Chapter 1

The Master Networker

Mochtar Riady

Lippo Group, Indonesia

The study of Mochtar Riady's life is a review of the modern history of both Indonesia and China, in particular the momentous periods that shook the foundations of these two countries and changed them fundamentally.

It's hard to imagine that a man so small in stature and so placid in appearance had lived dangerously through civil wars in Indonesia and China, been exiled for his anti-colonial activities, trudged through the political-business quagmire of the Suharto period, and sunk to the depths in the Asian Financial Crisis, only to emerge with an empire bigger than he had ever dreamed of.

Clad in the signature Indonesian formal wear of the long-sleeved *batik* shirt, Pak Mochtar, as he's known in his home country, embodied a calm befitting a man who's been there, done that, and has nothing else to prove. He wore a perpetual smile that hid a mind that was constantly thinking of the next bit of action. At 86, when I met with him at his office, this octogenarian clocked into work every weekday and Saturday. He was lucid and sharp and would wrestle down any suggestion that he disagreed with, not with brash defensiveness but challenging questions (asked with that smile still on his face) that made

me do a double take and wonder if I had my facts right. Nothing escaped him.

Born in 1929, Mochtar Riady, christened Li Wenzheng, is the son of a *batik* trader who moved to Indonesia from Fujian, China. Riady was taken to his father's birthplace at five months old when word of his grandfather's illness reached the family. And there the family stayed for six years.

Tossed about by unrest in Fujian during the Warlord Era, the anti-Dutch protests in Indonesia, and the civil war between the Nationalists and Communists in Nanjing, young Riady shuttled between China and Indonesia in his early years.

Quite the firebrand as a student in Indonesia, Riady opposed the colonialists as president of the East Java Overseas Chinese Students Association. He supported Indonesian guerrillas and participated in anti-Dutch demonstrations.

**I became more
sympathetic
towards socialism.**

It was then that his world view was shaped by his socialist mentors.

"One of my *gurus*, he was an extreme leftist, and he taught me what imperialism and capitalism were about. So, since then, I became more sympathetic towards socialism."

When I pointed out the irony of a socialist becoming a successful capitalist, he chuckled knowingly and said, "That is the story," one that was uncovered in the course of the interview.

Riady had to flee Indonesia for Nanjing during a crackdown on student demonstrators. It was only when the Dutch finally relinquished control of Indonesia, just before the end of 1949, that Riady returned home.

Looking back, Riady acknowledged the value of his war-torn past: "Maybe this is the reason why I am very tough and I can withstand difficult situations," he mused.

The banker extraordinaire

Riady's office, where the interview took place, was not outlandish in its set-up in any way but regally functional. Much like the occupant

himself — nothing in his appearance to draw attention to himself but certainly, a giant of a personality.

Riady's Lippo Group is one of Indonesia's largest conglomerates with interests in property, health care, education, retail, hospitality, and banking throughout Southeast Asia, Hong Kong, China, and the US. Revenue of the Group amounted to US\$7.5 billion in 2017, and the man himself worth about US\$3 billion.¹

His secretary was nowhere to be seen. The cameras were allowed to be set up, while he worked quietly at his desk. The shifting of the furniture and the instructions among the crew didn't seem to disturb the man as he focused on the day's work.

The reality of the power that he quietly wields became evident when his deputies gathered in his office with bowed respect, akin to reverence even, as each took turns to speak to the patriarch in measured tones. His PR man only spoke to him when needed. But one suspects it's respect, rather than fear, that inspires such care among staff when dealing with Pak Mochtar.

After all, way before most of us were even conceived, ambition was already scorching through his veins. A worthy one but certainly, as his life unfolded, too small for this giant of a magnate.

'How can you be a banker? You don't have money.'

Young Riady's drive to succeed was triggered at the age of 10, when he spotted a majestic colonial building that housed a Dutch bank. He was intrigued by the well-dressed employees who stepped into the building. He was to learn later from his school principal how a bank operated and profited.

With that, young Riady declared to his father one day that he would work in a bank when he grew up. Little did he know that he would *own* a few in his lifetime.

But pragmatism was the order of the day for a family that was barely making ends meet. "My father was against me being a banker," Riady revealed. "He said, 'How can you be a banker? You don't have money.'"

Riady went on to relate the conversation between him and his father.

"And then I said, 'The commodity of the bank is not money. It's trust.' He said, 'You don't have the trust. You are poor. You are not a rich man. How can people trust you?' And then I told him, 'I can find

someone who is and I can persuade him to be my partner. And then we can run the business.’”

Such was the prophetic vision of a young boy who turned what seemed to be childhood naiveté into reality. Indeed, over time, Riady honed his skill as a master networker, making the right connections at the right time.

Young Riady tried his hand at several jobs as he settled into life in newly-independent Indonesia. One of his early achievements was growing his in-laws' shop into the largest department store in their town in East Java. But restlessness continued to brew in this ambitious young man.

So, he set off for the bright city lights of Jakarta and took up the bicycle trade, a business that Fujianese migrants gravitated towards. Along the way he dabbled in trading textiles and electrical goods before venturing into shipping. His dream, however, of becoming a banker lingered.

Opportunity finally came knocking in 1959 when Riady got wind of a local bank looking for some capital. True to his talent as a networker, Riady gathered a group of investors and pooled together US\$200,000 to purchase a 66% stake in Bank Kemakmuran. With ownership came the titles of chairman and general manager.

His dream had finally come true. But it soon became a nightmare when he realised he was in over his head. Day one and he was presented with a balance sheet which he could make no sense of. He had to pick up basic accounting and pick it up fast. And that he did. After a year, he not only knew the workings of the bank but, incredibly, turned the ailing bank around.

But Riady's tenure in the bank was short lived after he discovered unscrupulous practices among the shareholders. He left after vain attempts to set things right.

From the 1949 to 1966, Sukarno ruled Indonesia with an iron fist. He was more intent on pursuing political ends than developing the economy. He cut off links with the West and, by default, the rest of the world, preventing much-needed foreign funds from flowing into the country. Each time the government's coffers ran low, money would be printed. This led to a period of hyperinflation. In 1966, inflation was riding at 635% and interest rates at 24%.

In the meantime, having left Bank Kemakmuran, Riady had his feelers out for other opportunities. He didn't have long to wait. Bank Buana had run into some trouble because of poor management. To take

over the small outfit, Riady would have to corral a group of investors to come on board with him. Once again, his wide network came in handy.

Riady turned to his mentor, who was the secretary of the Indonesian Overseas Chinese General Association, a position that made the latter very well connected with the Chinese business community. He introduced one of the city's leading textile businessman to Riady who then set about working on the relationship.

"I played tennis with him every day, and I tried to give him an understanding of the banking business," Riady recalled. Soon, he managed to win the confidence of the influential businessman and included him in a consortium of companies to acquire Bank Buana in 1965. With that, Riady began the work to turn around the ailing bank.

In the tight credit environment at the time, Riady decided to boost Bank Buana's capital by halving the interest rate to 12%, with a condition — borrowers would have to provide collateral to secure the loans (most loans were unsecured then). The risk, if the bold move fell through, was a squeeze on the bank's already tight liquidity. However, as history would have it, it was a gamble that paid off. Bank Buana saw not only the number of non-performing loans slashed as debtors took the proffered olive branch to settle their debts, but other businesses were also drawn to the cheaper money. The collateral they promised boosted the bank's capital and Riady succeeded in rehabilitating yet another troubled bank.

As the banking industry developed in Indonesia, so did the number of banks. In 1968, there were over 130 banks in the country.³ With a lack of a rigorous regulatory environment, capital, and expertise, coupled with hyperinflation and speculative borrowing, the writing was on the wall — the banking system was headed towards a collapse.

With the reputation and network he had built for himself, Riady persuaded the government to initiate a consolidation of the industry. The fact that he owned four banks by then added weight to his argument. With the central bank's nod, he undertook the first merger of three banks in 1971. Bank Panin was founded.

But the road to success is never smoothly paved. As the bank grew, disputes arose between Riady and the other owners, one of whom was his brother-in-law. In his autobiography, he bemoaned the "shortsightedness"⁴ of the shareholders who stood in the way of his vision of making Bank Panin the second clearing house apart from

the central bank. Taking up that role, Riady believed, would cement the bank's long-term prospects and make it integral to the banking system in the country.

While the dispute wore on, an offer to run a small bank owned by a very influential businessman came along. Riady took the opportunity to step away from Bank Panin. But not before he left it with assets 12 times more than what it had when it first started.⁵

The crony benefactor

In 1975 when Riady took over Bank Central Asia, or BCA, it had only one office with 27 employees, with assets of no more than US\$3 million. But it wasn't the size of the bank that mattered to Riady but who owned it and what could be done through the owner's connections.

Liem Sioe Liong, also known as Sudono Salim, was one of President Suharto's right-hand men. The position came with many lucrative concessions and monopolies that were given to the companies he founded under the Salim Group.

One of these was the licence to import cloves, an important ingredient used in the making of *kretek*, a locally produced cigarette. Unlike Sukarno, Suharto was intent on developing the economy when he took over and one of the pillars of his New Order was the development of indigenous industries — *kretek* being one of them. This Indonesian product would become one of the main drivers of the economy.

Riady recognised that the hand that controlled the import of cloves was a mighty one indeed. That hand belonged to Salim.

"He knew every tobacco factory in Indonesia," said Riady, of his former boss. "So, through him I persuaded all the tobacco factories to be our customers. Then we asked them to introduce their upstream and downstream suppliers, and their retailers. So, all of them became BCA customers." This was low-hanging fruit that Riady spotted from the outset — the expansion of the bank through Salim's wide network.

Salim knew a good man when he saw one. To retain Riady, the owner offered him 17.5% of BCA's equity to keep up the good work. One wonders if Salim would have been so generous if he had foreseen how big the bank would grow under Riady's watch. By the time Riady left the bank, 15 years later, BCA had become Indonesia's largest private bank.

Shortly after he joined BCA, Riady put on another hat and set up a trading company under Lippo Holding, the entity he would later

build his empire upon. The name was a combination of the Chinese words *li*, or power, and *pao*, treasure.

Riady was kept busy growing BCA while overseeing the Lippo Group which was managed by his sons. In 1981 Riady was offered a 49% stake in a relatively small lender, Bank Pertiaga Indonesia. It was later merged with another small bank which he owned to form Lippo Bank in 1989. By then, Riady had decided that it was time to focus on his own business and left BCA.

But there was also a push from within that led to his departure.

While Suharto's presidency was marked by significant progress in the economy and international relations, it was also marred by widespread corruption and repressive military crackdowns. It was the Suharto family and their friends who were major recipients of kickbacks and government contracts. One observer had suggested that 80% of government projects were

Mr Liem's relationship with our past President was too close. I had to separate myself from him.

awarded to the Suharto clan and friends.⁶ Towards the tail end of the three decades of the president's rule, public opinion against these practices, that used to be quietly tolerated, became increasingly vociferous.

BCA was not only under the control of Salim but also two of Suharto's children who held 30% of the bank's shares.⁷ Sensing trouble on the horizon, Riady decided to take his leave from BCA in 1990. His reason for leaving was almost philosophical. "I always believe business and politics have to be separate. We have to be respectful of the politicians, but I don't think that business has to work together with politics."

Later, he accedes, "I think Mr Liem's relationship with our past President was too close," referring to Salim by his Chinese name. "I had to separate myself from him." It was an amicable separation between the two men who had great respect for each other, with a cash-free exchange of shares between BCA and Lippo Bank. In all, it was this prescient move that would save Riady's fortunes during the Asian Financial Crisis of 1997 and the fall of Suharto.

The rise and fall of Lippo Bank

The Lippo Group grew over the years and by 1993, it was the third largest company in the country⁸ with other verticals such as finance,

property, manufacturing, health care, retail, and cinemas coming into the fold. It set up a second base in Hong Kong to look into its growing business in China. Its main activity there is investment holding with interests in property, food, hospitality, mining and financial services.

At the same time, Lippo Bank was making substantial progress, becoming one of the biggest banks in Indonesia and the first to be listed successfully. If anything, the bank was Riady's crowning achievement. Among all the banks he part-owned and revived, this was the one he had the largest stake in. It bore the name that was synonymous with the Riadys. It was also the one his eldest son, James, led as CEO. This being James' first leadership role, Riady had both professional and personal interests in the development of the bank. It was the culmination of his childhood dream.

The catalyst for Lippo Bank's growth was the government's deregulation policy in 1988 which lifted restrictions on the number of bank branches. Lippo Bank extended its reach and established 106 branches throughout the archipelago in 12 months.⁹ It took advantage of the huge population of the unbanked and growing middle class and focused its efforts on retail banking and financing specific industries. A year later it became the second largest private bank, after BCA, with deposits of more than US\$1 billion.¹⁰

But the journey ahead for Lippo Bank was a bumpy one. In 1995, it experienced a bank run that depleted its reserves and required a bail out by five other banks.¹¹ But even that was nothing compared to the shattering impact of the 1997 Asian Financial Crisis that ripped through the economic fabric of Indonesia, causing the rupiah to plunge more than 80% against the US dollar.¹² Interest rates shot through the roof, hyperinflation prevailed and GDP contracted.

More than anything, the crisis threw the spotlight on the cracks in the entire banking system. Shortcomings that had long been allowed to exist in the regulatory framework and weak corporate governance became starkly evident.

In 1998, Suharto was forced to step down and a bank run ensued on BCA, the bank closely associated with him and his cronies. US\$1.2 billion was withdrawn and all who were associated with the Salim and Suharto families were fearing for their lives as protests spilled onto the streets.¹³ Chinese businesses, including the Riadys, became easy targets as the

population grew increasingly disillusioned by the collapse of the economy. Lippo's flagship mall in Lippo Village was looted and set on fire.

Salim himself fled to Singapore and there he remained until his death in 2012.

The banking system collapsed and the International Monetary Fund (IMF) stepped in. About US\$37 billion had to be spent to bail out and re-capitalise banks¹⁴ while a clean-up of the entire banking system took place.

Despite the fact that Lippo Bank was not as exposed to foreign exchange trading as other banks, it still had to write off US\$75 million in bad loans.¹⁵ Riady shored up the capital of the bank by pumping in US\$225 million after he sold 70% of the Group's life insurance business. But it wasn't enough.

In 1999, Lippo Bank received a cash injection of US\$700 million from the government in exchange for a 52% share of the bank. Riady, however, remained commissioner of the bank. The management of Lippo Bank worked hard to fulfil the IMF's conditions by streamlining operations and implementing international best practices, but it remained dogged by controversy.¹⁶

In 2004, Swiss-Asia Global bought the government's controlling stake in Lippo Bank only to sell it a year later to Malaysia's sovereign wealth fund, Khazanah. In 2005, Riady resigned as commissioner of the bank and, soon after, Lippo Bank ceased to exist as it was renamed CIMB Niaga.

The loss of Lippo Bank resulted in the Group refocusing its efforts on other areas such as property, internet services, and retail. But Riady would not give up the ghost.

In 2010, he re-entered the banking industry in Indonesia when he paid US\$6.7 million for a 60% acquisition of Bank Nobu, a small bank with US\$600 million in assets and ranked 30th among the commercial banks in the country — a pale comparison to the ones he used to run.

When I raised the point that banking plays a very small role in the Group today, Riady, unfazed, threw a cryptic question back at me.

"Do you think so?" he asked.

The facts speak for themselves but I wondered if I had struck a raw nerve. When I pursued, and

I don't like my sons and my grandchildren to have such an unstable life.

asked if he had any regrets on how small the bank's contribution was to the Group, he responded emphatically, "No! No!"

The banking business, Riady rationalised, is not for the faint of heart. In his 50 years as a banker, Riady observed a seven-year cycle before some form of crisis would hit.

"I don't like my sons and my grandchildren to have such an unstable life," he said. This was also the sentiment echoed in the short chapter on the Asian Financial Crisis in Riady's autobiography. The sketchy details in the book belie the tumult those few years wrecked on Lippo Bank, resulting in its sale to the Malaysians.

When I suggested that he was made of much sterner stuff than his children whom he would want to spare the volatility of the banking industry, Riady smiled and conceded graciously, "I don't think my children have such patience to do this."

The socialist returns

Today, the Lippo Group is firmly in the hands of Riady's two sons — James, who runs the business in Indonesia, and Stephen, who operates out of Hong Kong and Singapore to look into interests there and in China and the US. The third generation has started on the journey in the family business and Riady is a contented man.

He expressed confidence in his sons' abilities, having exposed them to the business for more than 20 years while he was at the helm.

"I have a strong belief in my sons," he said. "They are capable."

He is convinced they will do a better job than he.

This frees him to dedicate his time to his current passion — healthcare. Aptly, his office is housed in the eponymous Mochtar Riady Institute for Nanotechnology, a cancer research lab in Lippo Karawaci, the Group's self-contained township about 30 kilometres from Jakarta. His home is a stone's throw away from the office.

Under the Group's healthcare arm, Siloam is a network of 20 hospitals spread across Indonesia. His pet project when we spoke was the launch of an e-medical centre to see to the healthcare needs of second-tier cities. The focus was to close the gap in services between centres such as Jakarta and Surabaya and the smaller towns. With the e-medical centre, patient information from the remote towns can be sent electronically to specialists in Jakarta for their diagnosis.

It's a return to his socialist roots, a call to serve.

"At this moment, I am not thinking about money," Riady said. Rather, it is about his *noblesse oblige*. He holds up prominent philanthropist, the late Tan Kah Kee, who established schools in China and Southeast Asia as his role model.

To that end, the Group has set up an education foundation based on Christian values with schools offering national and international curricula, from kindergarten to tertiary education.

**At this moment, I
am not thinking
about money.**

"My father always advised me — if the family is going to be strong, you have to have good education for the children. If the company is going to be strong, you have to have good people. And for the country or the nation to be

a giant, it depends on education," Riady said.

Riady embraced Christianity late in life, at 61. Two decades later and he is still brimming with enthusiasm. The first thing on his mind in the mornings, he said expansively and without missing a beat, was "to glorify God's name."

But can you really be a successful businessperson in Indonesia without compromising your faith? "Christianity tells us you have to work hard and then make as much money as possible. And through this, contribute to the country." The socialist and capitalist do meet, after all, on the path of Christianity.

The Riady family did not reach the heights it has without controversy. The incident that's most often raised to cast aspersions on the family's moral compass is the record US\$8.6 million fine that was imposed on Riady's eldest son, James, by the US government. He was found guilty of contributing up to US\$700,000 to the Democratic presidential and congressional fundraising campaigns as early as 1988 right up to the President Bill Clinton's first campaign.¹⁷ In their defence, the Riadys said they had not known that overseas funding of political campaigns was illegal.

Speculation had been rife on the Riadys' motivation behind pursuing the Clintons. Observers have suggested they had set themselves up as the unofficial link between the Indonesian and US governments.¹⁸ What is clear, though, is the relationship between the two families began in the 1980s innocently enough when Lippo

acquired a bank in Little Rock, Arkansas. Bill Clinton was the governor of the state at that time and the friendship continued through to his presidency.

Riady was reluctant to talk about the Clintons when I brought up the subject. He would only say they hadn't had the opportunity to meet because "I think [Clinton] is a very busy man."

As the interview drew to a close and he saw me out of his office, we stopped by a family portrait in the waiting area. It's a wide landscaped photograph of the Riady clan consisting of about 80 people, 4 generations, all dressed in coordinated shades of red, pink, white, and black. You can imagine what a logistical task it must've been to gather this family from all over the world for this occasion. But it obviously was very important to the patriarch as he's given the portrait pride of place in his office — a display to all who enter of what is most important to the man they have come to meet.

Smack in the middle of this illustrious tribe are the patriarch and his wife, the lady who has stood by him through thick and thin. She is also prominently featured in a painted portrait that he has placed right across from the door to his office.

It is telling that Li Limei's eyes follow all who walk in and out of her husband's office. She is the one who has the tycoon's ear on important matters.

Riady related an incident early in his banking career with Bank Buana, when a customer presented him with five sizeable gold bars as a gift. Not having seen ingots before, Riady was thrilled to have them in hand. He brought them home to show them to his wife.

But instead of sharing his delight, she immediately interrogated him. "My wife asked me 'Where does it come from?'" Riady related. "I said it was from one of the customers. She said 'Don't take it. If you receive this gift, that means, you are going to be bound to him and you are going to be a slave to him. So, it's better that you give them back to the owner.' And she insisted, right away, that I had to return it."

Wise words, I suggested, from his better half? He agreed.

For all his successes and challenges, the bouquets and brickbats thrown at him and his family through the years, here is a man who

has succeeded from his ability to see opportunities and connect the dots. That he is a master networker is beyond doubt. But through a combination of hard work, smarts, and agility in manoeuvring through crises and peace times, Riady remains today a giant in the Indonesian business landscape.

Here is one who has stood the test of time and who can now, having seen and tasted the best that the world has to offer, return to his socialist roots. He dedicates his time to services to the community and finds his greatest affections in hearth and home.

On his most worthy achievement, this legendary business mogul smiled and acknowledged his family. "I'm very satisfied and very proud," he said. "This is my greatest satisfaction."

Notes

- 1 "Mochtar Riady & family", Forbes, 5 December 2017, <<https://www.forbes.com/profile/mochtar-riady/>>
- 2 "History of Bank Indonesia: Monetary Period 1959–1966", Special Unit of Bank Indonesia Museum, accessed 10 July 2017, <<http://www.bi.go.id/en/tentang-bi/museum/sejarah-bi/bi/Documents/bab292dd8e834926a7d7be04e9dfe6c7MicrosoftWordHistoryofMonetaryPeriod19591966.pdf>>
- 3 Yuri Sato, "Banking Restructuring and Reform in Indonesia", The Developing Economies XLIII-1, March 2005, p. 97.
- 4 Mochtar Riady, *Mochtar Riady: My Life Story*, John Wiley & Sons, Singapore, p. 61.
- 5 Rosabeth Moss Kanter, "Using Networking for Competitive Advantage: The Lippo Group of Indonesia and Hong Kong", Strategy + Business, 1 July 1996, <<https://www.strategy-business.com/article/17609?gko=17096>>
- 6 Jeffrey A. Winters, *Oligarchy*, Cambridge University Press, 18 April 2011, p. 170.
- 7 Mari Pangetsu & Manggi Habir, "The Boom, Bust and Restructuring of Indonesian Banks", April 2002, IMF Working Paper, accessed 10 July 2016, <<https://www.imf.org/external/pubs/ft/wp/2002/wp0266.pdf>>
- 8 Natasha Hamilton Hart, *Asian States, Asian Bankers: Central Banking in Southeast Asia*, NUS Press, 2003, p. 60.
- 9 Mochtar Riady, *Mochtar Riady: My Life Story*, Wiley & Sons, Singapore, 2017, p. 153.
- 10 Rosabeth Moss Kantor, "Using Networking for Competitive Advantage: The Lippo Group of Indonesia and Hong Kong", 1 July 1996, Strategy + Business, Third Quarter 1996/Issue 4.
- 11 In his autobiography, *Mochtar Riady: My Life Story*, Riady explained how a minor misdemeanour committed by one of his finance managers sparked off a series of rumours that resulted in a bank run.

Massive withdrawals went on for a month, depleting the bank's reserves, and this, even after Riady had clarified the situation with the central bank and sought their intervention.

None was forthcoming until Riady threatened to shut the bank. The result of that would have shaken the banking system in Indonesia.

With that, the regulators intervened quietly. Five banks approached Riady with credit lines, including BCA, under the behest of the central bank. The latter needed to be the invisible hand in order not to be perceived as playing favourites as other banks would've cried foul over this bail out. According to Anthoni Salim, the scion of the Salim empire which oversees BCA, about US\$800 million was extended to Lippo Bank, all of which was repaid.

- 12 Anwar Nasution, "The Meltdown of the Indonesian Economy in 1997–1998: Causes and Responses" 30 June 1998, accessed 10 July 2017, <<https://www.ids.ac.uk/ids/global/Conf/pdfs/nasut.pdf>>
- 13 Yenni Kwok, "Suharto's Kiss of Death: Seen as crony bank, BCA tries to stem a run" 30 November 2000, Asiaweek.com, accessed 10 July 2017, <<http://edition.cnn.com/ASIANOW/asiaweek/98/0612/biz3.html>>
- 14 Mari Pangetsu & Manggi Habib, p. 25.
- 15 Yasuyuki Matsumoto, *Financial Fragility and Instability in Indonesia*, Routledge, 24 January 2007.
- 16 This included suspicions that the bank had tried to doctor the books in order to push for a rights issue that would give the family a controlling stake in the bank again. That attempt, however, was thwarted by the government.
- 17 Sharon LaFraniere, John Pomfret and Lena H. Sun, "The Riadys Persistent Pursuit of Influence" Washington Post, 27 May 1997.
- 18 LaFraniere, *et al.*