The Failure of Indonesia's State Oil Monopoly: The Pertamina Crisis of 1975-1978

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Abstract

In 1975, the Indonesian state oil company Pertamina fell into a debt crisis, forcing the Indonesian government to bail out the company. Discussions regarding the Pertamina Crisis of 1975 have focused excessively on corruption as the decisive factor for the failure. I argue that Pertamina's underperformance resulted from a combination of the nature of the Indonesian oil and gas industry, bureaucratic incompetence, corrupt practices, overexpansion, and the state of the global financial market during the 1970s oil boom.

Introduction

"Pertamina Runs Into Financial Problems Due to Overextension," was showcased in the March 26, 1975 edition of the *Wall Street Journal.*[2] Later, in April, a report from *The Economist* said that "The Indonesian government is slowly learning the lessons of the Pertamina fiasco…it is examining closely how a company in such a rich industry becomes unable to pay its own bills."[3] On November 21, 1975, the *New York Times*sported a more serious epithet: "Pertamina, Indonesia's state oil company, is virtually bankrupt," wrote *Times* correspondent David A. Andelman on November 21, 1975.[4]The newspapers were discussingthe so-called Pertamina

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[2]Wall Street Journal, "Pertamina Runs Into Financial Problems Due to Overextension, Slight Sales Drop," *Wall Street Journal*, March 26, 1975, ProQuest Historical Newspapers : The Wall Street Journal.

[3]The Economist, "Pertamina, Big Spender.," *Economist*, April 5, 1975, 6867 edition, The Economist Historical Archive.

[4]David A. Andelman, "Indonesia Fights to Save Oil Agency," *The New York Times*, November 22, 1975.

Crisis of 1975, which was the sudden failure of the Indonesian state-owned oil and gas monopoly, Pertamina, under the weight of its own massive debts.

Why did Pertamina underperform in a way that allowed the crisis to happen?This paper discusses the role of Pertamina and its relationship with the Indonesian state and its national development, focusing on the crisis of 1975. I argue here that the combination of the nature of the oil and gas sector in Indonesia, bureaucratic incompetence, corrupt practices, unwarranted expansion and diversification of the company, and the state of the international capital markets during the 1973 oil crisis served as a potent formula to create a state-owned petroleum company that underperformed in the market.

Discussions regarding the Pertamina Crisis of 1975 revolve primarily around the argument of endemic corruption and exhaustive large-scale spending of company funds in developmental projects. Francisia S.S.E Seda argues that "Although Pertamina's income increased significantly during the oil boom of the 1970s, much of this revenue was frittered away on unprofitable mega projects, some not even related to the oil and gas industry." Seda also emphasizes that "corruption in Pertamina and elsewhere in Indonesia was the essential mechanism in the pyramid of patron-client relationships that allowed Suharto to retain his hold on power."[5]

Similar approaches to the relationship between Pertamina and its crisis were taken by Harold Crouch in *The Army and Politics in Indonesia* (1978), Richard Robison in*Indonesia: The Rise of Capital* (2009), and Jeffrey Winters in *Oligarchy* (2011). Robison states that, essentially, Pertamina's functions were "[T]he collector of oil revenues…the catalyst and financier of major development projects…financier of the military…a source of wealth and power for Pertamina officials and other political and military leaders, and a core around which private domestic capitalists could expand through access to contracts for supply and construction as well as

[5] Francisia S.S.E. Seda. "Petroleum Paradox: The Politics of Oil and Gas" in Budy P Resosudarmo, *The Politics and Economics of Indonesia's Natural Resources* (Washington, DC: Resources for the Future, 2006), 189.

provision of services."[6] Winters describes Pertamina as "[I]nstead of being a regional or world player like Petronas, PetroBras, or CNOOC, Pertamina positioned itself as one of the world's leading oligarchic skim operations."[7]

Owing to the fact that it provided an echoing admonition about the prevalence of corruption in the Indonesian petroleum industry, the Pertamina Crisis also made its way into popular culture. It was loosely featured in the novel *Ladang Perminus* written by Indonesian novelist Ramadhan K.H. Despite a clearly written disclaimer, it is easy to identify the hugely corrupt and bureaucratic corporation featured in the novel, *Perusahaan Minyak Nusantara*(Perminus) as a transposed, fictionalized version of Pertamina. References to real-world entities such as Refican and Far East Oil Trading Company are also evident, either deliberately or accidentally, in the novel.[8] Ironically, Ramadhan K.H. also wrote Ibnu Sutowo's personal biography which was published in 2008, ten years after the novel's publication.

Undoubtedly, corruption and overexpansion were important factors in the formation of Pertamina as an underperforming oil company, particularly during the Pertamina Crisis of 1975. However, I will argue that the underperformance of Pertamina—which subsequently brought it into the debt crisis—was not merely a problem of corruption. It is clear that Pertamina was corrupt, but the crisis resulted from the conjuncture of corruption, overexpansion, inefficiency and the state of global financial markets during the 1970s.

In this paper, I use Indonesian primary sources such as the *Statistik Perminyakan Indonesia* (Indonesian Oil Statistics) published by Pertamina, internal publications such as the Pertamina Reference Book and *25 Tahun Pertamina* (25 Years of Pertamina) in order to illustrate the company's position during the crisis. I also delve into accounts of certain historical

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[6]Richard Robison, *Indonesia: The Rise of Capital* (Jakarta: Equinox Pub., 2009), 234.
[7]Jeffrey A. Winters, *Oligarchy* (Cambridge ; New York: Cambridge University Press, 2011), 143.
[8]Ramadhan K.H, *Ladang Perminus* (Jakarta: Pustaka Utama Grafiti, 1990), 2.

actors, such as Ibnu Sutowo's personal biography[9], Suharto's autobiography[10], J.B Sumarlin's biography[11], and proceedings of the Minister of Mines' report to the Indonesian Parliament in 1975[12] to gain a more vivid portrayal of the 1975 crisis. In light of current developments in the field, Daniel Sargent's work on US foreign policy during the 1970s[13] and Alan A.Block and Constance A.Weaver's work on international organized crime[14]is indispensable on highlighting the international aspects of this paper.

This paper will contribute into the growing literature of studies on New Order Indonesia by examining a particular flashpoint that is significant not only domestically, but also globally.I intend to explore the possibilities of analyzing the Pertamina Crisis of 1975 as not only a crisis that was precipitated by corruption, cronyism, anddomestic political rivalry in early New Order Indonesia, but also a problem of underregulation and liberalization of the world economy during the 1970s. I argue that the 1975 crisis resulted from a conjuncture of several factors, namely corruption, overexpansion, inefficiency, and the state of the global economy during the 1970s.

I will separate this paper into eight parts. First, I will examine the genealogy of the Indonesian petroleum industry in order to exhibit the thoroughly political nature of the sector, which was subsequently dominated by the Army. Second, I will delve into the early stage of the crisis to illustrate how New Order political consolidation and the beginning of 1973 oil crisis affected Indonesia and Pertamina. Third, I will elaborate how Pertamina evolved into a national oil company that excessively diversified itself into non-oil and gas sectors and became

[9]Ibnu Sutowo and Ramadhan K. H, *Ibnu Sutowo, Saatnya Saya Bercerita! [Ibnu Sutowo, It Is Time to Tell My Side of the Story!]*, Cet. 1 (Jakarta: National Press Club of Indonesia, 2008).
[10]G. Dwipayana, Nazaruddin Sjamsuddin, and Team Dokumentasi Presiden RI, eds., *Jejak langkah Pak Harto [The Footsteps of Pak Harto]*, Cet. 1 (Jakarta: Citra Lamtoro Gung Persada, 1991).
[11]Bondan Winarno, *J.B. Sumarlin□ : Cabe Rawit Yang Lahir Di Sawah [Biography of J.B Sumarlin]* (Jakarta: Penerbit Buku Kompas, 2013).
[12]Mohammad Sadli, "Pertamina dan Minyak Bumi: Jawaban/Penjelasan Pemerintah atas Pertanyaan Komisi I, VI, dan VII DPR-RI Pada Tanggal 20 Mei 1976 [Pertamina and Petroleum: Government Response towards Inquiries from Commision I, VI, and VII of the Indonesian Parliament on May 20, 1976]" (Departemen Penerangan Republik Indonesia [Ministry of Information, Republic of Indonesia], May 20, 1976).
[13]Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (Oxford: Oxford University Press, 2015).
[14]Alan A. Block and Constance A. Weaver, *All Is Clouded by Desire: Global Banking, Money Laundering, and International Organized Crime*, International and Comparative Criminology (Westport, Conn: Praeger, 2004).

financially insolvent. Fourth, I will look into the extent of corruption and incompetence in Pertamina, particularly on the role of Ibnu Sutowo and his endeavors. Fifth, I will analyze how and to what extent did the international capital markets, particularly during the 1970s, paved the way for the crisis to happen. In the sixth, seventh, and eighth parts, I will explicate the post-crisis reform undertaken by the Indonesian government over the company and how it affected the Indonesian economy, such as the restructuring of Pertamina, formation of new state-owned enterprises (SOEs) from Pertamina projects, and repayment of the Pertamina loans.

The Origins of a State-owned Petroleum Company

Indonesia was widely renowned for its petroleum since colonial times. The finding of the first oil well in Langkat, East Sumatra, in 1880, marked the establishment of an industry that affected the course of the region for decades to come. The Netherlands Indies became the birthplace of the Royal Dutch Shell Group and its operating company *Bataafsche Petroleum Maatschappij* (BPM) that constitutes one of the largest petroleum companies in the world.[15] The archipelago also became a grazing field for other oil giants, such as Stanvac and Caltex.[16] Meanwhile, the Netherlands Indies government established *Nederlands-Indische Aardolie Maatschappij* (NIAM), a state-owned petroleum company.[17]

After a brief but destructive stint of warfare during the Second World War (1942-1945) and the Indonesian National Revolution (1945-1949), the petroleum industry in Indonesia was relatively inert. Most of the refineries and oil fields were damaged and inaccessible due to the absence of political stability during both periods. The wave of nationalization of foreign firms—

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[15] The Royal Dutch Shell Group originated from the merger of *Koninklijke Nederlandsche Maatschappij tot Exploitatie van Petroleumbronnen in Nederlandsch Indie* (Royal Dutch Company for the Working of Petroleum Wells in the Netherlands Indies)—widely known as the Royal Dutch and British firm Shell in 1907. Its operating company in the islands is the *Bataafsche Petroleum Maatschappij* (BPM).
Joost Jonker et al., eds., *A History of Royal Dutch Shell*, vol. 1 (Oxford: Oxford University Press, 2007), 32.

[16] Alex Hunter, "THE INDONESIAN OIL INDUSTRY*," *Australian Economic Papers* 5, no. 1 (1966): 59–106.

[17] Jin-Bee Ooi, *The Petroleum Resources of Indonesia*, Natural Resources of South-East Asia (Kuala Lumpur ; New York: Oxford University Press, 1982), 3.

dubbed *Indonesianisasi*—affected several companies, including the BPM refinery and fields in Pangkalan Brandan, North Sumatra and the BPM facilities in Cepu, Central Java.[18] However, the majority of nationalized assetsand concessions were returned to their owners after Indonesia and the Netherlands signed the Round Table Agreement at the end of 1949.[19]Theconcept of state ownership over natural resources, including petroleum, was established during the Indonesian National Revolution through Article 33 of the UUD 1945 (Indonesian Constitution of 1945), particularly verse 2, which states that "*Cabang-cabang produksi yang penting bagi negara dan yang menguasai hajat hidup orang banyak dikuasai oleh negara"* (Certain means of production considered indispensable by the state should be controlled by the state), and verse 3, which states that *"Bumi dan air dan kekayaan alam yang terkandung didalamnya dikuasai oleh negara dan dipergunakan untuk sebesar-besar untuk kemakmuran rakyat"* (Land, water, and all the natural resources are controlled by the state and utilized for the prosperity of the people). These verses are the cornerstone for the establishment of Indonesian SOEs in the natural resource sectors.

During the period from 1950 to 1961, petroleum explorations in Indonesia were virtually halted due to the absence of a law overseeing the petroleum industry.[20] At that time, the colonial Mining Law of 1899 (*Indische Mijnwet 1899)* was utilized as the *de facto* regulation for the Indonesian mining industry.[21] However, the colonial law stands in contrast with Article 33 of the UUD 1945which decreed state control of essential resources. A moratorium over the establishment of new concessions and explorations was in effect until a new law was approved by the Indonesian parliament.[22]

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[18]A.G. Bartlett, *Pertamina: Indonesian National Oil* (Amerasian Limited, 1972), 69.

[19]Herbert Feith, *The Decline of Constitutional Democracy in Indonesia*, 1st Equinox ed (Jakarta: Equinox Pub, 2007), 15.

[20]Robert Fabrikant, "Production Sharing Contracts in the Indonesian Petroleum Industry," *Harv. Int'l. LJ* 16 (1975): 303.

[21]Ooi, *The Petroleum Resources of Indonesia*, 5.

[22]Bruce Glassburner, ed., *The Economy of Indonesia: Selected Readings*, 1st Equinox ed (Jakarta: Equinox Pub, 2007), 36.

The solution to this judicial loophole emerged in 1961, when the parliament ratified *UU No. 44 Tahun 1960* (Law No.44 Year 1960) which declared that the state has the right to the petroleum but foreign companies may operate as contractors to the state.[23] The law decreed that the production of petroleum is to be conducted only by a state-owned enterprise.[24] Therefore, all of the colonial-era concessions were to be abolished after this date and replaced with a new kind of agreement between the government and the foreign oil companies which had mostly renamed themselves—PT.Caltex Pacific Indonesia (Caltex), PT.Stanvac Indonesia (Stanvac), and PT. Shell Indonesia (Royal Dutch Shell)—in order to disconnect from their previous colonial heritage.

Obviously, the new law posed a problem for the foreign oil companies. Therefore, the United States (US) pressed for the Indonesian government and the three oil companies in Indonesia to negotiate contracts under the provision of the new law. Subsequently, on May 31, 1963, representatives from Indonesia—led by Minister of Basic Industry and Mines Chairul Saleh—met representatives of Caltex, Stanvac, and Shell in Tokyo. The negotiations, which were advised by a team from the US Department of State, went well and resulted in an agreement on contracts and profit sharing in the industry, widely known as the Tokyo Agreement.[25]

According to the Tokyo Agreement, the three foreign oil companies were assigned as contractors to three state-owned oil companies. Stanvac was assigned to PT.Permina (*Perusahaan Minyak Nasional*, National Oil Company); Caltex to PN. Pertamin (*Pertambangan Minyak Indonesia*, Indonesian Oil Mining Company);and Shell to PN. Permigan (*Pertambangan Minyak dan Gas Bumi Nasional*, National Oil and Gas Mining Company). The agreement also stated that the operating profits of the companies were to be divided 60/40, with 60 percent to the

[23]Howard W. Dick et al., eds., *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, Southeast Asia Publications Series (Crows Nest, NSW: Allen & Unwin [u.a.], 2002), 189.
[24] Article 3 Verse 2 of Law No. 44, 1960.
[25]Bartlett, *Pertamina: Indonesian National Oil*, 193.

Indonesian government and the rest to the respective company.[26] This contract would become widely known as the *Kontrak Kerja* (Contract of Work) agreements.

In order to fulfill the role of representative of the state in the contracts, three companies were established with their own profiles and political orientations. Under the pretext of martial law, Army Chief of Staff General A.H. Nasutionordered the formation of PT. Permina on December 10, 1957.[27] Led by Dr. Ibnu Sutowo, an army doctor, Permina's initial assets were the former BPM fields of North Sumatra, including the refinery at Pangkalan Brandan.[28] Established under the order of the Army Chief of Staff and led by a cadre of army officers, Permina became the most army-dominated oil company in Indonesia at that time.

Through its special relationship with the army, Permina positioned itself as the most dynamic state-owned oil company in Indonesia. Permina was the first Indonesian company to produce and export petroleum, with its first load of crude oil sent to Japan on May 24, 1958.[29]Permina also managed to secure a US$ 53 million loan from a consortium of Japanese companies interested in investing in Indonesia's oil and gas sector in April 1960.[30]Interestingly, the person who helped arrange for the loan was Shigetada Nishijima, former intelligence aide to Rear Admiral Tadashi Maeda during the Second World War.[31]

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[26] American Society of International Law, "Indonesia and Caltex Pacific Oil Co., P.T.Shell Indonesia, and P.T.Stanvac Indonesia: Heads of Agreement for Petroleum Working Contracts," *International Legal Materials* 3, no. No.1 (January 1964): 81–85.

[27]Bartlett, *Pertamina: Indonesian National Oil*, 134.

[28]Pertamina Public Relations, *25 Tahun Pertamina, 1957-1982 [25 Years of Pertamina, 1957-1982]* (Pertamina, 1982), 31.

[29]Bartlett, *Pertamina: Indonesian National Oil*, 150.

[30]Directorate General of Oil and Natural Gas, Department of Mines and Energy, *Forty Years Development of the Indonesian Petroleum and Natural Gas Industry, 1945-1985* (Jakarta, Indonesia: Pertamina Public Relations, 1985), 49.

[31] During the war, Rear Admiral Tadashi Maeda was the Imperial Japanese Navy liaison officer in Jakarta. Maeda is widely mentioned in Indonesian historiography due to his role in the Indonesian proclamation of independence. Shigetada Nishijima eventually became the chairman of Nosodeco, the *North Sumatra Oil Development Company*, one of the first Japanese oil contractors in Indonesia. Bartlett, *Pertamina: Indonesian National Oil*, 155. Regarding profiles of Rear Admiral Tadashi Maeda and Shigetada Nishijima, see the Biographical Appendix of Benedict R.O'G. Anderson's *Java in a Time of Revolution* (1972).

Formerly known as the *Perusahaan Minyak Indonesia* (Indonesian Oil Company),PN. Pertamin emerged from the remnants of NIAM, which was nationalized by the Indonesian government in 1958. Its assets were the colonial-era concessions in Jambi and East Kalimantan.[32] PN. Permigan originated from the PTMN oil company which was established during the revolution.[33] Pertamin and Permigan would eventually become heavily influenced by leftists due to the role of Minister Chairul Saleh in managing these two companies.[34]Although they were deeply affected by political influences, Permina, Pertamin, and Permigan formed the basis for the founding of Indonesia's petroleum industry.

After the rise of Suharto's New Order regime in 1966, integration within the petroleum industry quickly followed. The establishment,on August 20, 1968, of Indonesia's one and only state-owned petroleum company was a defining moment for the Indonesians. It was the decisive moment of consolidation for the archipelago's petroleum industry. Pertamina (*Perusahaan Negara Pertambangan Minyak dan Gas Bumi Nasional*, National Oil and Natural Gas Mining Company) was founded after the Minister of Mines, Professor Dr. Ir. Sumantri Brodjonegoro, recommended its formation to President Suharto in July 1968.[35] The decree that followed—which put Pertamina into existence—served as a closing act for the political turmoil that had influenced the Indonesian petroleum industry since Indonesia's declaration of independence.

Path to Crisis: Pertamina and the 1973 Oil Boom

During the early days of the New Order regime, Indonesia experienced a period of rapid economic growth and expansion. President Suharto assigned a team of US-trained economists—based mostly in the University of Indonesia's Faculty of Economics and led by Professor

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[32]Jan Thomas Lindblad, *Bridges to New Business: The Economic Decolonization of Indonesia*, Verhandelingen van Het Koninklijk Instituut Voor Taal-, Land- En Volkenkunde 245 (Leiden: KITLV Press, 2008), 165.

[33]Ooi, *The Petroleum Resources of Indonesia*, 9.

[34]Bartlett, *Pertamina: Indonesian National Oil*, 206–207.

[35]Ibid., 309.

Widjojo Nitisastro—to design an economic rehabilitation program.[36]The program's short term objectives were controlling inflation by implementing a "balanced budget" approach to the state ledgers, rescheduling all short and long term loans, seeking new debts to finance any state deficits, and opening the country for foreign investments.[37] As early as 1969, the program successfully stymied inflation rates inherited from the Sukarno regime.[38] This accomplishment paved the way for further growth which was evident during the 1970s, with Indonesia's GDP averaging 7% annually.[39]

During the period from 1960-1970, the petroleum industry was one of the most crucial cornerstones of Indonesia's rapid economic growth. The government's economic policy was focused on petroleum and oil production which grew almost 15 percent annually during the period 1968-1969.[40] New explorations were conducted in Indonesia, with the first offshore oil drilling conducted in 1968 by Sinclair Exploration Company in the Java Sea.[41] In 1970, Pertamina signed a first-of-its-kind Production-Sharing Contract (PSC) with Independent Indonesian American Oil Company (IIAPCO), with contracts regarding fields in the Java Sea.[42]

As the only SOE authorized to operate in the oil and gas sector, Pertamina acted as the intermediary between the Indonesian government and the foreign oil and gas companies that operated in Indonesia. The relationship between Pertamina and the foreign companies was managed on a contractual basis under a PSC agreement. In contrast to the old Contracts of Work system, where foreign companies signed the contract with the state, the PSC contracts were

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[36] The economists were Widjojo Nitisastro, Ali Wardhana, Mohammad Sadli, Emil Salim, and Subroto. Most of them were trained in University of California at Berkeley, so they were nicknamed the "Berkeley Mafia", or the technocrats. They were usually identified as the Bappenas (*Badan Perencanaan Pembangunan Nasional*, National Development Planning Board) group. Dick et al., *The Emergence of a National Economy*, 196.

[37]Ibid., 204.

[38]J. L. van Zanden and Daan Marks, *An Economic History of Indonesia, 1800-2010*, Routledge Studies in the Growth Economies of Asia 109 (Milton Park, Abingdon, Oxon ; New York, NY: Routledge, 2011), 170.

[39]Dick et al., *The Emergence of a National Economy*, 198.

[40]M. C Ricklefs, *A History of Modern Indonesia since c.1200* (Basingstoke: Palgrave, 2001), 358.

[41]Ooi, *The Petroleum Resources of Indonesia*, 12.

[42]Fabrikant, "Production Sharing Contracts in the Indonesian Petroleum Industry," 311..

signed between Pertamina and the foreign oil companies.[43] The PSC also did not split profits, but rather it split the actual oil and gas that were drilled and pumped out of the well, with a margin of 65 percent for Pertamina and the rest for the contractor.[44]Thus, most of the time, Pertamina profited not from conventional exploration and exploitation processes, but from these resource-rent contracts.[45] In the natural gas sector, Pertamina's own production share were also eclipsed by its Production-Sharing Contracts.[46]

As a petroleum-exporting country, Indonesia profited significantly during periods of global oil booms. This was particularly evident during the years 1973 and 1974when oil prices increased heavily due to the 1973 oil crisis that occurred after the outbreak of the 1973 Arab-Israeli War.The embargo, enforced by several member states of the Organization of Petroleum Exporting Countries (OPEC), consisted of a complete ban on oil exports to several countries—such as the US—and reduced the total production of oil.[47] During the crisis, shortages in the oil supply were evident all over the world, with commodity prices in global markets soaring exorbitantly in a short period of time.

The rise in global oil prices subsequently affected Indonesia. During the year 1970, only 37 percent of Indonesia's export revenue came from oil and gas exports.[48]In 1972, Indonesia's oil exports rose to 394,806,000 barrels, with 16.2% (63,808,000 barrels)produced by Pertamina

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[43]Ibid.

[44]Ibid., 312.

[45] From 1972 to 1975, production from Pertamina's own wells increased only marginally (30,960,000 barrels in 1972; 36.617.000 barrels in 1973; 40,144,000 barrels in 1974; and 32,590,000 barrels in 1975) compared to the Production-Sharing Contracts (33,232,000 barrels in 1972; 76,157,000 barrels in 1973; 112,840,000 barrels in 1974; and 127,247,000 barrels in 1975). Pertamina, "Statistik Perminyakan Indonesia [Indonesian Oil Statistics]" (Biro Penelitian dan Pengembangan, Subdit Perencanaan dan Ketatalaksanaan, Direktorat Umum Pertamina [Bureau for Research and Development, Subdirectorate for Planning, General Directorate, Pertamina, 1975), 30.

[46] Pertamina's LNG production were eclipsed by PSC production in 1976, with Pertamina producing 86,362,000 Mscf and PSC contractors producing 163,528,000 Mscf of natural gas.Pertamina, "Statistik Perminyakan Indonesia [Indonesian Oil Statistics]" (Biro Penelitian dan Pengembangan, Subdit Perencanaan dan Ketatalaksanaan, Direktorat Umum Pertamina [Bureau for Research and Development, Subdirectorate for Planning, General Directorate, Pertamina, 1976), 28.

[47]Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Simon & Schuster, 1991), 608.

[48]Michael R. J Vatikiotis, *Indonesian Politics under Suharto the Rise and Fall of the New Order* (London; New York: Routledge, 1998), 35.

and its PSC holders, and the remaining 83.8% (330,998,000 barrels) by Stanvac and Caltex.[49]After the oil crisis, the price of Indonesian crude soared from US$2.96 per barrel in 1973 to US$12.60 in July 1974, and petroleum became the majority of Indonesia's exports, composing 74 percent of Indonesia's state revenue.[50]As Radius Prawiro, Indonesia's former Minister of Finance said, "The 1970's were Indonesia's oil decade."[51]Petroleum quickly became Indonesia's single most important export commodity.

Due to the nature of its PSC scheme, the oil windfalls that affected Indonesia were channeled primarilythrough Pertamina. Having profited enormously from the rising prices of oil and its expanding volume of petroleum exports, Indonesia eventually fell into a "Dutch disease" condition, which was characterized by the decline of other export commodities.[52] Nevertheless, the increasing revenue from oil enabled the Suharto government to initiatenot only public investments such as building new roads, railways, and bridges, but also large scale development programs.[53] The wave of accelerated development became the norm in 1970s Indonesia, and it also motivated Pertamina, the largest state owned company, to participate in (or tap into) this trend.

Diversification and Overextension of Pertamina

Under Ibnu Sutowo's leadership, Pertamina became a petroleum company that owned subsidiaries or holdings outside the oil and gas industry. This expansion consisted of more than 20 subsidiaries and joint ventures in various sectors, from insurance to tourism, and several high-

[49]Pertamina Public Relations, *Pertamina Reference Book*, 2nd Edition (Jakarta, Indonesia: Inter-Asean Consults, 1974), 238.

[50]Indonesian gross petroleum export earnings increased significantly, with US$ 1,708,000,000 in 1973 to US$ 5,211,000,000 in 1974. See Ricklefs, *A History of Modern Indonesia since c.1200*, 363; Robert F. Ichord Jr., "Indonesia," in *Energy Policies of the World*, vol. Volume 2: Indonesia, the North Sea Countries, the Soviet Union. (New York, N.Y.: Elsevier, 1977), 47.

[51]Radius Prawiro, *Indonesia's Struggle for Economic Development: Pragmatism in Action* (New York: Oxford University Press, 1998), 101.

[52]Zanden and Marks, *An Economic History of Indonesia, 1800-2010*, 180.

[53]Dick et al., *The Emergence of a National Economy*, 208–209.

cost development projects. In 1975, *Far Eastern Economic Review*included Pertamina in its list of the 200 largest corporations in the world.[54]Pertamina's businesses expanded extensively, in both volume and scope.

While its *de jure* role was to conduct exploration, exploitation, and production activities inside the oil and gas sector, Pertamina's immense size and financial capability subsequently enabled the company to expand well beyond this sector. According toan American petroleum engineer posted in Indonesia, "Pertamina has gone into all sorts of things that aren't business-related: it has even helped finance schools."[55]With a wide range of wholly owned and jointly owned subsidiaries, joint venture projects, and "national development projects," Pertamina became the Indonesian role model for a thriving and successful company. The diversification of Pertamina was perceived as an Indonesian attempt to mimic the Japanese *keiretsu*, while at the same time also contributing to national development.[56]On September 22, 1973, during a speech for Pertamina's anniversary celebration in its representative office in Geneva, Switzerland, Ibnu Sutowo proudly announced that "Pertamina is more than just an oil company. We are a development company for Indonesia."[57]

Pertamina had six wholly owned subsidiaries that operated in Indonesia and overseas. Those subsidiaries were *PT. Elektronika Nusantara* or *Elnusa* in 1969 (Services), *PT. Patra Tani*in 1974 (Agriculture), *PT. Patra Jasa* (Hotels and Services), *PT. Pelita Air Service*in 1970 (Air Transport),*PT. Pertamina Tongkang*in 1971 (Shipping),and Ocean Petrol Ltd in Hong Kong

[54]Bruce Glassburner, "In the Wake of General Ibnu: Crisis in the Indonesian Oil Industry," *Asian Survey* 16, no. 12 (December 1976): 1099–1112.

[55]"Pertamina Runs Into Financial Problems Due to Overextension, Slight Sales Drop.," *Wall Street Journal*, March 26, 1975.

[56] The Japanese *keiretsu* business groups are usually centered upon a major bank or a *sogo shosha* (trading company). In this case, Pertamina is the Indonesian *sogo shosha*. This kind of business model was increasingly evident in Indonesia after 1970, particularly in the flourishing natural resource sectors.Anna Lowenhaupt Tsing, *Friction: An Ethnography of Global Connection* (Princeton, N.J: Princeton University Press, 2005), 14–15.

[57] Pertamina Public Relations. *Pertamina for a closer Indonesian relationship with the developed countries in its second five-year development Plan: Speech by Lieutenant-General Dr. Ibnu Sutowo*. (1973).

in 1968 (Shipping).[58] In addition to wholly-owned subsidiaries, Pertamina also had partial ownership of several joint-venture companies. These companies operated in a wide range of industries, such as petrochemicals, construction, consultancy, liquid natural gas (LNG) processing, oil and gas trading, foodstuffs trading, tourism, and insurance.[59]

Most of these Pertamina subsidiaries were formedin the late 1960s to 1974 in order to support its daily operations; for instance, *Elnusa* provided communications services for foreign oil companies operating in Indonesia, *Pertamina Tongkang* and Ocean Petrol managedits fleet of ocean-going and domestic tanker ships, *Pelita Air Service* providedthe oil companies with air transportation, and *Patra Jasa* providedconstruction services, housing, and facilities for them. The variety and extent of these Pertamina subsidiaries—which went far beyond the company's legally designated role—became detrimental for its own management, leading to inefficiency.

Pertamina also handled several large-scale projects that were highly capital intensive and eventually became burdensome for Pertamina's own budget and subsequently caused the Pertamina debt crisis. One of these "white elephant" projects was therehabilitation of the Sukarno-era Krakatau Steel project in Cilegon, West Java Province (now Banten Province).This steel mill project was originally constructed with Soviet aid, but it was abandoned after the fall of Sukarno. In 1970, Pertamina took over the management and financing of the project by providing funds for the establishment of the PT. Krakatau Steel, which had an estimated cost of US$5.6 billion.[60]

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[58]Wing Thye Woo and Anwar Nasution, "Indonesia," in *Developing Country Debt and Economic Performance, Volume 3: Country Studies - Indonesia, Korea, Philippines, Turkey*, ed. Jeffrey D. Sachs and Susan M. Collins, n.d., 120.

[59] The petrochemicals company was *PT. Indonesia Chemical Co.*, construction firms were *PT. Brown and Root Indonesia, PT. Chicago Bridge and Iron, PT. Nippon Steel Construction,* and *PT. Patra Vickers Batam.* The consultancy firms were *PT. Pertafenikki, PT. Toyo Kanetsu,* and *PT. Buma Bina Indonesia*. The LNG processing companies were *PT. Arun Natural Gas Liquefaction Co.* and *PT. Badak Natural Gas Liquefaction Co.* Oil and gas trading companies under Pertamina are *Far East Oil Trading Co.Ltd (Japan), Japan Indonesian Oil Kabushiki Kaisha (Japan), Japan-Indonesia LNG Import Co (Japan),* and *Perta Oil Co., USA*. Pertamina also owned *Tugu Insurance Co.Ltd., Hong Kong* which isan insurance company based in Hong Kong, *Indonesian Enterprises Ltd., USA*, which is a tourism company in the United States, and *PT. Kuda Laut Batam Island,* a trading company that sells frozen and dried foods. See Woo and Nasution, "Indonesia."

[60]Dick et al., *The Emergence of a National Economy*, 210.

Another large-scale undertaking was the Batam Island development project in the Riau Province. Located in close proximity to the strategic sea lanes of communicationin the Straits of Malacca, Batam was intended to be a center for petroleum refining in competition with Singapore. Established in 1971 under direct orders from President Suharto, the project was to be managed by Pertamina (through its joint venture companies) in cooperation with the American engineering firm Bechtel and the Japanese firm Nissho Iwai.[61] The core of the project was the construction of a refinery with 300,000 barrels per day capacity and an industrial park on the island.[62]

Other ambitious projects initiated by Pertamina were the development of a floating fertilizer factory with the capability of being towed between gas fields and the 20,000 hectares of ricefields of the *Patra TaniPalembang Rice Estate* in South Sumatra.[63] The rice estate project, which was contracted to Brewer Pacific of Hawaii, reportedly cost Pertamina US$150 million in 1974 dollars.[64]. At the same time, Pertamina was also expanding its own capabilities in the oil and gas business. Throughout the 1970s, construction for state-of-the-art facilities such as the Cilacap refinery, Badak / Bontang LNG plant in East Kalimantan, and the Arun LNG plant in North Sumatra were initiated.[65] The Badak and Arun projects were particularly capital-intensive, with the Arun LNG field and plant costing US$ 940 million in 1974 dollars (US$ 3.6 billion in 2005 dollars). Both Arun and Badak were considered as the world's largest LNG projects at that time.[66] Pertaminaalso constructed various smaller projects across the nation, such as a television studio in Medan, a modern 300-bed hospital in Jakarta (now *Rumah Sakit Pusat Pertamina,*

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[61]Kompas, "Batam Island Development Planned," *Kompas*, January 17, 1974, No.456 JPRS-61290, Translations on South and East Asia.

[62]Pertamina Public Relations, *25 Tahun Pertamina, 1957-1982 [25 Years of Pertamina, 1957-1982]*, 46.

[63]Ooi, *The Petroleum Resources of Indonesia*, 32.

[64]Willard A. Hanna, "The Pertamina Perplexity," Fieldstaff Reports, Southeast Asia Series (American Universities Field Staff, May 1976), 7.

[65]Pertamina Public Relations, *25 Tahun Pertamina, 1957-1982 [25 Years of Pertamina, 1957-1982]*, 62.

[66]Fred von der Mehden and Steven W. Lewis, "Liquefied Natural Gas from Indonesia," in *Natural Gas and Geopolitics: From 1970 to 2040*, ed. David G. Victor, Amy M. Jaffe, and Mark H. Hayes (Cambridge ; New York: Cambridge University Press, 2006), 92–95.

Pertamina Central Hospital), a sports stadium in Palembang, a mosque at University of Indonesia, and President Suharto's presidential office building, the Bina Graha, to name a few.[67]Although most of the major projects were financed by foreign loans, it is clear that these various projects affected Pertamina's internal management of its budget and organization, which eventually led to the Pertamina Crisis.

It is clear that the expansion of Pertamina's business through its subsidiaries and its handling of "megaprojects" affected its performance as an oil company, how it managed its subsidiaries, and also how it led itself into the debt crisis. However, the expansion itself is not a decisive factor, and other factors, such as corruption and incompetence, should be taken into account in analyzing the Pertamina Crisis of 1975.

Bureaucratic Incompetence and Corrupt Practices

Due to its size and role in the Indonesian economy, Pertamina was also renowned for corruption, collusion, and nepotism during the New Order regime. In 1969, in his editorial in the newspaper *Indonesia Raya*, renowned journalist Mochtar Lubis tried to expose Pertamina's endemic corruption, incompetence, irregularities in oil export prices and cashflow, and the personal rule of Ibnu Sutowo.[68] Indonesia's former prime minister Wilopo, who in the 1970s led the anticorruption team Commision of Four, also referred to the problem of mismanagement in Pertamina as a "monster."[69] It is clear that Pertamina was already problematic far before the Crisis of 1975 erupted.

During much of the 1960s well into the 1970s, the oil company was under the command of a single person, General Ibnu Sutowo. Closely identified as one of the most prominent pillars of support—namely financial—of the New Order military dictatorship, Sutowo was an army

[67]Harold A. Crouch, *The Army and Politics in Indonesia*, 1st Equinox ed (Jakarta: Equinox Pub, 2007), 276.
[68]Mochtar Lubis, Atmakusumah, and Sri Rumiati Atmakusumah, *Tajuk-Tajuk Mochtar Lubis di Harian Indonesia Raya [Mochtar Lubis' Headlines in the Indonesia Raya Daily]* (Jakarta: Yayasan Obor Indonesia, 1997), 118.
[69]Ibid., 221.

doctor and a close confidante of President Suharto. Sutowo's rise to power began in 1957 when he was assigned by Commander-in-Chief of the Armed Forces General A.H. Nasution to lead one of the nation's state-owned oil companies, P.N. Permina. During President Sukarno's regime, P.N. Permina was one of the army's primary sources for fundraising.[70] Under Sutowo, P.N. Permina became the largest of the three state-owned petroleum companies at the time.

After the rise of Suharto's New Order regime and the consolidation of the national petroleum industry, Pertamina remained under the control of Ibnu Sutowo. In July 1966,Minister of Mines Slamet Bratanata tried to auditPermina, an action which was reasonable considering Permina's status as a state-owned enterprise dealing with oil and gas. President Suharto then detached the Directorate General of Oil and Gas from the Ministry of Mines until Bratanata was replaced by Sumantri Brodjonegoroin 1967.[71] This seemingly insignificant "bureaucratic reshuffle" actually illustrates the special autonomy held by Ibnu Sutowo and Pertamina. The state-owned petroleum company and its director became the crux of the army's fund raising efforts. In the words of Jeffrey Winters, Ibnu Sutowo was President Suharto's "political financier."[72]

Ibnu Sutowo himself had a history of twice being investigated due to his "unorthodox" approaches in business.[73]Sutowo was considered "czar of a state within a state,"[74] and he was undoubtedly one of the most powerful men in Indonesia. He was also known for being chauffeured around Jakarta in his Rolls-Royce Silver Cloud and flying around the world in his private jet although his salary was only US$300 per month, according to a report in the *New*

[70]Crouch, *The Army and Politics in Indonesia*, 275.
[71]Ibid., 277.
[72]Jeffrey A. Winters, *Power in Motion: Capital Mobility and the Indonesian State* (Ithaca, N.Y: Cornell University Press, 1996), 84.
[73] Ibnu Sutowo was investigated first in May 1964 when he was the director of Permina, and later in 1970 under the Commission of Four during the New Order regime. Crouch, *The Army and Politics in Indonesia*, 80.
[74]Glassburner, "In the Wake of General Ibnu."

York Times.[75] While maintaining his job as President Director of Pertamina, Sutowo was known to have built a huge business conglomerate with investments in various industries, such as manufacturing, automotive assembly, banking, logging, trading, property, and shipbuilding. Sutowo's group of companies was frequently contractor, client, or supplier for Pertamina.[76] Conglomerate groups, such as Bakrie, also profited extensively from Pertamina during the period.[77] During Ibnu Sutowo's reign, private and public interests (and funds) were deeply enmeshed, paving the way for corrupt practices.

His corruption notwithstanding, certain newspapers and political figures in Indonesia admired Sutowo for his role in building Pertamina. "Not everyone agreed to solely blame Ibnu Sutowo for Pertamina's collapse. The *Merdeka* daily and political figures such as Mohammad Isnaeni from the Indonesian National Party (PNI) and Jusuf Hasyim of Nahdlatul Ulama praised and appreciated Ibnu Sutowo's effort in building Pertamina from the ruined fields of Pangkalan Brandan in 1957. We must appreciate his accomplishment," as described by senior journalist Rosihan Anwar in his March 1976 piece to *Asiaweek*.[78]The Production-Sharing scheme, which is one of the most widely used arrangement in the petroleum industry today, was also a personal invention of Ibnu Sutowo.

While the issue of Pertamina's becoming a hotbed of corruption and illegal siphoning of funds from company coffershad been evident since 1970, it was only in 1971 that the government took action against the company.[79] The first move was to implement a new law regarding Pertamina, the *Undang-Undang No. 8 Tahun 1971* or the Pertamina Law (Law No.8 Year 1971). The Pertamina Law established guidelines on how the company organized itself and

[75]David A. Andelman, "Suharto Dismisses Chief of Floundering Pertamina," *The New York Times*, March 5, 1976.

[76] Regarding Ibnu Sutowo's group of companies, see Richard Robison, *Indonesia: The Rise of Capital*, 350–358.

[77]Ahmad D. Habir, "Conglomerates: All in the Family?," in *Indonesia beyond Suharto: Polity, Economy, Society, Transition,* ed. Donald K. Emmerson (Armonk, N.Y: M.E. Sharpe, 1999), 197.

[78]Rosihan Anwar, *Indonesia, 1966-1983: Dari Koresponden Kami Di Jakarta [Indonesia, 1966-1983: From Our Correspondents in Jakarta]*, Cet. 1 (Jakarta: Pustaka Utama Grafiti, 1992), 138.

[79]Richard Robison, *Indonesia: The Rise of Capital*, 235.

deposited its profits to the Indonesian government (Article 14); it alsoestablishedThe Council of Government Commissioners for Pertamina (Article 16).[80]

The Council for Government Commissioners for Pertamina consisted of three members: Minister of Mines, Minister of Finance, and Chairman of the National Development Planning Board.[81] This council answered only to President Suharto who also had the authority to decide how Pertamina conducted business operations outside the oil and gas sector.[82]Later, in March 1972, The Indonesian Ministry of Finance decided to require all state-owned enterprises to obtain permission before borrowing from overseas banks. This requirement was recommended by the International Monetary Fund (IMF) in order for Indonesia to obtain a new loan. The technocrats, who were concerned about Pertamina's borrowing to fund its expansion, were happy to implement the new ruling on foreign loans.[83]

Pertamina's massive investments in new oil and gas facilities, subsidiaries, joint venture companies, and projects both within and outside of the oil and gas sector were almost impossible to fund by itself because most of them were constructed during the years 1973-1974.[84]Halted by new bureaucratic procedures in getting loans to fund the expansion of Pertamina, Ibnu Sutowo saw the regulation as an effort by the technocrats to slow down the oil company's expansion. In his memoir, Sutowo admitted his difference with Widjojo Nitisastro and the other technocrats, whom he called "the hands of foreigners in Indonesia."[85] In contrast, Minister of Mines Mohammad Sadli stated that dealing with Pertamina was a "difficult challenge because of the conflicting view between Sutowo and the Bappenas."[86]Thus, Pertamina eventually financed its

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[80]Pertamina Public Relations, *Pertamina Reference Book*, 16.
[81]Ibid., 17.
[82]Ooi, *The Petroleum Resources of Indonesia*, 31.
[83]Prawiro, *Indonesia's Struggle for Economic Development*, 106.
[84]Anthony Goldstone, "What Was the Pertamina Crisis?," *Southeast Asian Affairs*, 1977, 122–32.
[85]Sutowo and Ramadhan K. H, *Ibnu Sutowo, Saatnya Saya Bercerita! [Ibnu Sutowo, It Is Time to Tell My Side of the Story!]*, 342–343.
[86] The differences between the nationalistic Sutowo and the liberal Bappenas technocrats, reflected a prominent characteristic of 1970s Indonesia economic policymaking. Economic nationalists and liberal technocrats competed

expansion with foreign debtthat consisted of acombination oflong- and short-term loans.[87] This was the opening act of the Pertamina Crisis of 1975.

Problems with Pertamina had begun to emerge in October 1974, when it was noted that Pertamina did not pay its tax and income obligations to the government. In February 1975, Pertamina failed to fulfill its obligations on a relatively small loan to a small bank—US$40 million—to the Republic National Bank of Dallas.[88]Obviously, this default raised concernsin the banking community about the financial condition of the state oil company,because it was a relatively small loan for a company as large as Pertamina.

It was subsequently found that Pertamina had accrued a massive amount of international debt. The amount was staggering:US$10.5 billion in debt, of which US$1.5 billion was in short-term loans.[89]The Indonesian government swiftly organized a team to manage the crisis, with Bank Indonesia, the Indonesian central bank, announcing that it would pay off the loans.[90]These debts became the centerpiece of the Pertamina Crisis of 1975.

A large part of the loans was used to finance Pertamina's tanker leases which totaled US$3.3 billion. Most of the lease contracts were signed with international firms that had a direct connection with Bruce Rappaport, a Swiss shipping magnate.[91] While negotiations were conducted with Rappaport and other firms by the Indonesian government team led by Minister for State Administrative Reforms J.B.Sumarlin and Minister for Trade Radius Prawiro, auditors

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for Suharto's attention in establishing control over economic policy. SeeThee Kian Wie, ed., *Pelaku Berkisah: Ekonomi Indonesia 1950an Sampai 1990an [Actors' Recount: The Indonesian Economy from 1950s to 1990s]* (Jakarta: Penerbit Buku Kompas, 2005), 115; Adam Schwarz, *A Nation in Waiting: Indonesia's Search for Stability*, 2nd ed (Boulder, Colo: Westview Press, 2000), 53.

[87] Short-term debts, which were less than one year in duration, did not require Ministry of Finance approval. Peter McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," *Journal of Southeast Asian Studies* 9, no. 01 (1978): 1–27.

[88]Prawiro, *Indonesia's Struggle for Economic Development*, 107.

[89]Glassburner, "In the Wake of General Ibnu."

[90]Kian Wie Thee, *Indonesia's Economy since Independence* (Singapore: Institute of Southeast Asian Studies, 2012), 94.

[91]Prawiro, *Indonesia's Struggle for Economic Development*, 109.

discovered that Pertamina had been running six accounting systems in the company.[92]In its yearly reports for the 1976/1977 and 1977/1978 fiscal year, the *Badan Pemeriksa Keuangan* (Indonesian State Auditing Board) discovered that Pertamina's Inspector General only conducted incidental supervision over the company's operations, and the Directorate of Shipping and Telecommunication failed to sufficiently document its own procurements and contracts.[93]

According to Radius Prawiro, "Pertamina had only the veneer of a sophisticated multi-national corporation. Beneath the surface, however, Pertamina lacked systems, controls, management, and experience. Pertamina was an accident waiting to happen."[94]The problem of the Pertamina Crisis was not onlyits rampant corruption but alsoits bureaucratic incompetence due to its rapid expansion.

State of the International Capital MarketsDuring the 1973 Global Oil Crisis

In analyzing the Pertamina Crisis of 1975, it is important for us to look into how the world financial market operatedat the time. During the early 1970s, the global economy faced a profound transformation in the international monetary order. In 1971, the Nixon administration twice devalued the dollar against the gold standard, sending a reverberating message to the global economy—dubbed the Nixon Shock—on the coming fall of the Bretton Woods fixed currency exchange rate system that had been established in 1944. The complete abandonment of Bretton Woods in 1973, according to historian Daniel J. Sargent, "marked the transition from a rules-based monetary order to an era in which international monetary cooperation has grown irregular and informal, in which the IMF has coordinated rather than governed, and in which

[92]Glassburner, "In the Wake of General Ibnu."

[93]Sekretariat Jenderal BPK RI [General Secretariat of the Indonesian State Auditing Board], *Hasil Pemeriksaan Badan Pemeriksa Keuangan: Sejarah, Perspektif, Dan Prospeknya [Reports of the Indonesian State Auditing Board]* (Jakarta: Sekretariat Jenderal BPK RI, 1998), 133, 140.

[94]Prawiro, *Indonesia's Struggle for Economic Development*, 104.

financial markets and private financial actors have come to predominate."[95] This trend was preceded by the establishment and growth of overseas financial markets, namely the Eurodollar market, in the 1950s. The expansion of the Eurodollar market enabled currency speculators, including US banks and multinational corporations, to hedge or bet against the fixed exchange rates controlled by the US. According to Giovanni Arrighi, the Nixon Shock was a result of "lax US monetary policies aimed at sustaining the military effort in Vietnam on the one side, and of the actions of US multinationals and financial speculators aimed at profiting from the fiscal crisis."[96] It is safe to say that the financial pressures brought by the 1973 oil crisis intensified the effects of this financial liberalization later on throughout the decade.

Meanwhile, the rising Western dependence on foreign oil; the advent of resource nationalism, especially after the Tehran and Tripoli agreements between OPEC and oil companies in 1971; and the Arab oil embargo after the outbreak of the Arab-Israeli War of 1973 eventually paved the way for a steep rise in worldwide oil prices, leading to the 1973 Oil Crisis.[97]The world economy was heavily affected by the 1973 global oil crisisfor two reasons. For oil producing countries, the problem was windfalls; and for those countries that were supposed to import oil for their industries, the problem was the deficits caused by the surge in oil prices.

The petroleum exporting countries were affected both positively and negatively from the oil windfalls. The combined petroleum earnings of the OPEC countries increased drastically during the oil boom years, from US$23 billion in 1972 to US$140 billion in 1977.[98] This sudden inflow of money posed a problem for the oil exporters and economic policymakers worldwide, because they were afraid that this oil money—dubbed petrodollars—would affect the world

[95]Daniel J. Sargent, "The Cold War and the International Political Economy in the 1970s," *Cold War History* 13, no. 3 (August 2013): 400.
[96]Giovanni Arrighi, "The World Economy and the Cold War, 1970-1990," in *The Cambridge History of The Cold War*, vol. 3 (Cambridge; New York: Cambridge University Press, 2010), 29.
[97]Sargent, *A Superpower Transformed*, 135–139.
[98]Yergin, *The Prize*, 634.

economy if kept idle in the oil exporting countries' bank accounts. These petrodollars were eventually lent to the oil importers to finance their deficits in a petrodollar recycling schemethat was first proposed by US Secretary of the Treasury George P. Shultz in a speech to the American Bankers Association in June 1973.[99] Later, in April 1974, Shultz met President Suharto and Finance Minister Ali Wardhana in an official visit to discuss "monetary policies."[100] Sources do not indicate whether or not the visit was directly related to Pertamina's borrowing spree, although he did visit Palembang for a one-day "brief inspection tour of several development projects."[101]

Another side to the problem was the looming recession for the developed oil-importing economies, such as Japan and the US. During the years 1973-1975, the US and Japanese economies were heavily affected, with the US GNP falling by 6 percent.[102] The European countries were also affected by the heavy burden of the oil prices. At the height of the oil crisis, this recession would directly affect Indonesia's petroleum export performance. In 1974-1975, receding demands from Japan, Indonesia's primary petroleum export destination, contributed decisively towards the crisis.[103] Shortages of oil affected whole economies because they motivated states to cut their spending which in turn drove the global economy into recession.

The financial pressurescaused by the 1973 oil crisis eventually affected the international capital market, which was the primary market for commercial banks throughout the world. During the late 1960s, there was a trend of overseas expansion among commercial banks in order to find new clients. Starting in the 1970s, most of these banks found a growing demand for loans in developing countries, such as Indonesia. During the 1970s, there was a boom in demand from

[99] Sargent, *A Superpower Transformed*, 139.
[100] Dwipayana, Sjamsuddin, and Team Dokumentasi Presiden RI, *Jejak langkah Pak Harto [The Footsteps of Pak Harto]*, 117.
[101] "Shultz Visits Sumatra," *The Washington Post*, April 22, 1974.
[102] Yergin, *The Prize*, 635.
[103] Goldstone, "What Was the Pertamina Crisis?"

developing countries, especially the oil exporting ones.[104] While petrodollars saturated the international capital market, unregulated expansion of commercial banks and rising demand for loans became the pretext for a number of loan failures during the era.

The phenomenon of growing indebtedness was evident not only in Indonesia but also in otherless-developed countries. During the "loan boom" period of the 1970s, business concerns and third-world countries borrowed heavily from international banks. These conditions were observed particularly in countries such as Mexico, Brazil, Argentina, and other developing countries, with the average amount of bank loans increasing 30 percent per year and a 20 percent per year growth in their total external debts.[105] The 1973 Oil Crisis and later the 1979 Oil Crisis also promoted inflation in developed and developing countries alike, although inflation had already been brewing since the early 1960s. According to journalist Robert J. Samuelson, the mid 1960s to the early 1980s were a period of "Great Inflation."[106]

By the year 1974, Indonesian borrowers such as Pertamina had the upper hand in securing both long-term or short-term loans. This advantage was caused by a variety of factors—namely the creditworthiness of the Indonesian government was boosted by the flow of oil windfalls, a boom of commodity prices, and the decline of demands from the developed countries that were running deficits due to the oil crisis.[107] It should be noted here that the slowdown ofthe Japanese and US economies contributed decisively to the Pertamina Crisis because most of Indonesian crude and petroleum products were exported to these countries.[108]

[104]Frank Church et al., "International Debt, The Banks, and US Foreign Policy" (Washington, D.C.: Subcommittee on Foreign Economic Policy, Committee on Foreign Relations, United States Senate, 1977).

[105]Charles Poor Kindleberger and Robert Z. Aliber, *Manias, Panics and Crashes: A History of Financial Crises*, 6. ed (Basingstoke: Palgrave Macmillan, 2011), 35.

[106]Robert J. Samuelson, *The Great Inflation and Its Aftermath: The Past and Future of American Affluence*, Rev. ed (New York: Random House, 2010), 10.

[107]Woo and Nasution, "Indonesia," 28.

[108] In 1972, Japan and the United States were the two top importers of Indonesian crude and petroleum products, contributing 71.8% (247,721,000 barrels) and 14.6% (50,434,000 barrels) of total Indonesian petroleum exports respectively. See Pertamina Public Relations, *Pertamina Reference Book*, 256.

The role of private foreign banks in Indonesia should also be underlined. On one side, Pertamina was breaching its own bureaucratic and legal procedures for lending in order to fuel its ever-growing projects. On the other side, foreign banks were also bypassing their own guidelines by taking high-risk loans.It has been noted that during the 1970s, the risks involved in sovereign lending were not clearly apparent to bankers and regulators alike. In the US, the techniques of "country risk analysis" were still being developed, and its private banks were not required to procure information regarding debt amount and composition from a debtor country before lending.[109] The market was fairly underregulated at least until 1983, when the US passed its International Lending Supervision Act of 1983 which ostensibly regulated the international capital market.

Although seemingly underregulated, the extent of the borrowing alerted the IMF—and thus the technocrats in Indonesia—who were already concerned about Pertamina's borrowing behavior in the market. Under the terms of several IMF Stand-By Agreements from 1968-1973, the Indonesian government had to put a cap on all foreign borrowing, including loans incurred by Pertamina.[110] However, international banks were able to find a loophole in the regulation imposed by the IMF through unregulated short-term loans that in turn became most of the loans incurred by Pertamina.[111]According to one account, the ostensibly powerless IMF and the World Bank actually "provid[ed] enormous support to the crony system," which was the primary characteristic of Southeast Asian authoritarian states at that time.[112]Eventually, the supply of debt from the private banks met Pertamina's seemingly insatiable demands, and the lending continued until the outbreak of the Pertamina Crisis of 1975.

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[109]Cynthia C. Lichtenstein, "US Response to the International Debt Crisis: The International Lending Supervision Act of 1983, The," *Va. J. Int'l L.* 25 (1984): 404.

[110]"The Witteveen Facility and the OPEC Financial Surpluses" (Washington, D.C.: Subcommittee on Foreign Economic Policy, Committee on Foreign Relations, United States Senate, 1978).

[111]Ibid.

[112]Mark Beeson, "South-East Asia and the International Financial Institutions," in *The Political Economy of South-East Asia : Markets, Power and Contestation*, ed. Garry Rodan, Kevin Hewison, and Richard Robison, Third Edition (Oxford ; New York: Oxford University Press, 2006), 247.

In sum, the combination of the abundant supply ofloans from foreign banks, the fast-paced expansion of Pertamina, and blatant disregard of established laws and procedures through corrupt practicesand bureaucratic incompetence became a lethal combination for Pertamina which defaulted on a relatively small loan from a small bank,ironically initiating the Pertamina Crisis of 1975.

Restructuring Pertamina

While the Pertamina debt crisis had been brewing since February 1975, the Indonesian government took prompt action to curtail the negative effects of this financial debacle. In April 1975, the government formed atechnical team to evaluate Pertamina's finances. The team comprisedLieutenant General A.Hasnan Habib, Major General Piet Haryono, and Brigadier General Ismail Saleh.[113]Intergovernmental discussions about Pertamina's state of indebtedness wereconducted as early as July 1975 when Coordinating Minister for Economics, Finance, and Industry/Chairman of the Bappenas State Development Widjojo Nitisastro attended a hearing in the Indonesian parliament regarding the Pertamina crisis. Nitisastro stipulatedthat Pertamina had breached the Pertamina Law, and he designed a series of policies to control the damage.[114] Later, in October 1975, Minister of Mines Mohammad Sadli confirmed that Pertamina's short-term debt totaled almost US$1.5 billion, and he announced to the press that the Indonesian government, through Bank Indonesia, would pay out the loans.[115]

The crisis management operation for Pertamina's debt problems proved to be immense. Consequently, the Indonesian government had to raise more loans in order to finance Pertamina's loan, with US$425 million of these loans brought in from a consortium of banks led

[113]*Keputusan Presiden No. 11 Tahun 1975Tentang Pembentukan Team Teknis Untuk Menyelesaikan Masalah-Masalah Pertamina* [Presidential Decree No.11 of 1975 on The Formation of a Technical Team to Resolve Pertamina's Problems].

[114]Widjojo Nitisastro, *The Indonesian Development Experience: A Collection of Writings and Speeches of Widjojo Nitisastro* (Singapore: Institute of Southeast Asian Studies, 2011), 179.

[115]Glassburner, "In the Wake of General Ibnu."

by Morgan Guaranty Trust Co. of New York, and another US$150 million from a Japanese consortium led by the Bank of Tokyo.[116] Meanwhile, an international team of financial advisers and accountants was flown into Jakarta in order to analyze and improve Pertamina's financial systems.

An overhaul of the legal and bureaucratic framework of Pertamina was implemented almost immediately after the Pertamina Crisis. In December 1975, President Suharto issued a presidential decree to revamp Pertamina's organizational structure.[117]Ibnu Sutowo's centralized role as President Director—he was both President Director and chief of 22 other departments inside the company—was decentralized. Subsequently, Major General Piet Haryono took over the oil company's daily operations as Finance Director.[118]Sutowo and the other directors were eventually "honorably discharged" from Pertamina in March 3, 1976,which was the *coup de grace* for Ibnu Sutowo's personal reign over the state oil company.[119]Sutowo's replacement, which took almost one year after the outbreak of the Crisis, was due to President Suharto's personal decision to wait until the public and media uproar on the Crisis "simmered down."[120]On April 10, 1976, President Suharto assignedMajor General Piet Haryono as the new President Director of Pertamina.

At the core of the Pertamina Crisis were its tanker debts and its huge subsidiaries and projects, such as the Krakatau Steel project and the East Kalimantan floating fertilizer factory project. Because of the crisis, most of Pertamina's subsidiaries and projects were detached from the company. Doing so was a lengthy process in itself, because there were exceptional challenges regarding the detaching of these companies which did not end until 1979.

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[116]Sevinc Carlson, *Indonesia's Oil* (Washington, D.C.: Westview Press, 1977), 66.

[117]*Keputusan Presiden No 44 Tahun 1975Tentang Pokok-Pokok Organisasi Pertamina* [Presidential Decree No.44 1975 on the Organization of Pertamina]

[118]Carlson, *Indonesia's Oil*, 67.

[119]Andelman, "Suharto Dismisses Chief of Floundering Pertamina."

[120]Soeharto, G. Dwipayana, and Ramadhan K.H, *Soeharto: Pikiran, Ucapan, dan Tindakan Saya [Soeharto: My Thoughts, Words, and Deeds]* (Jakarta: Citra Lamtoro Gung Persada, 1989), 306.

Formation of New State-Owned Enterprises

During the reorganization of Pertamina, several of the large-scale business units and projects outside the oil and gas sector had to be taken over and managed by the government. One of the largest and most distinguishable was the huge Krakatau Steel project. The Indonesian government formed a team to review and evaluate the financially unhealthy steel mill project.Working under Presidential Decree No. 13 Year 1975, the team was led by Minister for Administrative Reforms J.B.Sumarlin.[121]When Sumarlin conducted a personal interview with Sutowo to confer about the problems facing the Sukarno-era project, it was discovered that such problem was that the expansion ofKrakatau Steel—a fourfold expansion from 500,000 ton capacity to 2,000,000 ton capacity per year—was based on a fraud-prone feasibility study conducted by the contractor and suppliers themselves.[122] Furthermore, it was discovered that the West German consortium of Siemens AG, Gutte Hoffnungshuette, Ferrostahl, and Kloeckner, charged at least 40 percent above the current market prices and fees for its supplies and services in what the companies has described as the “largest order of all time” in the steel industry.[123]

The contracts with the West German contractors and suppliers were immediately renegotiated by the Krakatau Steel team, which cut the project costs from US$2.5 billion to US$1.7 billion.[124] Subsequently, Krakatau Steel’s DirectorIr. Maryuni Warganegara was immediately replaced with Ir. Tunky Ariwibowo in an effort to revamp the management. In his memoir, Warganegara considered his replacement was a result of his close relations with Ibnu

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[121]Nitisastro, *The Indonesian Development Experience*, 184.
[122]Winarno, *J.B. Sumarlin*, 126–127.
[123]J.M. Pluvier, “Neo-koloniale economie en Nieuwe Orde [Neo-colonial economy and the New Order],” in *Tien jaar onrecht in Indonesië: Militaire dictatuur en internationale steun [Ten years of injustice in Indonesia: Military dictatorship and international support]*, ed. W.F. Wertheim and Ernst Utrecht (Amsterdam: Uitgeverij en boekhandel Van Gennep B.V., 1976), 68.
[124]Winarno, *J.B. Sumarlin*, 130.

Sutowo and the political problems looming from it.[125] Whatever the primary reason is, after 1976, Pertamina completely relinquished its control over Krakatau Steel, whichthen became managed by the Ministry of Industry as a new state-owned enterprise.

Another novel project by Pertamina was the floating fertilizer factory that was planned to be launchedin East Kalimantan. This expensive project was eventually cancelled because of the high costs of building a mobile fertilizer factory onboard a ship that was designed to be towed from one gas field to another, and it was replaced with an onshore plant in Bontang, East Kalimantan.[126] Pertamina relinquished control over the Bontang fertilizer plant which was taken over by the Ministry of Industry in 1976.After a series of managerial overhauls, the new plant subsequently became the foundation for Indonesia'slargest fertilizer company, PT. Pupuk Kalimantan Timur (Pupuk Kaltim) that was established in 1977.[127]

Dealing with the Devil: Loan Repayments and Renegotiating Contracts

During the Pertamina Crisis, the discovery of the full extent of Pertamina's debts took several years. As mentioned before, Pertamina was so ridden with mismanagement that the Indonesian government had difficulty in ascertaining the exact amount of the debt. During the annual meeting of the Inter-Governmental Group for Indonesia (IGGI) in May 1975, Governor of Bank Indonesia Rachmat Saleh announced that Pertamina's debts totaled just over US$ 3 billion.[128] Eventually, during a hearing in the Indonesian Parliament, Minister of Mines Mohammad Sadli announced that the total debt was US$10.5 billion. The debt constituted six major parts, which were US$2.5 billion for Pertamina's contracts and accounts payable; US$1.9

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[125]Marjoeni Warganegara and Feris Yuarsa, *70 Tahun DR.Ir.H.Marjoeni Warganegara: Perintis Krakatau Steel [70 Years DR. Ir.H.Marjoeni Warganegara: The Pioneer of Krakatau Steel]* (Lembaga Kreativitas Anak Bangsa Economic Forum, 2004), 107.

[126]Dilip Mukerjee, "Jakarta's Financial Woes: Pertamina Scandal and After," *The Times of India,* November 22, 1976.

[127]PT. Pupuk Kaltim, "Delivering Sustainable Growth: Annual Report of PT. Pupuk Kaltim" (PT. Pupuk Kaltim, 2006).

[128]Dan Coggin, "Indonesia--An Oil Nation Under the Gun," *New York Times*, June 8, 1975.

billion for its Arun and Badak LNG projects, Cilacap refinery project, East Kalimantan fertilizer plant, exploration and production costs, and the Cilamaya gas pipeline; US$2.1 billion for the Krakatau Steel project; US$ 156 million for a telecommunication center project; US$3.3 billion for hire-purchase contracts for a fleet of ocean-going and coastal tankers; and US$700 million for other projects.[129]

The recovery process for these large loans was lengthy and included securing new loans and aid to repay Pertamina's short-term debts and reviewing and renegotiating existing debts. Securing new loans was one of the first steps toward recovery. Several new loans were made by the developed world to the Indonesian government. In June 1975, the Indonesian government secured two large-scale loan packages from American and Japanese bank consortiums which amounted to US$425 million and US$150 million.[130] More debts eventually followed to further augment the Indonesian government's capability to repay Pertamina's short-term loans.

Meanwhile, the Indonesian government team for Pertamina also tried to renegotiate the US$3.3 billion tanker contracts which were mostly signed with firms from various countries, such as the United Kingdom, the US, Japan, Norway, and Hong Kong. However, most of the US$3.3 billion went to companies controlled by Rappaport, which was Ibnu Sutowo's close friend in the international tanker market.[131]Eventually, it was discovered that Pertamina funds were siphoned off these tanker deals, which were overpriced by a wide margin. *Tempo*, an Indonesian magazine, illustrated that "[P]rices paid by Pertamina were far in excess of normal market prices at a time when the tanker business was in a period of depression. Tankers were bought from the ailing US shipbuilding company General Dynamics, at a price of US$150

[129]Sadli, "Pertamina dan Minyak Bumi: Jawaban/Penjelasan Pemerintah atas Pertanyaan Komisi I, VI, dan VII DPR-RI Pada Tanggal 20 Mei 1976 [Pertamina and Petroleum: Government Response towards Inquiries from Commision I, VI, and VII of the Indonesian Parliament on May 20, 1976]."

[130]Coggin, "Indonesia--An Oil Nation Under the Gun."

[131]Prawiro, *Indonesia's Struggle for Economic Development*, 109.

million when the same capacity tankers were available from Norwegian shipyards for US$100 million."[132]

The relationship between Ibnu Sutowo and Rappaport went back to the late 1960s, when Permina was still trying to get its hold in the petroleum industry. As early as 1968, Permina (and then Pertamina) signed contracts to lease various vessels from companies controlled by Rappaport. These contracts included a deal for leasing 21 vessels of various sizes in 1968 (with General Maritime Enterprise), a deal for 30 ships in 1972 (with Inter-Maritime Management Corp.), and a series of other deals with Rappaport-affiliated companies.[133] The relationship between Rappaport and Sutowo eventually culminated in the signing of two tanker charters in 1974. In total, the Pertamina fleet supplied by Rappaport had the capacity of 1.4 million deadweight tons, which was far in excess of Indonesia's needs.[134]It is important to note here that Rappaport was a shady player in the world of shipping, finance, and oil trading, with Gabon and Antigua as his two other "playing fields."[135] Rappaport himself was later implicated in the unfolding of the massive Bank of Credit and Commerce International (BCCI) affair in 1991.[136] Like Sutowo, Rappaport was never prosecuted for his crimes.

The negotiation between the Indonesian government team and Rappaport's Inter-Maritime Management group constituted a tense legal battle. According to chief of the

[132] As cited in Richard Robison, *Indonesia: The Rise of Capital*, 237.

[133]Block and Weaver, *All Is Clouded by Desire*, 17. Page 17.

[134]Ibid.

[135] Rappaport also conducted other "Pertamina-style" rip-off schemes, notably to Gabon in 1979, when the Swiss Oil Company—a Rappaport-controlled company based in the Cayman Islands—signed a long-term contract to buy oil from Gabon for US$ 12-14 less per barrel than its production cost. Rappaport bribed the Gabonese president Omar Bongo and his Energy Minister through a series of loans from his Inter-Maritime Bank. Gabon lost US$ 80-100 million per annum due to its contracts with Rappaport. In Antigua, Rappaport also bought a "near monopoly" concession on fuel oil sales while paying only 10 percent of the original purchase price. Jeff Gerth and Stephen Engelberg, "Seeking Testimony in Pipeline Case: Immunity Given to a Secretive Swiss," *The New York Times*, March 6, 1988.

[136] Established in 1972, BCCI was an international bank that was considered as one of the largest private banks in the world in the 1980s. Later on, it was discovered that the bank was involved in money laundering and other financial crimes, and it was closed down by authorities in several states, including the US, in 1991. Further on the BCCI Affair, see Block and Weaver (2004). Rappaport's role was highlighted in the US Senate report on the Affair. John Kerry and Hank Brown, "The BCCI Affair□: A Report to the Committee on Foreign Relations, United States Senate" (US Government Printing Office, 1993), 318–319.

negotiating team Minister J.B. Sumarlin, “Renegotiating the tanker deals was the hardest episode in handling the Pertamina crisis. We had to fight the case in 13 different courts around the world.”[137] The legal battles with Rappaport concluded only in August 1977, with Pertamina paying US$150 million in compensation to Rappaport for the contracts.[138]Liem Sioe Liong, Suharto’s most trusted Chinese conglomerate, represented Indonesian interests in the last negotiation between Pertamina and Rappaport—that took place in Singapore in mid-1977.[139]The settlement in the tanker disputes with Rappaport became the closing act for the 1975 Pertamina Crisis.

However, the outstanding effects of the Pertamina Crisis loomed over Indonesia for a substantially extended period of time. Dubbed “Indonesia’s Watergate scandal,” the Pertamina Crisis left Indonesia with a significant economic slowdown.[140] Indonesia’s GDP growth fell from its prior expectation of 8-9 percent to only 5 percent in 1975.[141]A considerable amount of the oil windfalls was spent on bailing out Pertamina, thus denying their use for the country’s development.[142] Pertamina debt repayments dominated Bank Indonesia’s subsidized credit allocation for an extended period of time, ending only in 1983.[143]Considering the extent of the financial debacle, one may wonder how Indonesia could afford the December 1975 invasion of East Timor without any external aid.[144] Ironically,the Pertamina Crisis also helped the government in halting inflation in Indonesia—which was fueled by Pertamina’s spending and the

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[137]Winarno, *J.B. Sumarlin*, 137.

[138]Wall Street Journal, “Indonesia, Rappaport Settle Tanker Dispute,” *Wall Street Journal*, August 12, 1977, ProQuest Historical Newspapers : The Wall Street Journal.

[139]Richard Borsuk and Nancy Chng, *Liem Sioe Liong’s Salim Group: The Business Pillar of Suharto’s Indonesia* (Singapore: Institute of Southeast Asian Studies, 2014), 156.

[140]Barry Newman, “Slowed Development and Huge Debts Are Pertamina’s Legacy to Indonesia,” *Wall Street Journal*, February 11, 1977, ProQuest Historical Newspapers: The Wall Street Journal.

[141]Prawiro, *Indonesia’s Struggle for Economic Development*, 110.

[142]Dick et al., *The Emergence of a National Economy*, 210.

[143]David C. Cole and Betty F. Slade, *Building a Modern Financial System: The Indonesian Experience*, 1. paperback ed, Trade and Development (Cambridge: Cambridge Univ. Press, 1998), 88.

[144]*Operasi Seroja* (Operation Lotus), the Indonesian invasion of East Timor in December 7, 1975, was supported morally and financially by the US. Kissinger personally gave his blessing to Suharto, although the operation was a far cry from what he had hoped for: “quickly, efficiently, and [without] the use of [American] equipment.”Schwarz, *A Nation in Waiting*, 204, 208.

global economy at that time—by using oil revenues to pay back Pertamina's loans.[145] The Pertamina Crisis was, in the words of Mohammad Sadli, "an enormous school fee, a bitter lesson."[146]

Conclusion

The Pertamina Crisis of 1975 was the first episode—out of several episodes—of financial crisis that came into being during President Suharto's New Order regime. The crisis exposed in a single stroke the internal mechanisms of the Indonesian petroleum industry during the New Order. Petroleum was Indonesia's single most important export commodity, and revenues from the petroleum industry, represented by Pertamina, were the backbone of the Indonesian state budget. However, Pertamina was extensively mired incompetition for power, bureaucratic incompetence, corruption, and a fatally unregulated exposure to the international financial system.

While a close reexamination of the Pertamina debt problem illustrates some of the argumentsalready mentioned by several authors and scholars, it is important to point out that there is an underrepresented factor in the current scholarship regarding the Pertamina problem. The effects of the global economy and the underregulation of the international financial system are also important due to their central role in precipitating the Pertamina Crisis.

Thus, the Pertamina Crisis of 1975 became a flashpoint for a major exposé not merely of the problems of corruption and political meddling inside Suharto's New Order;it also showed a more global and underlying problem—the underregulation of the international financial system at that time. According to a report in the *New York Times*: "The international banking system narrowly averted a major crisis almost three years ago in Indonesia, when the insolvency of the state oil monopoly, Pertamina, almost triggered a series of defaults on foreign bank loans worth

[145]Prawiro, *Indonesia's Struggle for Economic Development*, 114.
[146]Thee, *Indonesia's Economy since Independence*, 94.

at least US$ 6.5 billion."[147]The Pertamina Crisis was not merely a third-world problem, it was global.

However, it is undeniable that there were also critical problems on the Indonesian side, particularly regarding Pertamina itself. Pertamina tried to become a diversified conglomerate by creating various subsidiaries, while at the same time maintaining its vertically integrated structure as a manager of oil contracts. Pertamina also tried to become a venture capital company, although the oil monopoly was responsible to the state. Theexpansionist logic of Pertamina not only led to a company's failure; it also shifted the debts to the Indonesian government, ultimately burdening the national economy.

Ibnu Sutowo's role in leading Pertamina was also decisive in bringing Pertamina into the debt crisis. Under Sutowo's leadership, corruption in Pertamina was widespread, bureaucratic inefficiency became the norm, and laws and rules were frequently breached. Pertamina's problems were aggravated by the special authority granted to Sutowo by President Suharto himself. Sutowo, who was the political financier of the President and the army, abused the state oil company with corruption and bureaucratic incompetence.

The combination of corruption and incompetence, extensive and unplanned diversification, and the underregulated financial market of the early 1970s became a potent mixture for the failure of Pertamina. The Pertamina Crisis of 1975 also unveiled the shortfalls of Indonesian nationalistic approaches towards the economy with its state-owned enterprises during the New Order regime. Instead of safeguarding natural resources for the people—which was the constitutional basis of the formation of the state-owned companies such as Pertamina—Pertamina became corrupt, inefficient, heavily indebted, and incompetent. Furthermore, the Pertamina debts were taken over by the Indonesian government, thus transferring the burden to the nation and its people.

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[147] Ann Crittenden, "Pertamina: Lesson for World Banking," *New York Times*, November 17, 1977, ProQuest Historical Newspapers: The New York Times.

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