
Corruption Issue Could Cloud Suharto's Impressive Record

Indonesian Leader's Associates Amass Wealth

By William Branigin
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JAKARTA—With Indonesia's oil-based economy under pressure from a sharp drop in world crude prices, criticism appears to be mounting against the business dealings of relatives and associates of President Suharto.

Complaints about the business dealings threaten to undermine the otherwise impressive record of development and stability that Suharto has built up during his 20-year leadership, say Indonesian sources who support his government.

According to Indonesian documents, published studies and interviews with leading Indonesian businessmen and bankers, the family and associates of Suharto over the years have amassed extensive business holdings that have benefited from connections with the government.

Their enterprises have received easy access to credit, lucrative government contracts, concessions, trading monopolies, exclusive licensing arrangements and other official favors, the sources say.

For years, the business activities of Suharto's wife, Hartinah (Tien) Suharto, have earned her the nickname "Mrs. Tien Percent." Recently criticism has shifted to the Suharto children.



PRESIDENT SUHARTO
... government sensitive to allegations

The issue contributes to racial animosities between indigenous Indonesians known as *pribumis* and a Chinese immigrant minority that dominates the economy. Chinese financiers, called *cukongs*, long have provided the business acumen for partnerships with well-connected Indonesians. But these symbiotic relationships appear to be increasingly resented, especially by Moslem fundamentalist opponents of Suharto.

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Suharto Sensitive To Allegations Of Corruption

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The subject of business dealings and corruption is a highly sensitive one for the Suharto government. It has reacted furiously to articles in Australia's Sydney Morning Herald newspaper April 10 on the wealth accumulated by the Suharto family and associates, which the paper put at \$2 billion to \$3 billion.

Amid an ensuing crisis in Indonesian-Australian relations, the Suharto government called off a visit to Canberra by Research and Technology Minister Jusuf Habibie, barred Australian journalists from Indonesia and organized a demonstration in front of the Australian Embassy featuring placards calling on the Canberra government to "harness your press."

"There are a lot of wealthy people in Indonesia, not only Mrs. Suharto," Habibie said in her defense. He also reacted angrily to comparisons between the Suhartos and the Philippines' ousted president Ferdinand Marcos and his wife, Imelda.

Information Minister Harmoko said the articles were based on "pure fabrication," but the government has not addressed specifics in the articles.

And while the Suharto government termed the stories an insult to the Indonesian people, it was clear that not even all government supporters shared that view.

"I hope this kind of criticism has some restraining effect," said a leading member of the business community. "Suharto should know that all this in time could bring about his downfall. He has a good record as president. His weakness is his family and corruption."

In a Jakarta slum, Subejo, a 35-year-old noodle seller, complained about the flour monopoly, owned by a relative and friend of Suharto, that produces his main ingredient. "In my opinion, the monopoly is no good," he said. "Without the monopoly, the price would be lower."

Favoritism, influence-peddling, rake-offs and kickbacks long have been features of an economy in which corruption is so pervasive that some government supporters defend it as a "cultural norm." But sometimes the graft exceeds tolerable limits and the government is forced to crack down.

Such was the case in the mid-1970s when the state oil company, Pertamina, nearly collapsed under debts of \$10.6 billion. Although an official investigation turned up evidence of mismanagement, massive corruption and vast overextension by borrowing, the head of Pertamina, Gen. Ibnu Sutowo, a close friend of Suharto, was "dismissed with honor" and allowed to preside over his own business empire.

Another major crackdown came a year ago when, after intense debate, the government signed a three-year deal with a Swiss firm to take over the country's customs service, which had acquired a reputation as a graft-ridden sinecure for military men. "In essence, Suharto admitted that he couldn't control his customs because it was so corrupt," a diplomat said.

Now, many Indonesian businessmen are hoping that Suharto will show the same firmness by reining in his family, business sources say. With the prospect that plummeting oil prices will force deep budget cuts and curtailment of projects, entrepreneurs are growing uneasy that the appetites of Suharto relatives and asso-

ciates may allow for no leftovers in a shrinking economy.

"For years we were used to a sizable cake," said one Indonesian critic who asked not to be identified. "But now the cake is shrinking dramatically, and the elite is becoming greedier, specifically the president's family. Even the crumbs are being picked up by members of the family. It's getting more difficult to make some meaningful business."

Besides his wife and children, those who benefited from their relationship with Suharto include an assortment of brothers, in-laws and other relatives, old Army buddies and a Chinese businessman, Liem Sioe Liong. Their names appear in public records as shareholders of profitable enterprises ranging from banks and hotels to flour mills and cement factories.

What is not in the records and cannot be ascertained at the moment is whether Suharto himself has benefited directly from the favored enterprises. But some businessmen feel that as long as close relatives such as his wife and children are among the known beneficiaries, the question is academic.

The business group of the Suharto family is commonly known as the Cendana Group, named after the Jakarta street where Suharto has lived since the early 1960s when he was an Army general. The Cendana Group largely consists of minority shareholdings in companies owned by ethnic Chinese, wrote Australian researcher Richard Robison in a 1977 doctoral thesis submitted to the University of Sydney. Using information from official company registers, he listed 28 business groups within the Cendana Group.

Among the business interests Robison identified with Tien Suharto are two supposedly charitable foundations, the Yayasan Harapan Kita and the Yayasan Kartika Jaya. "A major source of income for the *yayasan* [foundations] has been direct shareholdings in business enterprises, the largest of which are a hotel, a logging and agricultural estate company and a printing company," Robison wrote.

In addition, the foundations receive "special allocations of dividends" from individual companies, notably the Bogasari flour milling company of Liem Sioe Liong. "In this capacity, the *yayasan* are an agency for the collection of tribute from those Chinese companies receiving concessions through the palace group," Robison said.

Robison said in his study that in seeking to account for the use of the foundations' funds, he could identify only one example of their charity work.

Bogasari Flour Mills was formed by Liem in 1969 with Suharto's foster brother, Sudwikatmono, as president-director and a 4 percent shareholder, according to an official company registration. The firm was awarded a license for exclusive flour-milling and marketing rights in western Indonesia, accounting for about 80 percent of domestic consumption and worth about \$240 million in annual sales. By 1982 Bogasari had taken over the management of a company awarded a license for the eastern region, giving it virtual monopoly control of the Indonesian flour market.

In 1968, Liem and a stepbrother of Suharto, Probo-sutedjo, were granted exclusive rights to import cloves, a particularly lucrative concession because of their use in Indonesian cigarettes. Probo-sutedjo and his Meru Buana group of companies have expanded since then to manufacturing, plantations, contracting, banking, car dealerships and other ventures.

Another Liem concern, the Bank Central Asia, lists one of Suharto's sons, Sigit Harjojudanto, and a daughter, Siti Hardijanti, as members of its board of commissioners, with 16 percent shareholdings each. How the shares were acquired is not known. The Liem family owns 24 percent of the bank, the largest private domes-

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tic bank in the country, which now has offices in New York and Hong Kong. With Sudwikatmono as a 10 percent partner, Liem also established an offshore empire around the First Pacific group of companies in 1982 and in the process bought California's Hibernia Bank and Hibernia Bancshares Corp.

Especially controversial in recent months has been Liem's Indocement Co., Indonesia's largest cement manufacturing concern. With 45 percent of the shares owned by the Liem family and 5 percent by Sudwikatmono, Indocement benefited from what critics regard as a Philippine-style bailout when it got into trouble last year. The government bought a third of the shares for about \$360 million and paid off a \$120 million foreign loan.

"The business community was really mad about that," said a leading Indonesian businessman.

Another source of resentment has been the acquisitiveness of Suharto's sons Sigit Harjoyudanto and Bam-

bang Triatmodjo, business and banking sources said. In 1983 the two, who are in their thirties, competed against each other in a well-publicized struggle to land a deal with the state oil company to ship liquefied natural gas to South Korea. Bambang and a brother-in-law, Indra Kowara, won the contest when the company signed a 20-year agreement to lease two tankers they partly own.

Lately, Bambang has been concentrating on building up a group of about 30 companies, called the Bimantara Group, into a conglomerate, the sources said.

While stories of questionable business dealings involving Suharto's relatives and friends have circulated for years, the issue has come under increased scrutiny by the business community and the foreign press lately because of the downfall of Marcos.

Contributing to Marcos' fall was the erosion of support from the country's business community, largely because of resentment over "crony capitalism." Under the system, presidential friends and relatives—and ultimately Marcos himself—siphoned hundreds of mil-

lions of dollars out of the economy and banked or invested it abroad, investigators have charged.

"The 'cronies' are nothing new in the Indonesian economy," said Adi Sasono, director of Indonesia's Institute of Development Studies.

But while the corruption issue has prompted comparisons with the Philippines under Marcos, it is generally acknowledged that the impact of the graft and favoritism in Indonesia has been less severe. Pervasive as corruption is here, more people benefit than in the Philippines, Indonesian and western sources agree.

"One of the softening arguments for petty corruption here is that it's a distributive system," a western diplomat said. In fact, various military commands traditionally have used business deals to help finance supply requirements not covered by their usually meager budgets.

By contrast with the Philippines, no evidence has emerged here of the kind of ostentatious spending and massive investments abroad that characterized the Marcoses' 20-year rule.

"In the Philippines there was a systematic ripping off

of the country," said an international banker. "You don't hear the same stories here. The difference is we've seen economic development and growth here."

When Suharto assumed power in 1966 and gradually took over as president in the following two years, he inherited an economy in ruins from his mercurial predecessor, Sukarno. Inflation exceeded 600 percent and the crowded island of Java was considered the original Asian "basket case."

Under Suharto the economy turned around, attracting billions of dollars in foreign investment and bringing the inflation rate down to less than 10 percent by 1983 and about 4 percent at present. Since 1980, annual growth of the gross domestic product has averaged more than 6 percent. But perhaps the proudest achievement for Suharto, a former soldier of Javanese peasant stock, was the attainment of self-sufficiency in rice production, for which he was honored in November by the U.N. Food and Agriculture Organization.

Since then, however, the price of Indonesian oil, which accounts for 65 percent of total export earnings, has fallen from \$28 a barrel to about \$11. The collapse has played havoc with the budget for the 1986-87 fiscal year, which began in April, and has confronted the government with the prospect of economic contraction this year.