

# MULTINATIONAL CAPITAL, NEW ORDER "DEVELOPMENT," AND DEMOCRATIZATION IN SOUTH SUMATRA

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No longer do we enjoy life  
There is no bright hope for tomorrow  
Attacked by garbage, polluted air above  
Our land is full of haunted villages.  
December 1995

Society has begun to feel skeptical  
Security forces still wield an iron fist  
People's lives are difficult, searching for a mouthful of rice  
Because the sprouting crops are already attacked by pollution.<sup>1</sup>  
July 2000

Tamin Neklikesabe, Muara Niru

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<sup>1</sup> A *pantun* (traditional verse form) composed by Tamin Neklikesabe of Muara Niru, a village downstream from the PT Tanjung Enim Lestari Pulp and Paper factory.

*Kami tidak lagi gembira  
Karena hari depan tidak ada harapan cerah  
Sekarang diserang limbah, polusi udara diatas  
Menjadikan daerah kami kota-kota hantu.  
Desember 1995*

*Masyarakat sudah merasa sangsi  
Aparat masih bertangan besi  
Rakyat hidup susah mencari sesuap nasi  
Karena tanam tumbuh sudah diserang polusi.  
Juli 2000*

This paper grows out of research conducted in the province of South Sumatra (Sumsel) on the role of voluntary associations and non-governmental organizations in the transition to greater democracy during the first post-Suharto year. The paper focuses on the interaction among five sets of actors: activist non-governmental organizations (NGOs), such as the local branches of the Legal Aid Bureau, Lembaga Bantuan Hukum (LBH-Palembang), and the environmental organization Wahana Lingkungan Hidup Indonesia (WALHI-Sumsel); social movements of workers and farmers; the managers of multinational corporations with operations in South Sumatra; local government officials; and foreign governments. Three cases are considered: 1) the conflict between PT Barisan Tropical Mining (PT BTM), a jointly owned Australian and South African gold mining conglomerate, and residents of villages on Bukit Tembang in Kecamatan Muara Rupit, Kabupaten Musi Rawas; 2) the conflict between PT Wachyuni Mandira (PT WM), one of the largest industrial shrimp farming conglomerates in Southeast Asia, and contract shrimp farmers; and 3) the conflict between PT Tanjung Enim Lestari Pulp and Paper (PT TEL), a corporation created to build the largest pulp and paper factory in Southeast Asia, and residents of five villages in Muara Enim. These cases allow us to examine the impact of multinational corporations on local populations and the impact of a globalizing economy on the prospects for establishing democratic governance in Indonesia.

Part one of the paper describes how conflict emerged between three multinational corporations and local residents in South Sumatra. Part two is an analysis of the interaction between the major actors in the conflicts: 1) social movements of farmers and workers, 2) activist non-governmental organizations, 3) managers of multinational corporations, 4) government officials and military units, and 5) foreign governments. In the conclusion, I attempt to answer the following questions: As workers take advantage of the opportunity to organize and engage in political protest over economic issues, how do government officials and corporate managers respond? To what extent are mobilized groups of farmers or workers manipulated by "persuasive elites"? Under what conditions does the conflict become violent? What effect does the rhetoric of national political figures have in shaping people's understanding of local conflict? What strategies might limit or prevent outbreaks of violent political conflict?

## Introduction

There are four ecological zones in South Sumatra. The western border of the province runs along the far slope of the Bukit Barisan mountain range. In the mountains and foothills, small holders farm irrigated rice fields and grow coffee for export as a cash crop. The eastern coast of South Sumatra, which is lined with mangrove, consists of low-lying swampland (*rawas*) and is sparsely settled except along the rivers where villagers grow one crop of rice (irrigated by tidal flooding) and supplement their income with fishing. In between these two areas is lowland forest, where villagers obtain their living from the cultivation of rubber trees, which are planted under the jungle's canopy. Lowland villagers also rely on the rivers for fish and grow fruits and vegetables below their rubber trees. Villages in the lowland forest are generally located along rivers that formerly provided the major means of transportation. They may be quite isolated, so that residents must travel for several hours over dirt roads (often impassable in the rainy season) before meeting the major thoroughfares linking the northern parts of Sumatra with Lampung in the south and the highlands with the provincial capital, Palembang, on the lower Musi. On the island of Bangka, once

known for tin mining, small holders grow fruit trees and pepper, which is cultivated as a cash crop for export. Global capitalist forces have intruded into and made an impact on these varied ecological zones in different ways.

Following the nationalization of Dutch corporate holdings in Indonesia in 1957-58, state corporations were established to take over confiscated Dutch interests. These state-owned corporations were generally controlled by the Indonesian military, and a unique relationship developed between military officers and the private corporations that prospered as partners of military enterprises.<sup>2</sup>

In 1966, when Suharto took over from Sukarno, the Indonesian economy was in a state of crisis. The government urgently needed new sources of revenue,<sup>3</sup> and it turned to the rich natural resources of the outer islands. During the early years of the New Order, the state-owned oil company, Pertamina, created in 1968, provided enormous amounts of revenue.<sup>4</sup> However, when mismanagement and corruption caused Pertamina to fail in the mid-1970s, timber exports became important. The Basic Forestry Law (Undang-Undang Dasar Kehutanan, or BFL) of 1967 established state control over outer island forests.<sup>5</sup> The BFL gave the Forestry Department authority to grant a Right of Forest Exploitation (Hak Pengusahaan Hutan, or HPH) to state-owned corporations and private timber companies. Between 1967 and 1980, logging rights over four million hectares were given to state-owned forestry enterprises—Inhutani, Inhutani II, and Inhutani III. In addition, timber concessions covering over 53 million hectares were made to private corporations, many of which were joint ventures between private companies and companies controlled by the Indonesian military.<sup>6</sup> In 1981, the government banned the export of logs, hoping to capture more revenue through development of an Indonesian plywood industry.<sup>7</sup> At the end of the decade,

<sup>2</sup> In *Power and Economy in Suharto's Indonesia*, Robison writes, "The generals must be understood as an integral component of that foreign-dominated capitalism. . . . [T]hey preside over policies which guarantee the interests of their corporate partners. It is a relationship which, on the one hand, generates money for the political survival of the military bureaucracy and, on the other, provides foreign and Chinese business with access to lucrative markets and sources of cheap raw material." See Richard Robison, *Power and Economy in Suharto's Indonesia* (Manila: Journal of Contemporary Asia Publishers, 1990), pp. 22-23. William Ascher notes that there was a change in government policy in the 1980s. "[I]nitially, forest rents were offered by the government in exchange for political support from the clearly powerful military; the newer strategy initiated an exchange of forest rents for cooperation by the Indonesian Chinese in financing development projects and other off-budget initiatives." See William Ascher, "From Oil to Timber: The Political Economy of Off-Budget Development Financing in Indonesia," *Indonesia* 65 (April 1998): 56.

<sup>3</sup> According to Suharto's economic minister, the Sultan of Yogyakarta, "In the 1950s the State budget sustained deficits of 10 to 30 percent of receipts and in the 1960s . . . [these] soared to more than 100 percent. In 1965 [the deficit] reached 300 percent." Quoted in John Bresnan, *Managing Indonesia: The Modern Political Economy* (New York: Columbia University Press, 1993), p. 55.

<sup>4</sup> In 1973 the annual budget of Pertamina was half that of the national government. See Bresnan, *Managing Indonesia*, p. 164.

<sup>5</sup> This law covered 74 percent of the land of Indonesia.

<sup>6</sup> See Christopher M. Barr, "Bob Hasan, the Rise of Apkindo, and the Shifting Dynamics of Control in Indonesia's Timber Sector," *Indonesia* 65 (April 1998): 6.

<sup>7</sup> This ban led many foreign timber corporations to transfer majority share in joint ventures to the domestic partner. In the following years, the world recession of the 1980s led to a consolidation of control over Indonesian companies in lumber industries in the hands of a few Suharto cronies. For example, Prajogo Pangestu's Barito Pacific Group emerged as Indonesia's largest plywood producer by taking over eight firms. *Ibid.*, p. 10.

as supplies of wood for plywood production declined, the Indonesian government turned to the development of industrial timber estates (Hutan Tanaman Industri, or HTI) for paper and pulp production. At the same time, the Indonesian government recognized the potential for generating revenues from palm oil production and from industrial shrimp farming in the mangrove swamps. At the end of the 1980s, the Ministry of Forestry began granting enormous concessions for the establishment of industrial timber estates, palm oil plantations, and industrial shrimp farming in South Sumatra.<sup>8</sup>

### Part One: Three Multinational Corporations in South Sumatra

#### *PT Barisan Tropical Mining (PT BTM)*<sup>9</sup>

Tembang Lubuk Linggau (Rawas) is a gold mine located on Bukit Tembang (Kecamatan Muara Rupit, Kabupaten Musi Rawas) in the Bukit Barisan mountain range at the northwestern edge of South Sumatra. The mine, which opened in 1993, is operated by Barisan Tropical Mining (PT BTM), an Indonesian company owned by Setiawan Djodi, a former business partner of Tommy Suharto and a director of Laverton Gold NL, an Australian company, whose major shareholders include Westpac Nominees, National Nominees, ANZ Nominees, and Herford Investments. Laverton Gold NL is a wholly owned subsidiary of Consolidated African Mines Australia Pty. Ltd. This South African/Australian conglomerate has gold mining and exploration interests in Australia, Indonesia, South Africa, Namibia, and West Africa. In 1996, 40 percent of PT BTM was sold to RP Rawas Ltd. Singapura and 40 percent to PT Jamtiku Ltd. Hong Kong.<sup>10</sup>

PT BTM was awarded a Contract of Work (CoW) by the Indonesian government in December 1986. The concession covered 117 sq. km. In April 1997 a second CoW covering 1,620 sq. km. surrounding the original area was obtained. A third CoW covering 410 sq. km. on the northern edges of the second CoW area, was granted in 1998. Development of the mine began in November 1995, and the mine opened in January 1997. The mine, which is only accessible via twenty kilometers of winding road, has four open pits, each with its own large waste dump. Near the plant site is a tailings dam and a polishing pond.

Small holders living in the area of the mining concession grow rubber and fruit trees and gather saleable products, such as rattan and wild honey, from the forest. Other

<sup>8</sup> A Forestry Act (Nr. 4/1999) passed at the end of Habibie's tenure as president replaced the 1967 Basic Forestry Law. However the 1999 Forestry Act does not recognize the rights or protect the interests of villagers who depend on the forest. These villagers are described as "communities with customary laws." Customary land is included in state forests and can be granted as concessions to private or state-owned companies.

<sup>9</sup> Data for this part of the paper has been collected from WALHI-Sumsel; an interview with Dedi Kurniawan, BTM Public Relations Representative, at the mine site (July 27, 2000); correspondence with Gavin Lee, BTM's Environmental Officer; the report of Jeff Atkinson, National Policy Coordinator Community Aid Abroad, Mining Ombudsman (March 8, 2000); Institut Studi Arus Informasi; Jaringan Gerakan Petani Indonesia & Reforma Agraria, moderator J. J. Polong; and interviews with small holders who live near the mine.

<sup>10</sup> The mine produces 75,000 to 100,000 ounces of gold a year. The cost of production in mid-1998 was US\$257 per ounce of gold equivalent, which is not particularly low. However, from mid-1997 until the end of 1998, production from the mine was hedged at US\$406 per ounce, which would have made it profitable.

sources of income include fishing and small-scale mining for gold in mountain streams. The Memorandum of Understanding (MoU) for opening the mine stated that local residents could not be forced to sell their land to PT BTM, but in 1991 local government officials and the military intervened. Some villagers say that they were told the land was, in fact, state-owned; others were told that they would be imprisoned for obstructing development if they did not sell. To this day, villagers continue to protest that they were not fairly compensated for their land.<sup>11</sup>

Resistance to PT BTM has grown among villagers because mud washed down from the mining site has caused the Sungai Tiku River to become filled with silt. According to residents downstream from the company's base camp, river water can no longer be used for drinking or cooking. They complain that when they bathe in the river, they get skin rashes and feel itchy. They can no longer pan for gold, and their fish catch has declined.<sup>12</sup> The death of a child in August 1998 was attributed by the villagers to pollution in the river. The child said she itched all over, and her body is said to have turned blue before she died.<sup>13</sup> On December 16, 1998, the waters of the Sungai Tiku turned dark brown and a large number of dead fish were found floating on the surface. These incidents caused local residents to mobilize in protest against the mine. They contacted WALHI-Sumsel, which arranged to monitor the quality of the river water from December 1998 until February 1999. WALHI-Sumsel reported that after every rainfall, the river was polluted with cyanide from the mining operations. WALHI Sumsel urged the Ministry of Mines to withdraw its permit.

When PT BTM did not respond to the villagers' protests, they organized a demonstration at the office of the Regent of Musi Rawas. The Regent, supported by the PT BTM's manager, denied that the mine was responsible for polluting the river. No action was taken.

In May 1999, local residents observed that PT BTM was surveying and exploring in new areas. With support from WALHI-Sumsel, people from six villages formed the Alliance of Mining Victims (Aliansi Masyarakat Korban Tembang, or AMKT). AMKT compiled a list of complaints against PT BTM, alleging that PT BTM used intimidation to obtain title to land, endangered their communities by polluting the river, and caused a loss of income because small-scale panning in the river had been declared illegal in

<sup>11</sup> A former official of the Ministry of Mines commented, "In the case of land compensation, yes, I recall that BTM had a problem with the locals. I also recall that BTM had badly prepared maps for the compensation of land, crops, and buildings. Thus, it is very likely that BTM used the [power] of local authorities to [negotiate] the compensation. At that time that was a common practice."

<sup>12</sup> BTM's environment management plan (AMDAL) includes several requirements. 1) The tailing effluent water shall be treated in a detox plant prior to dumping into the river. The detox process shall be the INCC process. 2) BTM shall construct a settling pond to catch all surface water flowing through eroded areas around and in the mine. Only the overflow from this pond should be allowed to flow into the river. 3) On the river side of the tailing pond, BTM shall construct a monitoring pit and ditches for the purpose of inspecting possible leaking of cyanide into the river. However, a (former) official from the Ministry of Mines commented, "The BTM project has been suffering from a shortage of financing since the beginning. I also believe that its Site Management are not too concerned with the local people and with the environmental management in general. . . . I believe that BTM has been breaking many rules . . . The Tiku river should have not been polluted by the mine if BTM complied with the AMDAL."

<sup>13</sup> Some months after this incident, an employee of the company admitted that in September 1998, while a new tailings dam was being constructed, the company discharged mine waste (including cyanide) straight into the river. Interview with Dedi Kurniawan (July 27, 2000).

the company's lease area. The villagers also argued that dust churned up by trucks and lights illuminated at night had scared away wild bees, so that they could no longer collect wild honey. They said that blasting at the mine was causing durian trees to drop fruit prematurely and also causing a decrease in rubber production. AMKT opposed expansion of the mine and demanded that PT BTM restore the Tiku River to its original condition.<sup>14</sup> WALHI-Sumsel pointed out that pollution from the PT BTM mine endangered over 15,000 people living in seven villages immediately downstream and threatened the water supply for many more villages.

PT BTM spokesmen responded to these protests by denying responsibility for pollution of the Tiku River, claiming that the Tiku was muddy before the company began its operations. However, PT BTM agreed to dig wells in villages close to the mine. When Sungai Jambu got five wells, other villages also demanded wells, and PT BTM subsequently complained that responding to such protests creates an endless demand for assistance. PT BTM has also begun to employ local residents in reforestation efforts (in compliance with the company's environmental report). As only fifteen people a day are employed (at a minimum wage), this has done little to appease protesting villagers.<sup>15</sup> They say that the work is hot and exhausting, and that formerly, before the advent of PT BTM, they could earn more by collecting rattan and other jungle products.

In March 2000, PT BTM closed down its operation at the Rawas Mine. The owners have formed a new company, Barisan Sumatra Mining (BSM), which has been granted a concession to explore for gold in an area adjacent to PT BTM's concession. PT BTM is working to repair its image in the eyes of local residents so as to avert resistance to a new mine. PT BTM's spokesman points out that the company is seeking local partnerships for reforestation projects and that the cyanide level in the holding tank has been reduced sufficiently so that carp live in the water. PT BTM brought in an expert to investigate another fish kill in the Tiku River in May 2000, but the expert was not able to figure out the cause. Rejecting other claims of the villagers, the PT BTM spokesman maintains that durian trees on mining property are fruiting normally (in any case, the blasting has stopped). In short, PT BTM argues that it has fulfilled its social responsibility. On the other side, AMKT continues to demand that the Tiku River be restored so that it can be used for drinking, bathing, fishing, and gold panning.

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<sup>14</sup> In support of AMKT, WALHI-Sumsel issued a media release: "The President should temporarily decommission all mining activities of BTM until the company improves its methods of production and processing, in compliance with zero-emission requirements, and fulfills its social responsibilities. If the company does not do this, its Contract of Work should be revoked. Should BTM have to abandon its operations, it must pay fair compensation to its workers, to local land owners and to affected communities. January 22, 2000.

<sup>15</sup> BTM is developing a complex system of rotation in order to give as many people as possible an occasional chance at employment.

*PT Wachyuni Mandira (PT WM)<sup>16</sup>*

PT Wachyuni Mandira (PT WM), which is owned by (retired) naval officer General M. Murod, is a subdivision of PT Gajah Tunggal, a conglomerate headed by Syamsu Nursalim, a Chinese-Indonesian crony of Suharto. The industrial shrimp farms were built with loans provided by the Nursalim-owned Bank Dagang Nasional Indonesia (BDNI), along with loans from the World Bank and the Export-Import Bank of Japan. PT WM's industrial shrimp farms, which cover an enormous area along the eastern coast of Lampung and South Sumatra, produce shrimp that is sold to Japan.

In 1995, PT WM was given a concession of 170,000 hectares of low-lying swampland in Ogan Komering Ilir (OKI) in South Sumatra. Although the company is said to have used intimidation and threats by security forces to force small holders to give up their land,<sup>17</sup> conflict over land was mitigated due to the fact that the area was sparsely populated. When local resistance to PT WM emerged, protesters focused on the contracts PT WM signed with shrimp farmers under a system called "nucleus and small holder estates" (Perusahaan Inti Rakyat or PIR, known by villagers as *inti plasma*). This system, endorsed by the World Bank in 1986, called for a state-owned enterprise to establish a "nucleus" factory within a larger "plasma" area of small holders, who would all grow the same crop and sell their produce under contract to the state enterprise. In the 1990s the concept was extended to private plantations. As applied in PT WM's shrimp farms and palm oil estates in South Sumatra, the PIR system has involved the bribery of government officials to obtain licenses,<sup>18</sup> deceptive contracts, the monopolistic exploitation of contract farmers, and the use of security forces to suppress protests.

The contracts between shrimp farmers and Gajah Tunggal companies in Lampung and South Sumatra consist of a loan of Rp.130,000,000 (US\$65,000-\$70,000 depending on the exchange rate) to pay for land, a house, equipment, and two shrimp ponds. The farmers were told that in eight years they would be debt-free. However according to a report in the *Far Eastern Economic Review* (June 1, 2000), the farmers only became more indebted: "[S]ince the company was the sole provider of feed, fry, power and other basics to the farmers, it took a huge bite out of their income—so large tha

<sup>16</sup> Information for this part of the paper was collected from LBH reports, the Insitut Study Arus Informasi in Palembang, reports in *Sumatera Ekspres*, and *Sriwijaya Post*, and *Far Eastern Economic Review*, reports of Human Rights Watch Asia, and a brief interview with a company spokesman, who was reached by telephone from the headquarters of PT WM in Palembang.

<sup>17</sup> Between 1996 and 2000, conflict over land between PT WM and villagers erupted in Gajah Mati (456 hectares), Sungai Limau (200 hectares), Karang Anyar (509 hectares), Sungai Sibur (650 hectares), and Kecamatan Perwakilan Pematang Panggang (29,400 hectares).

<sup>18</sup> Quoting from a World Bank working paper, Paul Gellert suggests how establishing a Nucleus Estate System (NES) plantation is likely to invite bribes and to provoke local resistance: "Once a plantation company has identified a potentially suitable site, the company begins a two-pronged approval process. The company first files an application with the Director General of Estates for a location permit. The location permit also requires [application to and] the approval of the local governor. . . . The estate company conducts a location study, which it provides to both the local and central government. Once both applications are approved, the central and local forestry agencies conduct a review of the project's impact. Once this review process is complete, the complicated process of identifying settlers and providing compensation to those settlers is begun." See Paul K. Gellert, "A Brief History and Analysis of Indonesia's Forest Estate Crisis," *Indonesian* 65 (April 1999): 89.



they constantly had to borrow more to stay afloat.”<sup>19</sup> Nursalim, the head of the conglomerate that owns Dipasena in Lampung and Wachyuni Mandira in South Sumatra, explained that the first shrimp harvests in 1990 were disappointing, and that these poor harvests forced farmers to take on more debt. By 1996, yields had improved, but the El Nino drought in 1997, followed by the devaluation of the rupiah, led to rising prices for inputs and mushrooming debt that forced Dipasena to cut the price at which it bought shrimp from farmers to 70 percent of the regional average.

At PT WM, the shrimp farmers were given basic necessities<sup>20</sup> along with a monthly bonus of Rp.175,000 (US\$20) after their first harvest. They were not informed how much of their debt was paid off or how much profit had accrued from the harvest. Between 1996 and 1998, the shrimp farmers began to protest to PT WM. They said that the monthly food supply was inadequate and the equipment they were given did not accord with what had been described when they signed their contracts. They protested that they were not allowed to leave the site of PT WM without permission.

In January 1998, PT WM responded by increasing the monthly food supply and the bonus to Rp.220,000 (US\$23). Not finding this to be adequate, shrimp farmers in the company-built village of Bumi Pratama Mandira formed the Temporary Negotiating Body of Contract Shrimp Farmers (Badan Musyawarah Plasma Sementara, or BMPS). They demanded information on the status of their debts and terms of repayment and charged that PT WM had been cheating the farmers through vague credit agreements and inaccurate calculations of prices paid for shrimp harvested. They complained that, due to monopoly control, only PT WM profits from the enterprise. They also protested that many contract farmers had been expelled from their farms without reason or compensation. PT WM increased the monthly bonus again, to Rp.375,000 (US\$45) in September 1998 and Rp.500,000 (US\$65) in October. The other issues raised by the farmers were not dealt with.

In September 1998, shrimp farmers from PT WM went to LBH-Palembang for assistance. LBH-Palembang, Solidaritas Mahasiswa Sumsel untuk Petani (SMSP), and Aliansi Mahasiswa Pelajar dan Rakyat (AMPERA)—student organizations formed during the *reformasi* campaign against Suharto—agreed to support the shrimp farmers in their demands. They accompanied eight representatives of the shrimp farmers to the provincial legislature and the governor’s office. Members of the legislature agreed to press for resolution of the conflict. The vice-governor informed the delegation and reporters that PT WM had not filed an environmental impact report required for opening their operations.

Under the pressure of publicity generated by LBH-Palembang and the involvement of government officials, PT WM agreed to meet with representatives of the shrimp farmers. While this meeting was going on, over a thousand shrimp farmers demonstrated outside. A fact-gathering team was created. When the team reported that the complaints of the shrimp farmers were justified, the company agreed to resolve the problems as quickly as possible. However, PT WM failed to deal with the

<sup>19</sup> Dan Murphy, “Deeper Into the Morass: The Collapse of the World’s Largest Shrimp Farm, Once Valued at \$2.5 Billion, Sounds Alarm Bells Over the Fate of Indonesia’s Bank-restructuring Efforts, *Far Eastern Economic Review*, June 1, 2000, p. 59.

<sup>20</sup> A family is given thirty-five kg. of rice, three kg. of sugar, two kg. of cooking oil, two cans of powdered milk, one-quarter kg. coffee, one-quarter kg. of washing soap, and twenty liters of kerosene each month.



central demands of the shrimp farmers, who had asked that contracts be renegotiated, clear information about credit arrangements provided, and rules requiring shrimp farmers to get permission before leaving the site be rescinded.

In October 1998, the new governor of South Sumatra, Rosihan Arsyad, appointed a team to resolve conflicts between corporations and local residents. When this team visited the site of the PT WM shrimp ponds to investigate complaints, PT WM turned the visit into a publicity opportunity, inviting TV crews to film their operation. The investigation team demanded that PT WM produce the credit records of the shrimp farmers within one week. But the shrimp farmers were denied access to this information. They were informed that the renegotiation of contracts would be postponed due to the Special Session of the national parliament.

Frustrated at the endless delays and the failure of government officials to win PT WM's cooperation, in November the BMPS decided to organize a demonstration. This demonstration turned into a riot lasting two days. The local headquarters of PT WM was burned down, along with employees' housing and security posts. The marines were called in to support local security forces, and protesting shrimp farmers were attacked with bullets and knives.

The riot provided PT WM with cause to act against shrimp farmers active in protests. Electricity and monthly food supplies were cut off to all farmers and their families. According to reports in the local press, six thousand people were trapped at PT WM's remote location. Those attempting to leave were beaten. In the following weeks, PT WM's security force picked up more than six hundred farmers. They were beaten, intimidated, detained for up to a week, and forced to sign statements promising that they would not engage in further demonstrations or protests. Those who resisted were forced to resign from their contracts and expelled.<sup>21</sup> Seven leaders of the shrimp farmers' organization were abducted by security officers, and forty people were arrested for arson and destruction of property.

Leaders of BMPS maintained that the riot had been started by a group of "unknown origin." Some accused PT WM of orchestrating the violence so as to push out protesting farmers.<sup>22</sup>

Governor Rosihan Arsyad, a former naval officer, accused LBH-Palembang of "backing" the rioters. He emphasized that the operation of PT WM was "essential to the government and society" because, aside from generating foreign export earnings the company also employed thousands of people. LBH-Palembang denied any role in inciting violence. They called for PT WM to withdraw the marines from the location, to provide medicine and food to women and children, and to meet with the shrimp farmers and their lawyers. They pointed out that for two years the rights of the contract shrimp farmers had been violated, but this violation was now ignored due to the riot.<sup>23</sup>

<sup>21</sup> Those expelled were given Rp. 200,000 (US\$25) for an individual or Rp. 400,000 (US\$50) for a family.

<sup>22</sup> They pointed out that the man who admitted setting the fire that started the riot was not arrested. He had been hired by PT WM.

<sup>23</sup> WALHI-Sumsel also pointed out that PT WM had yet to file an environmental impact statement. Several other local *reformasi* organizations came to the support of the shrimp farmers, including the Alliance of Lawyers for Human Rights and Democracy (Aliansi Pengacara Penegak Hukum dan Ham untuk Demokrasi

The riot at PT Wachyuni Mandira attracted national and international attention. Munir, Director of the Commission on Disappeared and Victims of Violence (Komisi Orang Hilang dan Korban Tindak Kekerasan, or KONTRAS) visited the area, as did a representative of the National Commission on Human Rights (Komnas HAM). In a statement to the press, PT WM denied that any shrimp farmers had been fired (*pemecahan hak kerja*, "to break a work contract," or *diPHK*, "work contract broken [by the company]) and maintained that no force or intimidation had been exercised in persuading 265 contract farmers to withdraw from their contracts. In February 1999, Sidney Jones of Human Rights Watch Asia went to Palembang to review evidence of human rights violations by the security forces of PT WM. During her visit, demonstrations against LBH-Palembang were mounted and its office was attacked. Engang, a BMPS leader who had come to make a statement to Sidney Jones, was arrested as he left the LBH-Palembang office.

Forty people arrested for involvement in the riot of November 14, 1998 were tried in early 1999 and received sentences ranging from eight months to five years. As of July 2000, all but five men, who were identified as leaders of BMPS, had been released. LBH-Palembang continued to appeal the detention of these men on the grounds that there was no evidence of their involvement in the riot.

From February 1999 until April 2000, the site of PT WM's operations in South Sumatra was quiet. The remaining contract farmers had been intimidated into signing statements relinquishing their right to protest. However, at Dipasena in Lampung protests turned violent. In March, when Nursalim visited the site of the Lampung operation to ask farmers to return to work, two of his bodyguards were hacked to death by angry shrimp farmers, and Nursalim had to be rescued by helicopter.<sup>24</sup>

Protests against PT WM's operations in South Sumatra began again when villagers learned that the company was planning to expand its operations in parts of the concession that were not yet developed. In these villages, farmers had begun farming shrimp with traditional methods.<sup>25</sup> If they were forced to become contract farmers with PT WM, they would lose both freedom and income. In September 2000, villagers whose land had been taken by PT WM in 1995 also renewed their protests.<sup>26</sup>

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or APPHHD), the Indonesian People Communication Forum for Reform (FKRIUR), the Indonesian Democracy Defense Team (TPDI), and the Education and Law Support Foundation (YPBHI). The South Sumatran People's Organization (Kelompok Rakyat Asal Sumatera Selatan, or KERASS) and Students in Support of Human Rights (Soempah) organized demonstrations in support of the shrimp farmers. PT WM is alleged to have paid students to mount counter-demonstrations against these groups.

<sup>24</sup> Murphy, "Deeper into the Morass," p. 59.

<sup>25</sup> WALHI-Sumsel points out PT WM's method of farming involves destruction of the mangrove swamps, while traditional shrimp farming does not.

<sup>26</sup> A representative of the Governor's office, Amran Harun acknowledged that a concession of 20,000 hectares granted to PT WM in October 1995 had been extended through October 1997, but that since that time, PT WM had operated in the area without permission. The villagers were promised that the conflict would be resolved.

*PT Tanjung Enim Lestari Pulp and Paper (PT TEL)*<sup>27</sup>

PT Tanjung Enim Lestari Pulp and Paper is a joint venture involving Suharto's daughter, Siti Hardiyanti Rukmana ("Tutut"), who controls a 16 percent interest through PT Tridan Satriaputri of Citro Group; Prayogo Pangestu, a Suharto "crony," who controls Barito Pacific Group with a 51 percent interest; and Sumatra Pulp, a Japanese corporation owned by the Marubeni Corporation and Nippon Paper Industries, with a 33 percent interest. The project has been funded with loans from Japan's Overseas Economic Cooperation Fund (OECF) and international banks in Austria, Sweden, Finland, Scotland, Japan, and Korea. Foreign Export Credit Agencies in Germany, Sweden, Finland, and Canada have also provided funds, along with corporations in Austria, Germany, Sweden, Finland, Canada, the United States, Australia, and Japan. Contractors involved in the project come from the Netherlands and Australia. The PT TEL factory will be supplied by a government-owned corporation, Inhutani II, and PT Musi Hutan Persada (MHP), a Barito Pacific Group subsidiary controlled by Prajogo Pangestu in which Tutut also has a share.

In 1995, PT TEL was given a concession of 1,600 hectares, which included 1,250 hectares of productive land (mostly planted in rubber trees) and the protected forest of five villages in Muara Enim (Kecamatan Gunung Megang and Kecamatan Rambang Dangku). This land was to be used to build a paper and pulp factory, scheduled to open in July 1999.

The villagers in the area of the PT TEL concession were subsistence farmers who owned rubber trees. They say that they were never consulted about the confiscation of their land. Rather, they were told they could become laborers working for the company on road and infrastructure construction and in transport. Villagers who resisted "selling" their land to PT TEL were directed to report to the office of the sub-district head, *camat*, where they were accused of being communist (members of PKI, the Indonesian Communist Party) because they opposed development.

Some villagers appealed to LBH-Palembang, which argued that Keppres No. 55, which regulates the acquisition of land for the public good, did not apply to a private corporation. LBH-Palembang also objected that the amount of compensation offered to villagers (following a regulation passed in 1986) did not reflect the value of land in 1995.<sup>28</sup> LBH-Palembang supported the villagers' accusation of corruption on the part of Hasan Zen, the Regent of Muara Enim, and Ramli Hasan Basri, the Governor of South Sumatra, who were directly involved in the process that led to PT TEL's acquisition of the concession.

<sup>27</sup> The information in this section was collected from an interview with Arnold Bakara, Technical Manager PT TEL, in Muara Enim (July 24, 2000); reports of LBH-Palembang, WALHI-Sumsel; reports of Down to Earth (a UK-based NGO); articles in *Sriwijaya Post*, *Sumatera Ekspres*; "PT Tanjung Enim Lestari Pulp and Paper (PT TEL), South Sumatra, Indonesia: Comments on the Official Environmental Impact Assessment (EIA) Documents, June 1997"; Ricardo Carrere and Larry Lohmann, *Pulping the South: Industrial Tree Plantations and the World Paper Economy* (London: Zed Books 1996); Taufik Wijaya, reporter for the *Lampung Post*; Jaringan Gerakan Petani Indonesia & Reforma Agraria, moderator J. J. Polong; and interviews with LBH and WALHI activists.

<sup>28</sup> Taufik Wijaya from the Institute Studi Arus Informasi (ISAI), which was founded by Goenawan Muhamad, reported that the contract drawn up by PT TEL also obliged small holders to pay the building and land tax for the first three years after the company occupied the land.

In 1997, when WALHI-Sumsel reviewed the environmental impact report of PT TEL, what began as a conflict over land broadened into a protest over the environmental impact of the paper factory. WALHI-Sumsel reported that PT TEL would dump chlorine—a waste product from the process of bleaching the wood pulp—into the Lematang River, the source of the local water supply. WALHI-Sumsel warned that organo-chlorines in the river would result in serious long-term health problems, including damage to the hormonal system, reproductive problems, and birth and developmental defects.<sup>29</sup> WALHI-Sumsel challenged PT TEL's managers to take their own drinking water from below the location where the factory's effluent was discharged if they truly had faith in their own environmental impact statement.

By 1997 a coalition of environmental NGOs in Norway, England, Canada, Germany, Japan, and the United States had mounted an international campaign against the PT TEL project, demanding that foreign investors withdraw their funding.<sup>30</sup> No investor withdrew from the project, but pressure on PT TEL to deal with environmental concerns was increased.

Local opposition to PT TEL continued to mount because the compensation paid to villagers for their land was reduced by 25 percent from what had been promised. On January 8, 1999, thousands of local residents surrounded PT TEL's new factory in a demonstration that lasted eight hours. Kemas Muhammad Amin of LBH-Palembang said that the villagers had organized the protest because PT TEL had failed to respond to all their previous appeals and protests. He expressed the hope that the government of South Sumatra would pay attention to the conflict before violence erupted. The newly appointed Regent of Muara Enim urged PT TEL to recruit more local people.<sup>31</sup>

In the following months, the villagers launched a series of demonstrations against PT TEL. On May 3, 1999, hundreds of villagers blockaded the entrance to the new factory by erecting a barbed wire fence. This caused the company temporarily to shut down its operations. When officers of the military force posted at the site failed to convince the protestors to leave, the security forces attacked the protestors. LBH-Palembang protested that it was the task of the police, not the army, to deal with civilian protest, and, moreover, that the protests had been conducted peacefully.

In November 1999, the High Court in South Sumatra announced a preliminary finding that there was no evidence of corruption on the part of the (former) Regent of Muara Enim, (former) Governor Ramli Hasan Basri, his family, or Cendana (the family of Suharto) in the acquisition of land by PT TEL. In response to this finding, student activists and villagers from Muara Enim demonstrated at the office of the Provincial

<sup>29</sup> "Environmental Impact Assessment for PT Tanjung Enim Lestari's New Paper Pulp Plant in South Sumatra, Indonesia (PT TEL)—A Critique by the Indonesian Environmental Forum WALHI (*Analisis Dokumen AMDAL Industri Pulp and Paper PT. TEL P&P oleh WALHI*), June 20, 1997. This data was also presented at the Third NGO Strategy Session on Export Credit Agencies (Jakarta, Indonesia, May 1-7, 2000) and reported in "Pulping the People: Barito Pacific's Paper Pulp Factory and Plantations in South Sumatra," a *Down to Earth Campaign Update*, June 1997.

<sup>30</sup> The Rain Forest Action Network (USA), Down to Earth (UK), and JATAN (Japan) were very active in this campaign.

<sup>31</sup> Some protestors saw the Regent's suggestion as a strategy to undermine the unity of those struggling against the company. LBH-Palembang urged the new Regent to deal with the issues of compensation and corruption.

Attorney General in Palembang. A delegation of villagers also went to the office of the Attorney General in Jakarta to present, as evidence of corruption, the contracts that they had signed with PT TEL and affidavits stating that they never received the amounts promised.

In December, protests at PT TEL's new factory turned violent. Protestors hurled handmade incendiary missiles at the log piles outside the factory and destroyed trucks and other equipment. Military security forces were called in. According to the local press, the demonstration was triggered by PT TEL's failure to hire local residents. Government officials, PT TEL representatives, and representatives of the local residents met and negotiated a hiring agreement.<sup>32</sup>

## Part Two: Analysis

In the following section, I focus on the attitudes and actions of the major actors in the conflict: 1) villagers, 2) activist NGOs, 3) company officials, 4) government officials and police and military forces, and 5) foreign governments.

### *Villagers*

Despite intimidation by security forces and government officials, villagers involved in each of these conflicts organized collective resistance to large corporations owned by people closely connected to Suharto or the military.<sup>33</sup> Even people in villages along the Tiku River, which were apparently established only fifty years ago, and migrants from various parts of Sumatra (and Java) who came to work as contract farmers in the shrimp farms of Wachyuni Mandira, were able to organize and mount collective action. The struggle to retain their land and resist economic exploitation appears to have politicized these villagers.

Protesting villagers first tried to negotiate with the corporations involved. When their protests failed to achieve any result, they sought support from activist NGOs—LBH-Palembang and WALHI-Sumsel.<sup>34</sup> At this point, villagers adopted a new strategy, focusing their protests on local government officials in order to bring pressure to bear on corporate managers. This strategy proved to be only marginally effective. In the case of PT BTM, the Regent supported PT BTM's denial of responsibility for pollution of the Tiku River. In the case of PT TEL, as the villagers of Muara Enim pointed out, the regent and the governor maintained a "hidden connection" (*hubungan diam-diam*) with PT TEL. However, a new regent was able to bring PT TEL to negotiate on the issue of jobs. In the case of PT WM, government representatives did press PT WM to provide shrimp farmers with copies of contracts, but there was no follow-up,

<sup>32</sup> According to this agreement, PT TEL would recruit one hundred local people with high school certificates and 150 with middle school certificates; PT TEL would support the local co-operative; PT TEL would provide scholarships for two hundred students; and PT TEL would build a local market. "PT Tel masih Mencekam" (PT TEL still Grippled), *Sriwijaya Post*, December 17, 1999.

<sup>33</sup> In her novel *Saman* (Jakarta: Kepustakaan Populer Gramedia, 1998), Ayu Utami gives an evocative picture of the struggle of villagers against the hired thugs of a corporation operating in the lowland forest of South Sumatra.

<sup>34</sup> Often a university student from the village who had been forced to withdraw from his studies for financial reasons provided a link between village leaders and LBH-Palembang or WALHI-Sumsel.

and the shrimp farmers did not receive the contracts or succeed in renegotiating the terms of their contracts.

Only after a long period of protest had failed to bring any resolution of the conflict did protests turn violent. In both instances where violence broke out, villagers accused outsiders of initiating the violence. Leaders of the shrimp farmers still maintain that the violence at Wachyuni Mandira was "engineered" by the corporation in order to justify crushing their protests. At PT TEL, the first violent incident occurred when security personnel dispersed protestors to end a blockade of the factory. Subsequently, villagers organized to burn the logs piled up outside the factory. These two outbreaks of violence had very different consequences. At PT WM, there was a crackdown on protesting shrimp farmers, many of whom were expelled from the site with their families. At PT TEL, the management agreed to negotiate on the issue of jobs. This difference may be due in part to the locations of the operations of the corporations. PT WM is located in a remote area of South Sumatra, where the company was able to isolate the shrimp farmers and control access by the press and others. Only a few farmers escaped on foot to report what was happening. PT TEL's factory is located on a main road, no more than four hours from Palembang.

Due to the failure of protests and efforts at negotiation, villagers have become suspicious and distrustful of corporate representatives and government officials. Villagers in Muara Enim describe PT TEL and the government collectively as an "enemy of the people" (*musuh-musuh rakyat*). A representative of Dipasena shrimp farmers' union accused Nursalim of planning to keep the farmers permanently indebted and dependent. The cynicism of the villagers is also evident in their comments on the election of 1999. In all the villages I visited, people reported a vote of 80 to 90 percent for PDI-P (Partai Demokrasi Indonesia-Perjuangan, Indonesian Democratic Party of Struggle), the more populist party of Megawati Sukarnoputri. However, a year after the elections, the villagers said that PDI-P was no better than Golkar. They also said that there has been no *reformasi* in local government.

#### *Activist NGOs*

LBH-Palembang and WALHI-Sumsel have played a central role in providing support to protesting villagers and working toward a resolution of conflicts. Most importantly, activist NGOs have been able to pressure government officials to become involved in the resolution of conflict by using the mass media, particularly newspapers, to publicize a conflict. The New Order was keenly aware of the importance of the press and carefully regulated what could be said. After a brief experiment with "openness" (*keterbukaan*) in 1994, the New Order rescinded the licenses of three national publications that had tested the limits of what was permitted. However, South Sumatra now has three local newspapers.

Also crucial has been the role of LBH-Palembang and WALHI-Sumsel in investigating the backgrounds of particular conflicts and documenting the claims of villagers and the actions of the company and government officials. In my interview with villagers, I found that they often could not recall the date of protests and became

confused about the order in which things happened.<sup>35</sup> Wachyuni Mandira appears to have exploited villagers' inexperience with contracts, failing to explain credit arrangements fully and refusing to give shrimp farmers copies of credit agreements and records of indebtedness. In addition, LBH-Palembang and WALHI-Sumsel have been able, in some cases, to limit harassment and intimidation of villagers by security forces and government officials.

Furthermore, both LBH-Palembang and WALHI-Sumsel have supported collective organization by villagers. WALHI-Sumsel helped to organize the villagers in opposition to PT BTM. The Union for Peasant Solidarity and Welfare of South Sumatra (Kesatuan Solidaritas Kesejahteraan Petani, or KSKP) was established in 1996, when LBH-Palembang brought together leaders from three villages that had succeeded in obtaining the return of land from corporations through protests and collective action. It is not yet clear whether this organization will be able to sustain itself.

Lastly, activist NGOs are able to draw on support and expertise from groups outside of South Sumatra. These include the National Legal Aid Association (Yayasan Lembaga Bantuan Hukum Indonesia, or YLBHI), WALHI in Jakarta, the Indonesian Network for Forest Conservation (Sekretariat Kerjasama Pelestarian Hutan Indonesia, after 1987 known as Jaringan Kerjasama Pelestarian Hutan Indonesia Sekretariat, or SKEPHI), and foreign NGOs. Foreign NGOs may help local protestors obtain a clearer understanding of the problems they face, as when experts identified chlorine-free technology that would eliminate much of the pollution produced under the plan proposed by PT TEL. In this way foreign NGOs may help focus protests on issues that can be resolved.

Foreign NGOs appear to have been most successful in sensitizing corporations to environmental issues. In 1996, Koizumi Shinichi, a former member of Parliament in Japan, visited Muara Enim at the behest of environmental NGOs in Japan. Representatives from Down to Earth (UK) came in March 1999. These visits may have played a role in leading PT TEL to implement pollution controls and give up a chlorine processing technology. Operation Underground in the United States sponsored a visit to the US by the leader of a local protest movement against PT BTM to raise awareness about the effects on local residents of mining operations conducted by multinational corporations. The writings of the Australian activist, Jeff Atkinson, are known to PT BTM. As a consequence, PT BTM expresses concern about environmental issues.

However, foreign NGOs were less successful in pressuring these corporations on other issues, such as the economic viability of the project or human rights.<sup>36</sup> The criticism of the PT TEL project launched in *Pulping the South: Industrial Tree Plantations*

<sup>35</sup> Because villagers rarely keep records, cross-checking the data used to compile this paper sometimes proved to be difficult. In general, data from LBH-Palembang and WALHI-Sumsel have been used where villagers' accounts differ. Local newspapers provide verification in some cases.

<sup>36</sup> The NGO Down to Earth has been very critical of World Bank involvement in forestry projects in Indonesia. Down to Earth notes that, in addition to the unsustainable harvest and destruction of Indonesia's tropical forests, the impact of forestry projects on villagers dependent on forests for their livelihoods (villagers who are considered to be among the poorest groups in Indonesia by the Operations Evaluation Department of the World Bank) were not adequately taken into account, nor did the bank include the forest-dependent poor in its poverty reduction strategy. See "Economic Crisis takes Heavy Toll on Indonesia's Poor: Timber Empires Collapsing," *Down to Earth Newsletter* 36, February 1998.



and the *World Paper Economy* (1996) by Carrere and Lohmann, led to protests to funding bodies, but it did not lead to a reassessment of the project. The attention focused on human rights abuses at Wachyuni Mandira by Human Rights Watch Asia also appears to have been ineffective.

### *Company Officials*

Under the New Order, the companies considered in this paper relied on security forces to suppress protest and conflict. However, in the post-Suharto era, there is evidence of greater concern with public relations. When I visited the sites of the PT TEL factory and the Rawas Gold Mine, I was told that I should have brought a letter of authorization for my visit from corporate headquarters, but corporate officers agreed to answer my questions.

Corporate managers characterize the projects of PT BTM, PT TEL, and PT WM as development projects that promise to benefit the Indonesian economy by generating export earnings and providing new infrastructure and jobs. For example, Nursalim, head of PT Gajah Tunggal, the conglomerate that owns the Wachyuni Mandira and Dipasena industrial shrimp farms, is quoted in the *Far Eastern Economic Review* as saying, "I wanted Dipasena to be a showcase, to bring people into the middle class."<sup>37</sup>

Arnold Bakara, the PT TEL spokesman I interviewed, emphasized the economic contribution of PT TEL to the Indonesian economy. He pointed out that where formerly there had been "unproductive land," there was now a factory with jobs. In fact, however, PT TEL employs very few local residents. PT TEL has trained five hundred local youths as security guards, but these young men seem to have benefited at the expense of others, for while some of the toughest young men in the village have obtained jobs through PT TEL, in many cases the heads of households have lost their income. This situation has eroded the traditional social structure of village life and in some case turned village against village.

The PT TEL spokesman maintained that the protests against PT TEL were due to unrealistic demands by local residents. PT TEL's only problem was that it could not supply enough jobs to meet the demands of local residents. He denied that PT TEL was responsible for pollution of the Lematang River, because tests showed that the level of pollution produced by the factory was far below standards set by the government. He claimed that people could catch fish in the holding tanks used to purify wastewater before dumping it into the river (although he refused to let me see the holding tanks). He said that PT TEL supported the transition to a more democratic government, but warned that the new openness meant that "now everybody wanted something and was ready to demonstrate to get it." The government should protect factories and their employees so that investors would feel secure. He pointed to the conflicts in Ambon and Aceh to emphasize that the government's control over the country was disintegrating because it failed to take sufficiently forceful action to stifle unrest.<sup>38</sup>

<sup>37</sup> Murphy, "Deeper into the Morass," p. 59.

<sup>38</sup> Interview with Arnold Bakara, Technical Manager PT TEL P&P, at the factory in Muara Enim, July 24, 2000.

Dedi Kurniawan, a spokesman for PT BTM, was more forthcoming in admitting that there had been problems with PT BTM's operations in the past. He emphasized that the company is now attempting to work more cooperatively with local villagers, for example, by contracting with them to make nets to hold the earth in place until a ground cover is established. He was especially sensitive to criticism of PT BTM's operations on environmental grounds. On my visit, I was shown around the pits and holding tanks and taken up-river to see where wastewater from the holding tanks was released into the Tiku River. The PT BTM spokesman maintained that most of the criticism of PT BTM for polluting the Tiku was unjustified, and he accused WALHI-Sumsel and other NGOs of stirring up trouble.<sup>39</sup>

I was warned by activists not to visit WM's industrial shrimp farms without a letter of permission from corporate headquarters, because tension at the site was high. According to the local press, contract farmers were being picked up by security forces for questioning and "released from their contract" (*cepat pulang*, or CP) for any fault that could be discovered. According to a representative of the local branch of the government-sponsored labor union, Serikat Perkerja Seluruh Indonesia (SPSI), this action violated government regulations.<sup>40</sup> The receptionist at WM's office in Palembang initially refused to let me speak with anyone, but eventually a spokesman was reached by phone. He explained that contract farmers were being expelled for one of four reasons: 1) involvement in criminal activities during the 1998 riot, 2) leaving the site of WM's operations without permission, 3) violating other rules, or 4) stealing shrimp (i.e. selling to buyers other than WM for a higher price). He did not explain whether contract farmers were being replaced by employees without any contract rights (as rumored).

#### *Government Officials and Police and Military Forces*

During the New Order, multinational capital invested in projects in Indonesia provided financial benefits to highly placed government officials who received bribes for licenses or were made partners in corporate projects. Even when local government officials were not direct beneficiaries of such investments, they tended to act in the interest of New Order elites and military officers who were owners or partners in these corporations, and these officials were rewarded for their support in other ways.

Lower level government officials in the New Order were often put in a difficult position. They were expected to implement policies that benefited elites at the expense of local residents and, at the same time, to maintain security and order. Caught between small holders, with whom they sometimes sympathized, and their superiors lower level government officials and officers of security forces walked a fine line. Unable to pressure corporations to address the claims of protestors and resolve disputes, local government officials and security officers resorted to intimidation and harassment as their major tools. When there was an outbreak of violence, these tools

<sup>39</sup> Gavin Lee, PT BTM's Environmental Officer, particularly resented Jeff Atkinson, National Policy Coordinator of Community Aid Abroad for Australia, who visited the site of PT BTM's operations and wrote about problems associated with its operation. After my visit to the mine, I engaged in a long exchange of e-mail messages with Gavin Lee, who had confiscated the camera of an NGO activist. He was convinced that this activist was acting on my behalf.

<sup>40</sup> "Ratusan Petambak Plasma WM Tersingkir" (Hundreds of WM Shrimp Farmers Pushed Out), *Sriwijaya Post*, July 10, 2000.

were employed, but only rarely did the police resort to arresting protestors. The major exception to this has been the case of WM, which is owned by a former military officer. Marines are still being used to police the site of WM and to protect the interests of the company.

Since the fall of Suharto, some government officials have started to pressure companies to negotiate with protesting villagers and resolve conflicts. The new governor of South Sumatra, Rosihan Arsyad, has even proposed the elimination of Hak Pengusahaan Hutan (HPH) under which large land concessions were granted to corporations. Acknowledging that under the New Order there was collusion between local officials (PEMDA) and corporations wanting land concessions ("Yes, money talks."), he insisted that it was individuals (*oknum*) who were corrupt.<sup>41</sup> The governor has compiled a list of 136 cases of land conflict. Relying on his conscience, as villagers cannot provide proof of ownership, he is attempting to resolve these cases, one by one.<sup>42</sup> As of August 2000, Rosihan Arsyad had helped to resolve thirty-five of these conflicts. He also pressured PT TEL to hire more local residents and to increase the amount it paid in compensation (*ganti rugi*) to villagers for crops on land taken by the corporation.

During our interview, Governor Rosihan Arsyad pointed out that, under the New Order, the government's approach to development had been "trickle down." Now leaders recognized that this method had not worked, and so they had begun to advocate a new approach, "empowerment of the people." But this did not mean that people should engage in demonstrations, according to the governor:

The first problem is increasing the people's understanding of democracy. Democracy means the people can decide on their future, but they must choose the good of society. Democracy does not mean you can do whatever you want (*boleh apa saja*). The second problem is educating people about the importance of upholding the law. We must have an orderly society with the certainty of law. Uncertainty makes society weak. There are two aspects of this problem. We must improve the understanding of the people and we must improve the security forces. In the past individuals used security forces for their own interests, not for the interests of society. We must have more professional security forces.<sup>43</sup>

In the governor's view, the riot at WM in November 1998 was an example of an unwarranted demonstration. He believed that WM was a beneficial development project located in what had formerly been a useless mosquito-infested swamp. He acknowledged that many of the complaints of the contract farmers—having to do with the lack of a doctor at the site, the five levels of permission required before one could leave the site, the low basic-maintenance allowance, WM's ambiguous contract with employees, and its failure to establish reliable prices for shrimp harvested by the

<sup>41</sup> This and subsequent quotes by Governor Rosihan Arsyad are taken from a personal interview, August 7, 2000. Governor Rosihan Arsyad has also produced a pamphlet outlining his views on empowerment of the people as a development strategy; the pamphlet is entitled *Revitalisasi Pembangunan Sumatera Selatan Melalui Pemberdayaan Masyarakat* (Revitalizing Development in South Sumatra Through Empowerment of the People), n.p. 1998.

<sup>42</sup> The distinction between communally owned land (*tanah marga*) and individually owned land (*tanah milik*) further complicates attempts to settle land conflicts.

<sup>43</sup> Governor Rosihan Arsyad, personal interview, August 7, 2000.

farmers—were justified. But in his view, all but the last of these problems had been adequately dealt with.

Changes in the first year of transition to greater democracy and accountability in government had not developed as fast as Governor Rosihan Arsyad would have liked. He pointed out that people's "mind set" must change. "Formerly, government officials had ruled the people. Now they must serve the people." Many branches of government resisted this shift. The governor felt that it was his job to set an example for others to follow. He had established a hotline so that people could report problems. He personally read letters addressed to him, along with local newspapers, and he met with demonstrators. No longer was his office guarded by soldiers; a young female receptionist answered inquiries and directed people to the proper place.

### *Foreign Governments*

On at least two occasions, foreign governments have intervened to protect the interests of foreign investors in these cases. After the December 1999 riot at PT TEL, the Japanese Embassy sent a representative to meet with Governor Rosihan Arsyad to request assurance that PT TEL would be provided security. The intervention of the United States government was more indirect. NGO activists claim that early in 2000, a directive was issued to USAID, instructing it to stop funding Indonesian NGOs that were opposed to the mining operations of American-owned companies or supported local groups in conflict with mining companies. This action provoked a critical response by a network of Indonesian NGOs entitled the "Joint Statement on Intimidating Intervention towards the Mining Advocacy Network at the Mission Level as Displayed by the US Embassy in Indonesia" (May 9, 2000). Subsequently, WALHI and JATAN, the two organizations most directly affected by the directive, began to moderate their stance somewhat, and funding is said to have been renewed.

### **Conclusion: Economic Globalization and Democratization**

The conflicts between multinational corporations and peasants and workers in South Sumatra described in this paper are complex and multidimensional. They begin as conflicts over land rights. The fundamental problem here is the widely divergent view taken of land rights by the government and by people who live in and draw their livelihood from the forests. According to the Basic Forestry Law of 1967, the forests of the outer islands of Indonesia are owned by the State. Local peoples have only usage rights, and these are difficult to document.<sup>44</sup> When the State grants usage rights to multinational or Indonesian corporations, the corporations are required to negotiate with local peoples over *compensation* for crops, such as rubber, being grown on the land. Frequently, however, in the cases studied, no negotiation took place and no compensation was paid. When compensation was paid, the amount was minimal. Loss of usage rights meant a loss of livelihood for most villagers. Therefore, the peasants of lowland South Sumatra have resisted as best as they could the takeover of land they consider their own property.

<sup>44</sup> See Nancy Peluso, *Rich Forests, Poor People: Resource Control and Resistance in Java* (Berkeley: University of California Press, 1992) for an excellent account of the earlier history of disputes over rights to forest lands in Java.

Those villagers who have lost their land to corporate concessionaires over the last ten years are slipping out of the emerging rural middle class. With the income they earned from their rubber trees and other forest products, they had begun to provide their children with higher education. Now, they say they have no hope for the future.

In addition to protesting against confiscation of their land, peasants have also protested against the corruption that has been evident whenever concessions were granted to corporations. According to the law, local government officials must clarify the status of land given out in concessions as "unproductive," but villagers assert that this has rarely been done. Villagers also complain that their rightful claims to land that they had been farming for years (and, in many cases, for generations) have not been recognized. It is widely understood that local government officials were paid for their cooperation in approving land concessions to corporations. This practice has undermined the legitimacy of local institutions of governance and their representatives, such as the heads of the villages.

Conflict over land and protests over corruption have evolved into protests over environmental degradation and pollution produced by the operations of multinational corporations. At this stage, the increasing polarization of villagers and corporations becomes evident. Protesting peasants have begun to see the corporations as the cause of all their problems. They blame decreasing rubber harvests and a decline in fish catch in the rivers of South Sumatra on PT TEL and PT BTM. These companies may have been responsible for major fish kills, but the decline in the fish catch is reported in areas far from the sites of PT TEL and PT BTM and appears to have multiple causes. The use of motorized boats fishing with fine-mesh nets (*pukat harimau*) in the 1980s, combined with the silting up of the rivers due to illegal logging, the opening of forest lands for agriculture, and the construction of roads for transportation are all important factors. The drought of 1997 may well be a factor in the decline in the rubber harvest. On the other hand, the corporations described in this paper have denied their responsibility in all cases where the evidence suggested that their operations were the cause of environmental degradation. They accuse activist NGOs of stirring up "anarchist sentiments" among people.

Most recently, labor conflict is emerging. In the cases of PT TEL and PT BTM, the number of local people employed in security forces and reforestation is very small compared with the number of people who lost their major source of income when their land was taken. Conflict is emerging between villagers who have lost their livelihood and those who obtain jobs. In local press reports, this is referred to as "horizontal conflict." Corporations have been accused of creating horizontal conflict in order to justify their claim that they have brought jobs to an area and to divert attention from other demands of local residents. Secondly, pay for unskilled laborers employed by corporations is very low. A branch of the Indonesian Prosperity Trade Union (*Serikat Buruh Sejahtera Indonesia*, or SBSI) has just been established at PT TEL. Labor conflict at PT WM has already become violent.

The Indonesian judicial system offers little recourse to villagers and workers whose rights are violated. Judges are said to be corrupt, and people do not accept their decisions as legitimate. This general distrust was evident in reactions to the court finding that PT TEL's acquisition of a substantial tract of land—land previously claimed by five different villages—was not marred or invalidated by acts of corruption. PT WM was able to use the judicial system to intimidate and punish the

organizers of collective action, even though there appears to have been no clear evidence linking the leaders of the shrimp farmers' organization to the initiation of violence in November 1998.

National political leaders have also been unable to resolve the growing conflicts between corporations and local peoples affected by their operations. In February 2000, several hundred representatives of farmers' organizations from South and North Sumatra met with the Director General of the Department of Forestry and Plantations in Jakarta. They were promised that within one month their cases would be settled. Nothing has happened since then.

Political leaders and government officials are aware that corporate development projects have primarily benefited elites, and they recognize the threat to political stability caused by the repressive policies of the Suharto years that have left persistent disputes to simmer. However, they are divided over the best way to proceed. The cases of PT WM and PT TEL illustrate the complex and difficult political decisions that must be made at the national level. In 1998, the Nursalim family bank (Bank Dagang Negara, or BDNI) went bankrupt, and Nursalim pledged the Dipasena Citra Darmala shrimp farms in Lampung to the Indonesian Bank Restructuring Agency (IBRA). The assets of Dipasena, valued at US\$50 billion, were to pay for a US\$110 billion bailout of BDNI. IBRA officials now say that Dipasena is worth only US\$400 million; they claim that Nursalim withheld critical information about huge debts. Attorney General Marzuki Darusman is said to have considered prosecution of Nursalim for fraud and misrepresentation,<sup>45</sup> but President Abdurrahman Wahid has delayed action because of the importance of the conglomerate's foreign earnings.<sup>46</sup> Control of Dipasena has been left in the hands of Nursalim. President Abdurrahman Wahid, who has designated factory shrimp farming as an area of economic expansion, visited the Gajah Tunggal Company Dipasena in June 1999, an action that led to speculation that he would take a personal interest in how the case was resolved. He is said to favor breaking the company up into smaller units and creating of co-operatives. However, several major brokers are also vying to take over Dipasena.<sup>47</sup>

Similarly, Prajogo Pangestu, head of the Barito Group, has pledged twenty companies to IBRA as part of a debt-restructuring deal. These include three of the companies with operations in South Sumatra, including PT TEL and two of its major suppliers of raw material, PT Barito Pacific Timber and PT Musi Hutan Persada. However, Prajogo had also pledged the same companies to foreign creditors.<sup>48</sup> Prajogo also retains control of his holdings.

<sup>45</sup> Murphy, "Deeper into the Morass," p. 58.

<sup>46</sup> "IMF Questions Delay of Legal Action," *Jakarta Post*, January 8, 2001. "Untuk Sinivasan, Prajogo, dan Sjamsul Presiden Tunda Tuntutan Hukum" (President postpones prosecution of Sinivasan, Prajogo, and Sjamsul), *Kompas*, October 20, 2000.

<sup>47</sup> One group is headed by Eros Djarot, another headed by Setiawan Djodi (an owner of BTM), and a third by Eggy Sudjana, the leader of the Indonesian Muslim Workers Union (Persatuan Pemburuh Muslim Indonesia, or PPMI), an Islamic labor union associated with the militant Indonesian Committee for Islamic World Solidarity (Komite Indonesia Solidaritas Dunia Islam, or KISDI).

<sup>48</sup> PT Chandra Asri Petrochemical Center, another Prajogo company, owes about three trillion rupiah to IBRA and US\$700 million to a consortium of foreign creditors. "Prajogo Pledges Twenty Companies for Debt Restructuring." *Jakarta Post*, December 23, 2000.



The inability of the national government to deal with these financial cronies of Suharto has outraged opposition leaders. Former Chief Economics Minister Kwik Kian Gie has described the Gajah Tunggal Group of Nursalim and the Barito Group of Prajogo as "black" conglomerates and expressed his frustration at not being able to apply the law to them: "It is said that . . . Syamsul Nursalim and Prajogo are heroes and saviors who could not be disturbed by me as the coordinating minister." He accused the conglomerates of paying analysts to initiate a disinformation campaign suggesting that if the owners were jailed, the companies they founded and built would go bankrupt and many employees would lose their jobs. "So the robber barons are being hailed as the saviors of labor."<sup>49</sup>

At the grassroots level, debate also rages. Some NGO activists and villagers in South Sumatra call for a return to *adat* (customary law) and the traditional system of local rule of *marga* (which refers both to territory and clan) and *pasirah* (village chief) that was abolished in 1974. There is, however, little clarity about what this means. At one village (Wonorejo, Kikim) where people advocated a return to *adat* rights, 80 percent of the residents were Javanese, voluntary transmigrants who moved in the 1970s from Lampung to a sparsely populated area of South Sumatra. This suggests that *adat* means something more than "traditional rights." When pressed to explain what aspects of an idealized past they seek to institute, villagers emphasized three themes. First, a return to *adat* means respect for individual and collective land rights of people who work the land. Second, a return to *adat* implies an environmentally sound and sustainable cultivation of the land by small holders as opposed to control by corporations. Villagers point out that palm oil and timber corporations were responsible for major forest fires in 1997. Third, villagers emphasize their responsibility to their ancestors and descendents to maintain traditional social relations and the prosperity of the community. Most particularly they emphasize their responsibility to provide their children with a livelihood through education and inheritance of rights to land. This sense of responsibility is contrasted with what local people see as the refusal of multinational corporations to take responsibility for the environmental and social effects of their operations.

However, the demand for a return to *adat* rights is vague and easily manipulated.<sup>50</sup> Local elites connected to political parties have already begun to press for a transfer of assets derived from natural resources to "sons of the *daerah*," that is, local elites. Whether the forests of South Sumatra will be looted a second time to provide provincial officials with lucrative investments remains an open question.

On the other hand, some young NGO activists and some villagers argue for a politics of confrontation and violence. They point out that these tactics have paid off in several land conflict cases (not discussed in this paper) and the threat of more violence brought PT TEL to the negotiating table on the issue of jobs. Some villagers demand that the operations of these corporations be shut down completely.

Despite the fact that villagers have demonstrated their ability to create new democratic institutions of collective action, the process of democratization has been undermined by intractable conflicts between local residents and multinational

<sup>49</sup> "Kwik Vows to Continue Fight Against 'Black' Conglomerates," *Jakarta Post*, August 29, 2000.

<sup>50</sup> See Jeffrey Kingston, "Manipulating Tradition: The State, *Adat*, Popular Protest, and Class Conflict in Colonial Lampung," *Indonesia* 51 (April 1991): 21-45.



corporations involved in "development" projects. Despite the attempts of the new governor to resolve long-standing conflicts, the legitimacy of government institutions has been undermined. Increasingly, the polarizing politics of confrontation that are emerging in South Sumatra erode the prospects for democratic reform. There are alarming parallels between the resort to confrontation and violence at the local level seen today and the period of Indonesian history leading up to the coup of 1965 in which conflict over land was a major source of tension.