

Intergovernmental Conflict in Riau: The Political Economy of Post Soeharto, 1998-2004

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The present study focuses on the changes in Indonesia after the fall of Soeharto in 1998. It examines a dispute involving the central government, the provincial government and Caltex Pacific Indonesia (CPI), a multinational company based in Riau, over an oil block by the name of Coastal Pekanbaru Plains (CPP). After democratization and decentralization, a new pattern of Indonesian politics has been in the making, the characteristics of which enable provincial politicians to create a political network with those powerful in Jakarta. Such a political network initiated from the provincial level was a novelty that did not exist within the New Order state. However, this process of conflict over CPP illustrates that the governor of Riau Saleh Djasit was less able to set up a political network with powerful local and national politicians. Saleh Djasit was challenging the policy decided by the central government without substantial political backing, yet his move only lead to defeat. The dispute directly resulted in a climate inhospitable to foreign investors.

I. Introduction

The purpose of this paper is to scrutinize the political and economic situation after democratization and decentralization in Indonesia. It shows the dysfunctioning of the bureaucratic rules of the game and the increasing relevance of politics by closely examining the conflict over Coastal Pekanbaru Plain (CPP) oil block – contracted to the Caltex Pacific Indonesia (CPI), a company belonging to US companies Texaco and Chevron – located in Siak district, Riau. The central government came into conflict with the provincial government over the oil block in 1999, two years before the contract of CPI expired. The conflict stemmed from the request of the provincial government, which had developed political capability, for a fair distribution of oil income extracted from the soil of Riau. The dispute erupted when the central government strongly refused to accept the request of the provincial government.

The central argument of this paper is that important changes underway in Indonesia since 1998 necessitate a reappraisal of the economic and political situation. In particular, changes associated with the economic crises that started in 1997 and were followed by the political crisis that brought Soeharto down in 1998 have contributed to a situation in which provincial

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politicians have come to develop political capabilities. Provincial politicians started to challenge the central government and presented themselves as a new emerging force following the decentralization policies that cut off the hierarchical link that existed in the New Order state. This study shows that after the fall of Soeharto in 1998, the novel pattern of politics has been in the initial stage of formation with the increasing relevance of the provincial level politics and its interconnection to politics in Jakarta.

With the increasing relevance of interconnection, political networks are likely to define political strength of the provincial politician. If the governor has political network, then his leverage is strong; otherwise, he is considered weak. Therefore, in a dispute situation the governor would have a better chance to negotiate if he has a political network linking to those in Jakarta. It should be clear that governor of Riau was less successful in constructing a political network both at the national and provincial level. At the national level the governor was less successful in making permanent links with national political figures. At the provincial level, the governor had to confront Tabrani Rab, one of the advocators of the Riau Freedom Movement (Riau Merdeka, RM) that proposed an independent Riau.

This case sheds light on the increasing relevance of political networks. It is necessary to examine why the governor lost his political battle due to the absence of a political network. The case offers up material for debate concerning the new patterns of Indonesian politics and economy.

The structure of the paper is straightforward: the introductory section presents the overall scene, then moves to Riau politics under Soeharto. Next, it discusses the consequences of Soeharto's departure for Riau. The fight between the central and provincial government is discussed in the fourth section.

A. Riau under Soeharto

Riau province was an outcome of the Congress of Riau People (Kongres Rakyat Riau, KRR) in 2 February 1956 where the Riau people demanded a separate province. One of the reasons was that Central Sumatra was so large; therefore it could not provide services to the Riau people (Mardjani 1959, 16). It was proposed that the province include the districts of Kampar, Bengkalis, Inderagiri and Riau Archipelago. In 1957, Riau province was established by the issue of law of 19/1957. In 1958 Riau province was constructed.



Golkar, the dominant political party in Soeharto government, dominated the political scene in Riau since the beginning of the New Order. In 1972 Soeharto adopted drastic measures to allow only three political parties to compete in the election: PPP (United Development Party, Islamic-oriented Party), Golkar (Functional Group); and PDI (Indonesian Democratic Party). In Riau from 1971 to 1997, Golkar always won elections with from 70 to 85 percent of the votes. In 1971, Golkar won 75.68 percent of votes, 1977 around 58 percent, 75 percent in 1982, in 1987 with 80 percent and the highest in 1992 with 83.67 percent.¹

Under Colonel Arifin Achmad, the first governor under the Soeharto government, Golkar began to influence local politics. His strategy was to channel the votes of civil service only to Golkar, which maintained its dominance in the province (Lutfi 1977, 731). Soeharto dismissed Arifin in 1978 when Golkar votes decreased in the 1977 election to only 58 percent, much lower than that of 1971 with 75.68 percent. He proposed a demand for 1 percent from total oil produced in the province for Riau as well.

Since then, Soeharto established institutions to control political and economic processes for his benefit. In this paper, 'institution' is defined as 'the formal rules [that] are created to serve the interest of those with bargaining power to create new rules' (North 1995). He controlled the political processes, ranging from the center down to the entire region in the country, through two means: establishing institutional arrangements and creating a political network. These institutional arrangements were deeply associated with the military and with the dominant political party, Golkar (Functional Group) (Robison 1993). In addition to his ability to control the military, Soeharto also secured effective authority within Golkar as head of its Supervisory Council (Dewan Pembina), a position that enabled him to determine the selection of Golkar office-holders and to control politics down to the village level (Shiraishi 1994).

Through his rule over the military and Golkar, Soeharto controlled the appointment of provincial governors and district chief and mayors. He instituted the law 5/1974 on Local Administration for this purpose. In this law, although the candidates for governors, mayors or district chiefs were elected by the regional parliament (DPRD), at the final stage of decision making, they were appointed by and responsible to President Soeharto.² With this control of

¹ Data from Election Committee (LPU and KPU) for various years, quoted from Kompas, 4 February 2004

² The article 15 of Law 5/1974 on Local Administration



the election process, Soeharto made the regional government leaders depend on him politically.

In addition to that, Soeharto also controlled the flow of funds to the region by means of allocating lucrative taxes to the central government and then channeling some of the funds to the region. The regional income (PAD) was far from sufficient to run the government. All the provinces had to rely on subsidies from the central government for about 60 percent for their operating expenses (Kuntjoro 1993).

These political and fiscal arrangements then provided the fundamental impetus for a political alliance between Soeharto and the governors. It would be safe to claim that all the governors were political allies of Soeharto, and they depended on him for their political careers. The governors then responded to the wishes of Soeharto instead of the local population, and they were also politically accountable to Soeharto.

The combination of such institutional arrangements and political alliances created a political economy revolving around Soeharto, as the center. Soeharto then was able to determine the fate and political careers of regional politicians and to intervene decisively in the economic affairs of the region.

The pattern shall be clear when Soeharto appointed Imam Munandar³ as the governor of Riau since 1980. For the periods of 1988-1993 Soeharto appointed another Javanese military person, Soeripto⁴, to serve as governor. Both were the outcome of Soeharto's heavy hand to dictate the provincial assembly. Out of 45 members of the parliament 35 of them chose Soeripto as the governor (Rab 2002a, 95).

B. Oil Under Soeharto: Pertamina and Caltex Pacific Indonesia

Soeharto achieved two other goals by establishing Pertamina. First, through Ibnu Sutowo's hand Soeharto intended to force foreign investors to make agreement on investment based on contract production sharing or CPS, in which Pertamina would have managing control and the contract would be based on production sharing rather than profit sharing (Bartlett III 1972,

³ He was born in Blitar, 15 June 1927. His education as follows: HIS (1940); Junior High (1943); Senior High (1951); Voluntarily Defense/Peta (1944); Army School of Staff/Seskoad (1967); National Defense School/Lemhanas (1973); and Lemhanas (1975).

⁴ He was born in Madiun, 18 November 1934. Graduated from the Military Academy (1960), Army School of Staff/Seskoad (1972); Seskogab (1975).



285). Second, Soeharto was able to silence the wishes of the local politicians for revenue sharing from oil resource. Soeharto depended on the governors of his choice to secure the central government interests in extracting oil.

The company now known as Caltex Pacific Indonesia (CPI) started operations in Riau in 1924, when a geologist from Standard Oil Company of California, a US company, reported oil reserves in Central Sumatra. Based on this report, Standard Oil of California established NV Nederlansche Pacific Petroleum Maatschappij. After receiving an exploration permit from Sultan Siak in 1935, the company started to research seriously. The first oil was found in Duri in 1940. In the late 1940s the company started to operate again, and in 1949 it drilled Minas field. Yet it was in the late 1950s when CPI started to invest heavily, amounting to US\$50 million in the country. However, the most striking changes happened in the early 1960s when the Soeharto government reached an agreement for the COW with CPI for the first time. Another development occurred again in the early 1970s when Soeharto government, through his right-hand man Ibnu Sutowo, imposed the CPS on the CPI.

The oil contract between the Soeharto government and CPI was split between Pertamina and CPI by a 15: 85 ratio. Fifteen percent of the oil revenue went to CPI and the large share of 85 percent went to Jakarta (in 1998 amounted to US\$2 billion), and nothing remains in Riau itself (Colombijn 2000).

II. Riau Politics after Soeharto

The Riau provincial government was less successful in consolidating power because of political disagreements related to the Riau freedom initiative. The chance for Saleh Djasit, the governor, to rely on Golkar was slim due to the small number of individuals of Riau origin occupying high positions in the party and voluntarily acting as an anchor to offer help to the governor at the national level of politics. The sole possible link that connected the province to national politicians must have been Syarwan Hamid, former Minister of Home Affairs under Habibie's government. However, Syarwan lost the battle to defend the option of a federal Riau.



Because of the centrality of the role of the governor within the dispute, it is necessary to understand his relation to the central government after the introduction of the decentralization law in 1999 and his location within the context the New Order government.

Saleh Djasit was embedded within the structure of political economy created by Soeharto in Riau, where the interests of Jakarta-based conglomerates and the foreign investors were given top priority. Under the Soeharto government, the governor was charged by the local population with allegations of helping conglomerates based in Jakarta. An example of this tendency was that the governor downplayed the existence of customary land rights of the people.⁵ This act benefited the Jakarta conglomerates who were after massive amounts of land. Under the tight control of Soeharto, Saleh preferred to side with the central government instead of Kampar's population.

Furthermore, Saleh Djasit needed the Jakarta-based conglomerate for running business in Riau because they have skill, capability and access to the international capital. This mutual relationship to some extent also defined governor's political behavior. The governor consider the operation of CPI within this framework, where Riau provides the raw material and CPI offers technology, skill, capital and access to the international market.

Similar to the national level of politics, the power of Golkar in Riau was reduced even if the party still dominated the political scene with 30.1 percent votes in the 1999 election. Compared to the election of 1997, where Golkar received 83.56 percent, achievement of only 30 percent was not a good showing for the party. Megawati PDIP's received votes with 25.4 percent.⁶

Judged from the votes of main political parties, the distribution of power at the provincial level in Riau was quite balanced. The collaboration of Islamic-based political parties could possibly block the interest of Golkar. Alternatively Golkar could face a serious challenge from the PDI-P as well. Such political balance proved correct when governor Saleh Djasit, who based on Golkar, was less successful in consolidating various political powers at the provincial level to defend the interests of Riau in the face of the central government.

⁵ For this allegation look, Forum Keadilan, *Setumpuk Urusan buat Gubernur Baru*, 16 November 1998

⁶ Data is obtained from the Election Committee, quoted from Kompas, 4 February 2004



III. Political Rifts

The ill-fated Riau Freedom Movement serves two objectives in this paper: to demonstrate that this movement triggered political rifts in the province, because the governor did not support it; and to acknowledge that some of the local politicians in Riau were preoccupied with an obsession to secede from Indonesia.

The Riau Freedom Movement was a response to the unfair income distribution between the central government and province of Riau. This unfairness stemmed in the New Order government, as the province received only small portion of income derived from oil, which accounted 70 percent of Indonesia's income from oil. After the fall of the New Order some Riau political leaders such as Tabrani saw an opportunity for Riau to obtain more income from the exploitation of its natural resources.

Political fracture had become evident when Tabrani Rab and Al Azhar advocated for an independent Riau. As a response to these demands, Syarwan Hamid advocated an alternative for a federal Riau (Albintani 2001, 22). A federal Riau, in Syarwan's vision, should be achieved through peaceful means. In Syarwan's own words 'to be realistic relations between the central (government) and regions must be improved. Federalism has been successful in promoting people's welfare while still retaining unity. We are not thinking of asking for independence. Federalism is enough because it is still in the context of unity'.⁷

Tabrani Rab and Al Azhar rose to prominence because of their silent resistance against the New Order state and its development strategy. The structure of the political economy in Riau under the New Order regime was designed to benefit Soeharto and his political and business allies. Forestry-based business activities in Riau were also intended to serve Soeharto's interest. This started when Soeharto saw the vast timber riches as a way not only to jump-start the economy but also to consolidate his political power through economic patronage (Barr, 1998 and Peluso 1995). Soeharto controlled the timber industry in Riau by issuing the Forestry Law.⁸ The law classified unpopulated lands as 'state forest'⁹ a vast area that included more than 75 percent (143 million hectares) of Indonesia's total land area, much of which was still under traditional claim. Due to legal position as state forest, the law targeted one hundred

⁷ The Jakarta Post, Scholar Renew Independence for Riau, 19 November 1999

⁸ Law on Forestry No.5/1967

⁹ The term state forest indicated the intention of Soeharto government to control land. The Law mentioned that it comprised of land, with or without forest which was declared as the state forest, look article 1 section 4



million hectares for logging or 'conversion' to plantation (i.e., clear-cutting and replanting in monocultures of pulp or other estate crops).

It was said that Tabrani Rab and Al Azhar initiated the initiative for an independent Riau. It is necessary to scrutiny their political motives. They were established as the cultural leaders, because these were the only activities that relatively less interference by Soeharto. For both of them Soeharto's behavior to Riau was insolent. They cleverly hid their resistance by using the economic backwardness of the Riau Malays' as cover. They acknowledged that under Soeharto the Malays of Riau were not granted an equitable portion of the benefits of their own economic resources, such as oil and forests. The matter become worse in their view when the Riau Malays were not only mere spectators of economic growth in Soeharto years, but also 'forced out to leave the soil they have tilled for generations' (Derks, 1997, 701).

Tabrani and Al Azhar were responding to the unfair redistribution of benefits from the wealth extracted from Riau. However, under Soeharto tight control, their form of resistance had never been expressed directly in terms of open political action against the president because they were aware that such action was dangerous and politically impossible. Therefore, they were forced to skillfully cover their resistance in the form of campaigns against the economic injustices surrounding the Malays of Riau.

After the fall of Soeharto, Tabrani and Al Azhar considered they gained momentum to put their vision into action, especially when the dispute over land erupted. In many occasions both of them defended the rights of local people against multinational or Jakarta-based conglomerates. By defending the rights of the local people they gained credibility that their economic vision would benefited the people of Riau. Their movement then concluded in form of a Riau freedom movement. The whole idea of Riau Freedom stemmed from the economic injustices experienced in Riau. As such, this movement could be judged as a search for an alternative to Soeharto's development strategy, an alternative in which development must benefit the people of Riau.

However, the proposal for an independent Riau thus paved the way for serious political fractures in the province. The issue of an independent Riau split the political leaders of Riau. Since the governor and Syarwan Hamid were less successful in defending the federal Riau option, for a brief interlude Tabrani and Al Azhar had chances to set the agenda for a fight for



more revenue sharing from oil production in Riau. At this stage they demanded that the central government submit 10 percent of total oil production for Riau. At the initial stage of the dispute this voice, as well as Tabrani's, achieved high credibility among the Riau population.

In the end, Tabrani admitted that the Freedom Riau Movement (Riau Merdeka, RM) did not have the means to make the central government negotiate revenue sharing. He seemed aware that RM did not enjoy warm acceptance from a large proportion of the Riau people, since some of them were not being represented by the participants who attended the Congress.

Tabrani thought of another means to achieve his objectives. Then he received an offer from the central government under Abdurahman Wahid to join the Council of Regional Autonomy Advisory, a central government body under the Ministry of Home Affairs. While Tabrani did not see any danger in his move to join the central government, other politicians who voted for an independent Riau considered Tabrani's move as betrayal. For them, it was uncommon that the proponent of a separatist movement would join the central government. As a consequence, credibility of RM was damaged, and since then it has been very difficult for RM to recover its credibility in the eyes of the Riau population.

As Tabrani left the scene, the governor Saleh Djasit found more space for a role for himself in negotiating the CPP oil block. The governor was willing to adopt the demand of 100 percent of ownership simply because it would boost his political stature in Riau. The governor had to adopt this stance or he would lose another chance to restore credibility in the eyes of Riau people.

IV. Intervention from the Central Government

A. 'Weak governor'

Saleh Djasit's incapability to stop the Congress of Riau People II in the early 2000 raised political suspicions at the national level. The central government perceived governor of Riau as accommodating of the demands of an independent Riau. The central government perceived that the governor did not perform his job in preventing the congress. Since then the central government cultivated a feeling of distrust towards the governor, because allowing an independent movement to breed in Riau would be a dangerous game for the future of the unitary state.



In order to block Tabrani's idea of a free Riau in March 1999, the Riau provincial government made demands for more revenue sharing. The governor put forward a demand that Riau receive 10 percent of the production of oil (Blackburn 2000, 24). Saleh seemingly tried hard to restore his credibility among the Riau population by endorsing the motion for more revenue sharing. At the same time, Saleh distanced himself from the independence movement.¹⁰ Saleh cleverly demanded 100 percent of shares; because it was the only hope that he could improve his political stature in the eyes of the Riau people. Other than that, the province would get more income to run the government. However, Saleh had to reduce its request to 70 percent of shares in the CPP oil block when the central government rejected the original proposal.

The governor restored his credibility when he furthered the interest of Riau with the central government. When Tabrani joined the central government, Saleh quickly tapped this chance to restore his credibility. It did not mean that he had no place, Saleh just preferred to deal with the issue cautiously in the sense that he tried not to blockade Tabrani's move. However, at the same time Saleh Djasit criticized Tabrani as man without the credibility to represent Riau's interest.

Furthermore, the governor wanted to see the province representing Riau's interest. Saleh maintained the target of 100 percent of ownership for Riau, or at least 70 percent with the reason mentioned above. However, he never completed the duty because of the central government opposition. Therefore the governor proposed a reduced ownership of 60 percent of shares, yet again the central government turned it down, offering only 10 percent.¹¹ The central government referred the production sharing contract between CPI and the Indonesian government, represented by Pertamina, that states CPI must divest its 10 percent to an Indonesian partner.¹²

The negotiation between the central and provincial government ended in a deadlock because both of them did not reach any agreement regarding the composition of shares in the CPP. The province rejected the proposal of the central government for only 10 percent for Riau in the CPP. The province considered the 10 percent portion from the income of CPP to be small, and that at time it still fought for at least 70 percent shares.

¹⁰ Interview with Azlaini Agus, a lieutenant of Al Azhar, in Pekanbaru, 14 August 2003

¹¹ Jakarta Post, Riau Province to Jointly Own CPP's oil block, 25 July 2001

¹² Bisnis Indonesia, Pemda Riau Ngotot Minta 70% Saham CPP, 20 November 2000



B. Intervention of the Central Government

There were two interventions made by the central government in dealing with the CPP oil block dispute: allowing for the establishment of Riau Archipelago province. and making political alliance with Siak regency. Minister of Home Affairs adopted the first political measure of allowing the formation of Riau Archipelago province without any recommendation from governor. The Ministry of Home Affairs's main duty was to maintain the integrity of the unitary state, especially after having experienced a loss in East Timor and the constant tension in Aceh and Papua. According to the decentralization regulation, creation of a new province could only be done if there was a grant in form of the legal permission from the governor under which the new province is previously situated. The minister had political interest over the proposal for Riau Archipelago province by treating it as important leverage for bargaining with Saleh Djasit (Albintani 2002, 165). From the minister's perspective, granting a province to the Riau Archipelago was a lesser evil than having a breakaway Riau state. This political measure, moreover, split the Riau independence movement and reduced the validity of their mission, since it is questionable whether the Sumatran part of Riau Province alone is viable as a state (Wee 2002, 512).

Though Riau Archipelago province consists of five main islands of Batam, Natuna, Bintan, Karimun, and Lingga, its main center of economic energy has been Batam. The story of the transformation of Batam is of interest in understanding the viability of the Riau Archipelago to become a province in terms of economic. The island started as a support base for a state oil company in 1969, but it became a bonded zone in 1978. The free trade zone inaugurated in 1990 after the leaders of Indonesia, Singapore and Malaysia agreed to set up regional economic cooperation. The creation of the Sijori (short form for Singapore; Malaysia's Johore; and Indonesia's Riau – yet in fact one of the island in Riau Archipelago: Batam) drastically changed the economy and landscape of Riau.

Due to geographical proximity to Singapore, the Riau Archipelago could make its region more attractive economically. More specifically, it links with the infrastructure, capital, and expertise of Singapore (Yue 1997, 33). In addition to that the linkages with Singapore have also placed Batam as one of the major investments in Riau. Investments from Singapore (including foreign MNCs based in Singapore) are the major source of foreign investment in Batam, accounting for over half the foreign companies (Yue 1996, 181). Such relatively huge



investment associated with the creation of Batam Industrial Park, which has become the largest industrial park operated in Batam, with 57 companies operating there in 1995, representing a total investment of over US\$200 million (Royle 1997, 94).

The governor's rejection of the establishment of the Riau Archipelago province was done on economic grounds. According to him, the Riau Archipelago economy was far from viable to stand as a province because most of its income was derived from the Riau province, located in the mainland. The Governor maintained that the separation between the mainland and archipelago would put the latter with only a net income of IDR68 billion. Such an amount came only from the original local taxes. According to him, with the establishment of the new province, Riau Archipelago would lose its revenue sharing from oil and gas, amounting to IDR600 billion.

The Ministry of Energy adopted the second political measure of establishing an alliance with the Siak regency. The minister's calculation was simple: political power of Siak was weaker compared to that of the provincial government. With it the central government secured its interest in controlling the CPP oil block through majority shares. The minister eventually could impose its terms on Siak. On 11 September 2001, the central government wrote a letter to governor of Riau mentioning the condition that Siak be included as part of the team that would be set up by the governor.¹³ With his plan to involve Siak in the provincial team, the central government started to cultivate its preference in dealing with the CPP. The central government may have considered the possibility of obtaining two benefits: to reduce the potential of conflict at the local level; and to weaken the influence of the province. With regards to reducing future conflict at the local level, the central government concluded that the involvement of Siak in the provincial team would be the best solution. The central government perceived that the exclusion of Siak would attenuate potential damage because the CPP oil field is situated in Siak. Such potential damage could be in the form of sabotage or mass riots that would jeopardize the entire operation of the CPP and CPI.

However, at the same time, the central government's plan to include Siak also served another end, that is mitigating the power of the province as far as it relates to the CPP issue. Even

¹³ Letter number 3274/30/MEM.M/2001 of Minister of Energy Purnomo Yusgiantoro to Saleh Djasit on 11 September 2001



though he employed the language of ‘the entire people of Riau,’ as the reason to include Siak, in fact the central government might have intended to weaken provincial influence.

The District chief of Siak issued a district level regulation for its personal network with the central government.¹⁴ Supplied with the weapon of central government approval, Siak then quickly saw an opportunity to push interest of the regency. The Siak government perceived that the letter of the central government provided the regency with an impetus for moving to pursue its interest over the CPP. Subsequently, the Siak team was established with an aim to acquire the oil field. The Siak government abandoned the word ‘province’ in the team name, employed instead ‘Riau’. Siak intentionally wanted to exclude the province from having access to the CPP.

After receiving pressure from both Jakarta and Siak, the province had no choice except to endorse the proposal of Siak to represent Riau over the negotiations over the CPP. The Siak government wrote a letter to the province requesting a formal approval from the governor to represent the interest of Riau.¹⁵ The provincial government had no choice but to agree, and he offered formal approval that Siak would represent the interest of Riau.¹⁶

To bolster political strength, the Siak government disbursed more capital and argued over the location of the CPP oil block in Siak. These two elements explained the behaviour of the Siak regency government in fighting for majority ownership of the oil field. Siak had the intention of owning 70 percent of shares in Bumi Siak Pusako, a local government-owned enterprise intended to be a business vehicle to run the CPP oil field. The argument of the regency was based on the fact that most of the CPP oil wells, accounting for at least 80 percent, is located in Siak administration. The Siak regency government was also ready to provide a large portion of the funds for the working capital of BSP¹⁷, amounting to IDR210 billion.¹⁸

¹⁴ See his interview in *Bahana Mahasiswa*, a student newspaper published by Riau University, ‘CPP Punya Siak, Itu Keliru,’ January 2002. Azaly Djohan was the district chief of Bengkalis in 1989-1994 and represented Riau in the MPR. He was born in Siak, 16 May 1939, served as assistant III of Riau province. He ran for governorship in 1998 but defeated by Saleh Djasit

¹⁵ Letter of the team of CPP Riau No. 06/T.CPP.KS/X/SS-2001 to governor Saleh Djasit dated 11 October 2001, signed by Azaly Djohan

¹⁶ Letter of Governor of Riau No. 500/Ekbang/2470 to Minister of Energy dated 12 October 2001, signed by Saleh Djasit

¹⁷ *Bisnis Indonesia*, Interview with president director of BSP, Azaly Djohan, 8 August 2002

¹⁸ *Bisnis Indonesia*, Bumi Siak Pusako Terlahir Untuk Minyak, 7 August 2002



In January 2002 Bumi Siak Pusako (BSP) entered into an agreement with the central government, with Pertamina as the representative, and with a participating interest of 50 percent each.¹⁹ They agreed on the terms of the contract by December 2001. At the time they agreed on one important point of establishing a joint operation body that would run the CPP oil field.²⁰ They agreed to set up a joint agreement operation, but have yet to decide the proportion of shares between them, as they had one year to negotiate. In August 2002, when CPI was to release its contract, BSP entered another agreement with the Operating Body for Down Stream Oil Industry (*Badan Pengelola Kegiatan Hulu Migas*, the Balaks), a new agency set up to supervise the entire down stream oil industry in the country, based on Law 22/2001. Within the new agreement the Minister of Energy, through the Balaks, was able to obtain a majority of ownership through a split of 85 percent and therefore it secured its interest over the revenue from the oil field. The remaining 15 percent did not go to Siak entirely, because Siak had to divide this amount with Pertamina, based on the agreement of January 2002. Therefore, out of 15 percent both Pertamina and Siak would receive 7.5 percent each.²¹ With this agreement, the structure of ownership of the CPP based on the new contract sharing production has been as follows: the central government as represented by the Balaks owns 85 percent; the contractors as represented by Pertamina and BSP own 7.5 percent each. With the conclusion of the joint management contract, the central government secured the interest of the central government to control the CPP block; therefore most of the income would flow to its coffers.

The transfer of the CPP block from CPI to that of the joint operation body – BSP and Pertamina – took place on 9 August 2002. Even though there was a problem regarding the share ownership in BSP, the Siak regency emphasized that it would receive the majority ownership in BSP.²²

As for the governor, the reason for its defeat was clear. The provincial government was less successful in constructing personal networks, and at the same time it had to confront Siak which had personal network with the central government. The Siak regency moved far beyond its own locality, even if this personal network was proposed by Jakarta. These two factors led to the defeat of the province.

¹⁹ Bulletin Warta Pertamina, 3 January 2002

²⁰ Memorandum of Understanding between Pertamina and PT Bumi Siak Pusako, number 46/TCB/Riau/XII/2001 dated 29 December 2001, signed by Azaly Djohan of BSP and Eteng Salam of Pertamina

²¹ Bisnis Indonesia, Balaks Teken Kontrak Perdana Bagi Hasil Blok CPP, 6 August 2002

²² Bisnis Indonesia, Kami Siap Operasikan Blok CPP, interview, 8 August 2002



V. Conclusion

The study points out current developments in politics and economics after democratization and decentralization in Indonesia. It reveals the dysfunctioning of the bureaucratic rules of game and the increasing relevance of the dynamic political interconnections between the center and regional governments. While it maintained little degree of cooperation, the interconnection was mainly manifested in terms of conflict involving those governments. Such conflict was indeed a reflection of the dysfunctioning of bureaucratic rule, because in a normal situation the regional government should follow orders from the central government. However, as this study shows, such conflict could also produce institutions that were accepted by the involved parties. For example, regarding the outcome of the conflict in which the central government secured its interest and the Siak government received about 7.5 percent of the shares, the governor of Riau, Saleh Djasit, did not express his denial. This meant that he accepted the outcome. In short, instead of creating institutions from a voluntarily exchange of the involved parties, as argued by New Institutional Economics scholars such as Douglas North (1990), this case offers a different process of creating institutions through conflict of opposing parties. Because it was a conflict, power and settlement become relevant.

The conflict over the CPP in Riau reveals the weaknesses of the provincial government in constructing personal networks with politicians in Jakarta and the province. Why was the provincial government unable to secure political support even at the provincial level? Two factors stand out. First and foremost, Saleh was less able to connect with important national level figures such as Syarwan Hamid, who is of Riau origin. Therefore, Saleh was not able to use political clout at the national level of politics to push his demands. Second, the province faced difficulties in establishing a solid network with other politicians since some of them proposed an independent Riau. Instead of consolidating power at the provincial level, the governor had to admit that it had to compete for power with other politicians for influence. Even though the governor could finally consolidate his influence at the provincial level, he had already lost momentum as the dispute went on into directions that he could not control. Therefore, the governor had to pursue the provincial interest on his own, using only his political muscle, the office of the governor.

The failure of the governor emphasizes the relevance of personal networks. Even if the governor were fully aware that he should construct a personal network to strengthen his



power, this would not be easy for him. Perhaps the governor's career and the broader context of politics in Riau unravelled his failure to set up a network. The governor's career was spent mainly in the province, therefore in this sense he has been a provincial politician and his personal connections with politicians in Jakarta were very few. In addition, the governor had only little choice as Riau could only produce one powerful politician operating at the national level: Syarwan Hamid. Therefore the governors' chances to make personal connections were rather limited, and in fact only the governor went along with the former minister on only certain aspects: in opposing the Riau Freedom Movement. Syarwan did not offer to help Saleh when the governor waged the dispute with the central government. Again the background of Syarwan provided a proxy to his attitude. Syarwan Hamid spent his career in national level politics and he did not have any close relation with the disputed oil block, the CPP. Syarwan's attitude reflected his preference to side with the central government's position.

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