic missions to accelerate the targets of so-called 'stability-based development'. Hence, the military became a 'faithful watchdog' protecting the abuses of power practised by Soeharto and his inner circle of family and economic allies, which included both indigenous businessmen and the Chinese conglomerates—designated by King (2000, p. 610) as the 'wealthy silent-minority' who predominantly controlled around 70 percent of the Indonesian economy. Meanwhile Soeharto's family reportedly had an equity stake in 564 domestic companies and hundreds of overseas companies (King, 2000, p. 611). Evidently, what can be termed a 'coalition of vested interests' had emerged—comprising the Soeharto-family, the self-seeking business community, and the military.

As a result, supremacy of law was replaced by supremacy of crony capitalism. The judiciary was systematically marginalized by the executive branch of the government and law enforcement agencies such as the police and the Attorney General's Office (AGO), which some consider were operating in collusion, were easily subordinated by the authoritarian governance structure that Soeharto installed (Lindsey, 2002, p. 14). As a result, the dysfunctional judiciary and legal agencies opened up avenues for subverting the law and justice systems and for resolving disputes in favour of state cronies (McIntyre, 2003; McLeod, 2000). The above analysis outlines how 'crony capitalism' supported the manifestation of a 'coalition of vested interests', perpetuated corruption and subverted most efforts to control it. Hence it is reasonable to discount the veracity of Soeharto's claim, in a speech before the House of Representatives that celebrated the twenty-fifth independence day of the Republic of Indonesia in Jakarta (16 August 1970), that there was '... no need to hesitate anymore, I will directly lead the fight against corruption' (Smith, 1993, p. 49).

Given the power dynamics that protected corrupt practices, it is not surprising that all of the anti-corruption agencies established under Soeharto's rule perished due to insufficient political, financial, and infrastructure supports from the government. Thus, the New Order's stability-based development doctrine that stymied freedom of expression, and promoted a political and economic system that was crony-based, weakened public accountability and institutionalized corruption in Indonesia over those years. Institutions and agencies that were not in line with or potentially impeded the predatory politico-business interests were suppressed, marginalized or, where necessary, co-opted.

Even though some argue that corruption was necessary for Soeharto's economic growth strategy (Liddle, 2013), others have viewed the opportunity cost as too high to sustain the momentum of development (Dick, 2002, p. 82). Most of the international aid agencies that had supported Soeharto's 'development' efforts such as the World Bank and the International Monetary Fund were either unaware of the systemic corruption that existed under his rule or simply ignored the evidence (Dick, 2002; Hadiz, 2006; Jayasuriya, 2002). Some authors (Dahl, 1998; Liddle, 2013; Putzle, 1997) also argued that international aid agencies were inclined to tolerate the evolving corrupt practices by labelling them as 'common local practices', which were 'natural' and 'ineluctable' practices that 'normally' emerged during the market-friendly policy changes. In contrast, Hadiz and Robison (2005) persuasively argue that the distorted views about corruption during the Soeharto era stemmed mainly from the neo-liberal pragmatic acceptance that political stability could co-exist with rentier behaviours of the state while encouraging inflows of foreign investment. This allowed corruption to grow with impunity and become endemic in Indonesia society.



Lessons from Soeharto's crony capitalism also revealed the fragility of such arrangements, for, with the advent of Asian economic crisis in 1997/1998, the entire regime along with its patronage based banking system collapsed (Snape, 1999, p. 590). The economic and financial systems which had been co-opted and corrupted by Soeharto's families and politico-business associates eventually revealed fundamental deficiencies in which the national banking system suffered massive growth in non-performing loans and lack of capital adequacy and liquidity.

This exposed the state's economy to high risks during the Asian financial crisis contributing to massive capital outflows and a major recession (Hill, 1996). The uncontrolled situation weakened the Rupiah's value and the exchange rate, followed by inflation reaching up to 80 percent, reduction in the GDP, and a dramatic increase in unemployment and poverty. Political instability ensued, with acute public distrust of the previously wealthy but corrupt authoritarian government. People gradually began to aggressively demand the end of the regime. Demonstrations intensified, following demands for reform in all sectors of government, leading to the collapse of Soeharto's authoritarian regime in 1998 after more than three decades in power. The 'KKN', or what was popularly identified as the movement addressing corruption, collusion, and nepotism, became central to the agenda for governance reform in the post-Soeharto period. The 1998 reform movement sought fundamental changes in Indonesia's transition from a corrupt-authoritarian, toward a corruption-free and democratic country.

To overcome the impact of the 1998 financial and political turmoil that prevailed at the end of the Soeharto era, the Indonesian government was required to sign 16 Letters of Intent with the International Monetary Fund (IMF) in return for US\$43 billion in funding for recapitalizing insolvent national banks, commitment to economic policy reforms, and also to introduce political reform packages. The structural adjustment reforms based on neo-liberal tradition, including matters affecting the anti-corruption strategy, were to be based on market policy reform as prescribed by the Washington Consensus. They included fiscal discipline, redirection of public spending from subsidies related to the broad-based provision of key pro-growth policies, tax reform, competitive exchange rates, trade liberalization and foreign direct investment, privatization of state enterprises, and deregulation (World Bank, 2000).

Indonesia subsequently undertook several important neo-liberal reform initiatives. At the political level, reforms were implemented through amendments to the 1945 Constitution to strengthen parliament's authority over the executive, separate the role of military from the political arena, guarantee social and press freedoms, and also introduce stronger democratization through decentralization policies to dismantle the centralist-authoritarian rule model (Hart, 2010; Lindsey, 2002). Decentralization was expected to inspire local initiative, creativity, entrepreneurship, and reduce the administrative barriers by bringing power closer to the people—thus breaking down centralist-authoritarian models and simultaneously establishing local good governance.

At the economic level, Indonesia dismantled its state monopolies over vital economic activities by liberalizing its economy through privatization of strategic state-enterprises such as the state logistic agency (Bulog), the state oil and gas company (Pertamina), and the state electricity company (PLN). It also began unravelling trade protection policies, withdrawing subsidies in education, health and other public sector domains. Activities also included imposing fiscal discipline and restructuring as well as recapitalizing the

insolvent banks to eliminate the nearly bankrupted politico-bureaucratic and business conglomerates deeply entrenched in the Soeharto era.

Reaction against the corrupt politico-business environment was strong within civil society, culminating in the demand to establish special anti-corruption institutional frameworks. This could be accomplished by strengthening anti-corruption laws and creating an independent and extra-ordinary anti-corruption agency tasked with coordination and supervision of corruption cases and equipped with strong powers of investigation and prosecution (Bhargava & Bolongaita, 2004; World Bank, 1999). It was believed that such an institution could influence attitudes and shift social and political behaviour to inhibit corruption in order to facilitate free and fair market functions. Schutte (2012; p. 41) explained that such ideas had been stipulated in Article 43 (2) and (3) Law 31/1999 in lieu of Law 3/1971 on Criminal Acts of Corruption which commanded the reform government to create an extraordinary law to establish a special anti-graft agency within two years after the enactment of the law.

However, commentators on Indonesia pointed out how the political-economic reform packages were gradually appropriated by status quo elements that were remarkably resilient and able to consolidate their power and capacity within the new and fluid democratic environment (Dick, 2002; Hadiz, 2006). The collapse of the Soeharto regime did not mean the total disappearance of his New Order's apparatus and interests. As McIntyre (2003) has observed, these situations subsequently produce a pattern, where the role of elite politicians and their business associations have significantly affected industrial organizations as well as the structure of corrupt behaviour. This could be the reason why during the administrations of Habibie and Wahid through to 2001, the special anti-graft agency mandated by the Law 31/1999 did not materialize. Finally, after three years, Law 30 on the Corruption Eradication Commission (KPK) was enacted in 2002.

Researchers on anti-corruption studies (Schutte, 2012; Indrayana, 2012; Butt, 2010; Bhargava & Bolongaita, 2004) did not clearly explain why the process dragged on longer than initially envisaged, and how the KPK was eventually born in the midst of a highly corrupt environment. Some speculations explained that the birth of the KPK actually was not solely caused by the good will of political activists or the strong pressures from international donors such as the World Bank, IMF or Asian Development Bank (ADB) that had long been trying to support and facilitate the establishment of the anti-corruption agency in Indonesia. Rather, the KPK was shaped by the convergence of interests among the reformist political actors, international donors as well as the intra-elite conflicts whereby the corrupt elites tried to insulate themselves from scrutiny by establishing a new legal instrument to avoid legal assaults from the existing anti-graft agency.

As explained by Dick and Mulholland (2016, p. 46), under Megawati's rule, public allegations were made that the ruling elites played substantial and corrupt roles in renegotiating trillions of rupiah in debts between the state and Soeharto-channelled conglomerates in order to illegally access lucrative funds from the scandal of Indonesian Bank Restructuring Agency (IBRA), which provided massive new funds through Central Bank Liquidity Funds (BLBI) of around Rp 146 trillion (US\$11 billion). The injected funds, intended to guarantee deposits and meet emergency bank loan commitments, were in fact misused by the conglomerates for overseas investments, currency speculation and debt servicing on other companies in the group (Hadiz & Robison, 2005, p. 227). The



revival of predatory business actors was also alleged as facilitated by misuse of IBRA's authority under Megawati's reign. 'A politically powerful man' within the circle of power was not only alleged to have seized 4.7 percent of the US mining company Freeport's share from Soeharto's close friend Bob Hasan, but was also publicly suspected of interfering in the government economic policies related to the hundred billion dollars of debt negotiations between the state and the conglomerates. The misuse of IBRA by the 'fake reformists' harmed state finances by around Rp 450 trillion. Helped by the corrupt 'fake reformist' elites of government, the old politico-business families and conglomerates successfully shifted their corporate debts to become the state's debts. At the time, after the Joint Investigating Team (TGPTK) was established but then dissolved by the Wahid administration in 2001, the Wealth Audit Board (KPKPN) led by Jusuf Syakir became an aggressive anti-graft agency in investigating President Megawati's inner circle in the IBRA's policies for illicit benefits.

While some have perceived the birth of KPK as the best legacy of the Megawati period, speculation argues that Megawati's attempt to ratify the Law 30/2002 on the KPK was mainly motivated by political interests to avert legal threats and inconvenience posed by the Wealth Audit Board (KPKPN). Ratification of the law establishing the KPK can be understood as a political strategy to abolish the KPKPN's legal foundation and forcefully merge it into the new body of the KPK. As a result, as admitted by one of the KPKPN's members Syukri Ilyas (detik.com, 31 March 2004), almost all of the KPKPN's investigations eventually evaporated and were not followed up by the ruling government or the newly born KPK. Hence, the KPK was not institutionally well-developed under Megawati's government. However, in the following period, the KPK institutionally evolved and enjoyed adequate political support under the first Yudhoyono administration (2004–2009), because the anti-corruption issue was important in his political campaign strategy. However, all this speculative arguments remained debatable and raised critical question, as the capacity of the KPKPN was not as big and powerful as the current KPK.

However, instead of the speculation, the early post-Soeharto Indonesia also conducted legal and anti-corruption reforms: these included the the National Ombudsman Commission (KON), the National Law Commission (KHN), the Centre for Financial Transactions Reporting and Analysis (PPATK), the Witness and Victim Protection Agency (LPSK) and Business Competition Supervisory Commission (KPPU), Law on Ratification on UNCAC, Law on Public Information Campaign, Law on Judicial Commission, Law on Mutual Legal Requests, Presidential Regulation Number 55/2012 on National Strategy in Combating Corruption, as well as Presidential Regulation Number 49/2009 on Indonesian National Armed Forces (TNI) Business Activities Deregulation.

However, the more legal norms have been introduced and stressed, the more corruption has flourished (King, 2000, p. 620; Jones, 2009, p. 148). The situation cannot be separated from the longstanding institutionalized corruption within political, economic, judiciary and law enforcement systems, which has been highly systemic and structured. Therefore, while producers of corruption were flourishing, the performance of the ordinary anti-corruption agencies such as the Police, the AGO and also the courts in containing corruption remained dismal. In this context, reformists in the political or legal arenas who exerted their capacities to enforce transparency and anti-corruption principles were often publicly depicted as a cleric in the village of thieves (*ustad di kampung maling*).

As a consequence, the corrupt political-environment remains unchanged in this post-reform era. Democratization has facilitated the merged politico-business interests. That is indicated by 262 of 575 Members of National Parliament (2019–2024) are business players (Tempo, 3 October 2019). In the previous period (2014–2019), the Member of Parliament were also dominated by businessmen, which were equal to 52.3 percent (293 of 560 total members). Unfortunately, data shows that 80 percent of corruption cases which have been investigated and prosecuted by the KPK are related to corporations and business players (KPK, 2018). Meanwhile, in the local level, political decentralization has also become an effective machine for perpetuating ‘decentralized corruption’. Meanwhile, the patterns of corruption can then become more systematic, decentralized, and deeply rooted, ranging from low to very high-level corruption. These trends indicate that the predatory politico-bureaucrat and business alliances, which can be fragmented, successfully regained their strength within the new political order at both national and local political levels (Hadiz & Robison, 2005, p. 231). On the one hand, leading scholars on Indonesian politics, such as Aspinall (2010, p. 32) has acknowledged that Indonesia was gradually able to stabilize its internal political dynamics as a procedural democratic system. However, they also note that the price of this stability has entailed allowing status quo elements and their political patronage system to dominate the newly established democratic and governance frameworks.

All of these realities could be understood by the liberal pluralist supporters, as postulated by Dahl (1998, p. 173) and Liddle (2013, p. 66), as the reflection of an unavoidable conflict between democracy and market-capitalism which always modify and limit each other. However, in my view, there is a significant risk in the Indonesian context that the limited cohesiveness and political resources of reform agents means they will face massive challenges in order to counteract the predatory alliances of politico-bureaucratic and business interest groups. Even when small in number, elite vested interests will almost always have access to substantial political resources. Moreover, their appropriation within the reform system as the ‘price’ of a relatively peaceful transition places them in a secure position from which to perpetuate corruption.

Influence of vested interests on Indonesia’s contemporary anti-graft machinery

After evolving and enjoying adequate political support under the first Yudhoyono administration (2004–2009), the KPK was able to build its capacity to become a powerful anti-graft agency, outpacing the conventional law enforcement agencies (Police and AGO) which largely remained corrupt. With adequate political support, the KPK started its operations in a politically more conducive environment with less political resistance. Some critiqued that the conducive environment emerged when its initial targets consisted of former governmental officials under the previous regime and middle-level bureaucrats not related to the ruling power holders (Crouch, 2010, p. 228; Schutte, 2012, p. 41).

In spite of the early criticism, the ³KPK was gradually able to demonstrate its persistence and professionalism as an extraordinary anti-corruption agency. By putting both investigative and prosecutorial functions under one roof, with capacity to wiretapping, taking over cases from ordinary law enforcement agencies, copying financial transactions

from banking system, many big corruption cases—involving ministers, governors, mayors and regents, members of parliament, senior bureaucrats, senior police officers, senior prosecutors, ambassadors, and other prominent figures—were able to be successfully investigated and prosecuted leading to many convictions (*Inkracht Van Gewijsde*). Therefore, the public and international communities generally viewed the KPK as the most effective anti-corruption agency in Indonesian history which thereby changed what had been considered unchangeable.

However, the unchanged corrupt political-economic environment has provided the more open battlefield for corrupt, predatory and vested interests deeply embedded in political, governmental and business agencies to reconsolidate their power, networks and capacities against liberalization and accountability. Vested interest groups may reconfigure their approaches and strategies to determine whether the new reforms they collectively face will collectively survive and succeed or be weakened and eviscerated' (Moe, 2015, p. 297; Umam et al., 2020).

As a result, the more effective the anti-corruption institution is perceived to be, the more it is likely to invite a backlash that could ultimately reduce its effectiveness. On many occasions, the coalitions of vested interests consisted of those from political elites, law enforcement officers, high-state officers and also business players have mobilized their capacities against the KPK through strategies such as undermining tests to select the agency's top leaders, publicly depicting the KPK as an 'out of control super body' violating human rights, and then subsequently followed by conducting a judicial review of the law on which the KPK is based in order to reduce its powers and authorities—specifically seeking to revoke the agency's authority to wiretap and eliminate its investigation and prosecution authorities by returning these to the Police and AGO. Other tactics included reducing the KPK's annual budget proposal, recalling senior investigators and auditors who hold key information on high-profile cases to their home institutions (e.g. Police), criminalizing and physically attacking the KPK's strategic officials (Umam et al., 2020).

Although mobilization in opposition to the KPK's anti-corruption efforts is likely to be attempted, most of them were ineffective after met with countervailing pressures from a free press and active civil society groups that had potential to moderate threats to the KPK and enhance its capacity to perform its anti-corruption functions, at least on an ad hoc basis (Mietzner, 2012; Umam, 2019).

However, regardless of the KPK's successes, public criticism continues to focus on questions of why corruption apparently remains systemic and structured indicated by the remained low level of Indonesia's corruption perception index (CPI). In January 2020, Transparency International (TI) released that Indonesia's CPI score slightly increased from 38 (CPI 2018) to 40 (CPI 2019). Given to the global average CPI score in 2019 was 43, it means that Indonesia was still under the global average and consistently below Singapore, Malaysia, and Thailand in Southeast Asian region (TI, 2020). The KPK's capacity to target high-level corruptors has indeed represented a significant achievement, but the efforts have not fundamentally changed the politico-bureaucratic and business corrupt alliances deeply rooted in the contemporary 'democratic' environment. The KPK's anti-corruption operations just looks like as 'sustainable harvesting' or 'just cutting off the heads of a hydra'—implying that when one big fish is successfully arrested, another emerges to take its place.

Recently, the coalition of vested interests as the product of illiberal processes in the post reform era has posed more serious threats making the assessment of Indonesia's anti-corruption agenda more gloomy and pessimistic. The situation has been getting worse after the 2019 legislative and presidential elections, when the strong coalition of vested interests consisted of politicians in the House of Representatives, secretly collaborated with ⁴² Minister of Law and Human Rights, Minister of State Apparatus and Bureaucratic Reforms, and secretly sponsored by big domestic and foreign companies which their business interests were threatened by the KPK's aggressive anti-corruption machine successfully amended the Law on KPK in October 2019 (Lecturer at Paramadina University, Interview, 10 October 2019; Researcher from Indonesia Corruption Watch (ICW), 12 October 2019). Unfortunately, this betrayal of reform agenda were also facilitated by illiberal leadership of President Joko Widodo who believes that the KPK has resisted foreign direct investment in Indonesia. This controversial move was conducted secretly in order to avoid strong public resentment and political pressures which could be very effective to demoralizing the government's political credibility and legitimacy.

Unfortunately, the president seems to allow the state's intelligence units to effectively deflate civil society and universities' student movements across the country by manipulating public opinions through social media operations on behalf of 'national stability'. By stereotyping the KPK as the hotbed of Islamic radicals and fundamentalists through hoax and fake news widely spreading in social media, many civil society elements decided to stay away from the KPK during the crisis (Republika, 19 September 2019; LP3ES, 20 September 2019). At the same time, most of the mainstream media have been co-opted by their owners' interests in which many of them are already affiliated to political parties and are inclined to be reluctant for being critical against the powerful coalition of vested interests.

As a result, the new Law No.19/ 2019 on the KPK has successfully crippled the KPK's institutional capacity, ⁴ creating technocratic incompetence, establishing political, bureaucratic and legal barriers as well as crushing its public trust (Umam, 2019). Under this new law, the KPK is now part of ² executive agency under the president (Article 24) making it vulnerably ³ intervened dan pressures by political powers. Its investigation and prosecution functions ³ were also weakened as it will have no longer capacity to directly take over cases from the Police and AGO (Article 10A) and not allowed to instructing other state agencies for travel ban, asking ² banking and taxation data, halting financial transaction during preliminary investigation (Article 12) which will it more ineffective. The KPK ² is now also equipped with authority to issue a Warrant for the Halting of an Investigation and Prosecution (Article 40) if the case cannot be resolved within two years, which will make difficult to dismantle big cases and drive it to focus primarily on small lower-risk cases. In addition, the coalition of vested interests have successfully imposed the establishment of the Supervisory Body with functions of approving or rejecting wiretapping, searches and seizures proposals from its investigators (Article 37B) and its members are appointed by the president (Article 37D), which will open potentials for direct political intervention from the circle of power.

This new KPK's institutional arrangement has successfully build a shield to secure the corrupt forces' politico-business interests as they are potential targets of anti-graft investigations. As a result, since the newly amended Law of the KPK applied in October 2019 until today, the KPK was more deeply trapped in 'torpor' or 'a dead faint' indicated by

almost no significant progress in 'big fish cases' investigation or red-handed operations which were very intensive previously.

Conclusion: lessons for ACAs in other countries

The pervasive problem of corruption and anti-corruption measures in Indonesia substantially lies in the nature of political and economic arrangements that allow groups of vested interests to gain access to state power and engage in rent-seeking behaviour. In this article, the associations between the role of vested interests and its influences on anti-graft works in Indonesia have been discussed, including the role of countervailing forces posed by civil society and media elements. However, these two opposing forces have played their significant roles through a complex dialectic, interaction, or even confrontation, with consequences for whether the anti-corruption agenda will survive or be diminished in the uncertain future.

Based on the material presented in this article, several conclusions are suggested as lessons learned for Anti-Corruption Agencies (ACAs) in other countries which are also searching for the best model and strategy against vested interests and to succeed anti-corruption reforms in their countries. *First*, this study has made it clear that the legacy of earlier regimes, in particular illustrating how, under the Soeharto administration, the government's stability-based development doctrine facilitated the formation of an oligarchy and created opportunities for corruption. The state's political power was controlled by a relatively small number of wealthy groups who influenced policy-making to benefit their interests and alliances. The domination of these 'small but powerful' groups subsequently accelerated the institutionalization of corruption within governance and law enforcement systems. Under these conditions, all institutions and agencies that were not in line with the predatory politico-business interests were either suppressed or co-opted. From this point of view, the pervasive problem of corruption in Indonesia substantially lies in the nature of political and economic arrangements that allow a small group of vested interests to gain access to state power and engage in rent-seeking behaviour for mutual benefit.

Second, the neo-liberal reforms applied in post-Soeharto Indonesia did not eradicate the corrupt forces previously nurtured under the authoritarian regime; rather they were able to consolidate their power and capacity within the new environment. This is precisely what would be anticipated from a structural perspective (e.g. as advocated by Robison & Vedi, 2004)—that is, that the basic tenets of neo-liberalism reflected in the prescriptions of democratization, market liberalization, and institutional reform would be insufficient to eradicate corruption and would open up new opportunities for vested interests to exert influence. This was particularly evident when Indonesia speeded up its democratization through the implementation of decentralization in 2004 until today. The pattern of corruption then became more decentralized, systematic, and deeply rooted, ranging from low to very high-level corruption. Competition for power and the legacy of bolstering of power through patronage distribution and accumulation of financial resources through rent-seeking re-emerged in new but old forms that continued to challenge the agenda of corruption control in the country.

Third, this article also clearly describes the strong capacity of vested interests to regroup and exert influence within the Indonesian anti-corruption reforms context.

4 The vested interests among politicians, government officials, power brokers within law enforcement agencies, military officers and business actors, have been capable to establish strong coalition in the newly democratized and economically liberalized Indonesia. However, not all vested interest groups can exert their capacity powerfully against the reform actors and anti-corruption machinery. The ultimate capacity and cohesiveness of the vested interest coalitions emerged when their manoeuvres accept adequate political backing up from top political leaders while civil society and independent media are also weaker creating a permissive political nature allowing them to exercise their most destructive influences to subvert laws, hijack anti-graft agencies and discredit reformist actors for their gains at the cost of public interests.

Forth, the powerful influence of vested interests has made the anti-corruption works as a normal political battle. Their networks and alliances have successfully posed serious threats against anti-corruption operations, especially done by the KPK as the most leading anti-graft agency in the country. That may be natural when strong commitment is declared, many vested interest groups that were previously nurtured under the corrupt regime and have now successfully reorganized their power are likely to undermine the anti-corruption movement to secure their interests, not least because they are potential targets of anti-graft investigations. In the end of 2019 until today, the vested interests have been politically facilitated by President Joko Widodo administration to crush the KPK's institutional capacities by amending its law as the main source of its powers. Under this condition, the KPK is clearly a vulnerable agency, the view of it as a 'super body', or 'powerful and extraordinary agency' must be re-assessed.

Fifth, this observation indicates that democratization process in Indonesia has the potential to produce countervailing forces such as an active civil society and enhanced freedom of the press. They are evident in the public pressure for a comprehensive anti-corruption agenda following the fall of Soeharto and in strong public support for the KPK. However, these emerging forces are not always capable to pose adequate counterattacks against the vested interests as they are characteristically inclined to be 'fragmented' and 'poorly mobilized'. However, civil society elements in Indonesia may well have the capacity to multiply and expand their organizations, networks, and leadership, and that they may become effective players in the fight against corrupt forces, although they may not always be capable of blocking attacks from the well-organized coalitions of vested interests.

1 Gaining an understanding of the implications of vested interests on Indonesian anti-corruption efforts, 1 is an important step to gaining a comprehensive understanding of the factors that affect the success and failure of Indonesian anti-graft agenda. 1 This is needed to support Indonesian civil society and independent media as the healthiest pillars of democracy and anti-corruption to meet their best capacities within the liquid and dynamic politico-economic environment in Indonesia. Therefore, the nature of civil society and independent media best suited to achieve optimal outcomes and to create 'political will of the top political leaders' to simultaneously support reformist actors and anti-corruption agencies adequately against the vested interests. 1 Challenges should be investigated.

The presently limited extent of resources investigating the networks and coalitions of vested interests deeply embedded within circle of power presents a serious challenge to the future of anti-corruption agenda in Indonesia. Without an adequate understanding



on character, capacity and network of vested interests, including the strong elements of civil society and independent media producing adequate counterbalance forces against it, no matter how large the budgets and facilities invested in reforming public administration and anti-graft agencies, corruption control will still have limited impacts. Comprehensive research on vested interests and its impacts on anti-corruption agenda conducted in this democratized and liberalized society is needed to provide empirical evidence and to update the information available at the time of writing this article.

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