
THE UNFINISHED PRIVATIZATION OF SEMEN PADANG: THE STRUCTURE OF THE POLITICAL ECONOMY IN POST-SUHARTO INDONESIA

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1. Introduction

This paper analyzes the dispute over Semen Padang, a state-owned enterprise located in West Sumatra, using the Coase theorem to structure the analysis.² The relevant part of the Coase theorem is the notion that, as long as property rights³ are

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²Coase theorem is named after Ronald Coase, one of the founders of the New Institutional School of thought. The Coase theorem was first used by George Stigler in his book, *The Theory of Price*. See Steven G. Medema, *Ronald H. Coase* (London: The Macmillan Press Ltd., 1994), p. 63. The standard Coase theorem says that when transaction costs are zero and rights fully specified, parties to a dispute will bargain to an efficient outcome, regardless of the initial assignment of rights. See Ronald Coase, *The Firm, the Market, and the Law* (Chicago, IL: Chicago University Press, 1988), p. 12. This book consists of reprints of Coase's works, including "The Problem of Social Cost" originally published by *The Journal of Law and Economics* in volume III, 1960, in which the Coase theorem is rooted. My paper relies on the text published in *The Firm, the Market, and the Law*. See also Medema, *Ronald H. Coase*, p. 10.

³Property rights are the rights individuals claim over their own labor and the goods and services they possess. Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), p. 33. See also a similar definition offered by Harold Demsetz, "Toward a Theory of Property Rights," *The American Economic Review* 52,2 (May 1967): 347-359.

well-defined, efficient outcomes (Pareto)⁴ will result from the interaction of economic parties. This paper argues that, on the contrary, in the absence of property rights, parties involved in a dispute have nothing over which to bargain, and their negotiations are likely to be diverted into deliberations about the property rights themselves rather than the property, the fate of which is to be decided in order to produce the desired outcome.

For the purpose of this investigation, the Coase theorem is applied in a political context in the following way. Following the Coase theorem, one would expect that, as long as the bounds of power (in this case, between center and province) are clearly delineated, powerful actors will interact to bring about efficient outcomes (Pareto). This paper argues that in the absence of well-delineated boundaries, actors may be diverted into actions that try to determine those bounds rather than activities that involve the exercise of the well-delineated power to achieve the desired outcome.⁵

This case study of the privatization of Semen Padang illustrates that the parties involved were diverted from exercising power to achieve an efficient allocation of resources and instead became preoccupied with determining the limits (hitherto unresolved) of the power itself. The situation came about as a result of a decision by the central government under Habibie in 1998, which attempted to diminish its fiscal problems by privatizing public assets. Included in this economic package was Semen Gresik, the parent company of Semen Padang. The rights over Semen Padang had been assigned to the central government by law, and the government was confident it could legitimately sell one of its assets to any buyer who met certain specific requirements. However, the central government had to confront recalcitrant politicians in the province who argued that they also held rights to Semen Padang because the raw materials on which it depended were located in land protected by local customary rights (*hak ulayat*). As a result of these different interpretations, the center and province became engaged in a power contest that brought them to mobilize their political resources to win the dispute.

The political environment described here, characterized by tensions between the central government and local interests, is closely associated with broader changes in institutional arrangements that came about when Indonesia altered its political format, shifting from a centralized government to a more decentralized one. As an outcome of this decentralization policy, the politicians residing in the provinces started to emerge as political entities. In line with the decentralization policy, the central government was weakened with respect to its capacity to protect property rights. As this paper discusses, in a decentralized Indonesia, property rights were indeed established and acknowledged, yet enforcement was uncertain because of the friction within the government. When it discovered that its own property had become difficult to protect, the central government attempted to secure its rights in order to minimize potential challenges from provincial politicians. In doing so, the central government relied on existing regulations and rules and adopted necessary political measures within the existing institutions.

⁴ Named after Italian economist Vilfredo Pareto (1848-1923), "Pareto efficiency" is mainly defined as the efficiency of a market that is unable to produce more goods, utilizing the same level of input, without reducing the output of another product.

⁵ The author would like to thank the reviewer who suggested this point.

In Indonesia during the days of Suharto, property rights were insured and successfully enforced because of the president's ability to manage the institutions of government and concentrate power in his own hands, a feat that he managed by controlling the military and Golkar (Functional Group), Indonesia's dominant political party.⁶ Suharto was able to maintain control of the regions since he had the power to appoint the governors and *bupati/walikota*,⁷ as established in Law 5/1974 on local administration, and this authority helped him protect the rights and privileges of the central government, including its rights to property in those regions. Because of this law, the governors were appointed by and were accountable to the president.⁸ In addition, Suharto controlled the flow of funds for the regions. It was his custom to allocate the largest share of the tax pie for the central government and then channel what remained to the different regions. The provinces had to rely on subsidies from the central government for about 60 percent for their development expenditures.⁹ Therefore, the governors responded to the wishes of Suharto¹⁰ and made few attempts to exert control over their own resources.

In the post-Suharto period, the status of these property rights became relatively uncertain. New privatization and decentralization policies, along with the establishment of numerous new political parties, weakened the central government's hold over valuable property located in the regions. At the same time, these policies opened new opportunities for provincial politicians, including the CEO of Semen Padang, Ikhdan Nizar,¹¹ and the deputy speaker of a provincial assembly, Titik Nazif Lubuk,¹² who found themselves able to boost their influence by setting up networks with powerful politicians in Jakarta such as Azwar Anas,¹³ who had been the CEO of Semen Padang in the 1970s and governor of West Sumatra in 1977-1988. Their

⁶ Richard Robison, "Indonesia: Tension in State and Regime," in *Southeast Asia in the 1990s: Authoritarian, Democracy, and Capitalism*, ed. Richard Robison, Kevin Hewison, and Gary Rodan (St. Leonard: Allen and Unwin, 1993); Takashi Shiraishi, "Dukuh: A Golkar Village," in *Approaching Suharto's Indonesia from the Margins*, ed. Takashi Shiraishi (Ithaca, NY: Cornell Southeast Asia Program Publications, 1994).

⁷ *Bupati* (regent) is an officer in charge of a regency. *Walikota* is mayor; she/he is in charge of a municipality.

⁸ Article 15 of the law 5/1974 on Local Administration.

⁹ Mudradjat Kuntjoro, "Desentralisasi Fiskal di Indonesia," *Prisma* 4 (April 1995): 3-17.

¹⁰ Ichlasul Amal, "Dimensi Politik Hubungan Pusat-Daerah Sumatra Barat dan Sulawesi Selatan," in *Hubungan Pusat-Daerah Dalam Pembangunan*, ed. Colin MacAndrews and Ichlasul Amal (Jakarta: Rajawali Press, 1993); Jim Schiller, *Developing Jepara: State and Society in New Order Indonesia* (Monash: Center for Southeast Asian Studies, 1996); Audrey Kahin, *Rebellion to Integration: West Sumatra and the Indonesian Polity* (Amsterdam: Amsterdam University Press, 1999).

¹¹ Ikhdan Nizar was born in Bukittinggi on July 30, 1943. He graduated from local primary school and from Padang senior high school. In 1972, he graduated from Bandung Institute of Technology (ITB). He started his career in Semen Padang in 1974 and subsequently held various positions, such as director of research and development in Semen Gresik (1988-1995); CEO of Semen Baturaja (1995-1999); and CEO of Semen Padang (1999-2003).

¹² Titik Nazif Lubuk was born in Bukittinggi on October 7, 1947. She received her entire education in Padang. Graduating from Foreign Language Academy in 1970, she then served as a provincial parliament member of Golkar from 1972 to 1979. From 1999 to 2004, she served as the deputy speaker of the provincial parliament. She is active in local women's organizations.

¹³ Azwar Anas was born in Padang on August 2, 1932. He studied in Padang until high school and graduated from the Bandung Institute of Technology in 1959. He was CEO of PT Pindad (1969-1970); CEO of Semen Padang (1970-1977); Governor of West Sumatra (1977-1987); Minister of Transportation (1988-1993); Coordinating Minister of Social Affairs (1994-1997); and Member of Supreme Advisory Council (1998-2000).

emergence caused considerable alarm for the Minister of State-Owned Enterprise (SOE),¹⁴ Laksamana Sukardi, who had a plan to privatize Semen Padang.

The disorganization resulting from Suharto's fall led to a situation in which many new players emerged; these parties were soon competing for favorable decisions in economic contests and property rights disputes. Examining the case of Semen Padang, we find that Laksamana Soekardi's power to engineer privatization for the benefit of the central government was challenged by other players at both the national level (Azwar Anas) and regional level (Ikhdan Nizar and Titik Nazif Lubuk).

2. The Context

In accordance with the Government Regulation No. 7/1971, in 1972 the status of PT Semen Padang¹⁵ was modified so that it became a limited state-owned company, with all shares owned by the government of the Republic of Indonesia. The difference between PN (Perusahaan Negara, a state-owned company that operates as an agent of development and as a business entity) Semen Padang and PT (Perusahaan Terbatas, "limited liability," a state-owned company that operates only as a business entity) Semen Padang was that, in the former scheme, the entity acted as an agent of development, tasked to develop the manufacturing industry, while under the latter scheme, PT operates as a commercial company, subject to commercial law, which means it must compete within the manufacturing industry. The main product of Semen Padang is Portland cement; production volume is indicated in Table 1, below.

Three decades later, Suharto ordered three state-owned companies—Semen Gresik, Semen Padang, and Semen Tonasa—to join under the umbrella of a single parent company, Semen Gresik; in taking this action, the president relied on Ministry of Finance Decision No. S-326/MK.016/1995 for authority. The consolidation was realized on September 15, 1995, and it changed the future of Semen Padang. At that time, Padang's elite, including Azwar Anas, did not challenge the decision because they knew Suharto had ordered it.¹⁶ While claiming that consolidation would increase the efficiency of these three companies, Suharto in fact sought to create a monopoly over the country's cement market. Since the mid-1980s, Suharto's family had held interests in the cement industry, as indicated by their shares in Indocement, a leading

¹⁴ The Ministry of SOE was established by the Suharto government in 1998 as a response to the economic crisis of 1997, but under Abdurahman Wahid's government, it was dissolved. The Megawati government revived the Ministry, appointing Laksamana Soekardi from PDI-P (Partai Demokrasi Indonesia-Perjuangan, The Indonesian Democratic Party of Struggle) as the minister.

¹⁵ Semen Padang was established in 1910 as NV Nederlandsche Indische Portland Cement Maatschappij (NIPCM). During the Japanese Occupation in 1942-1945, Asano Cement managed the company. In 1947, the Dutch regained management of the enterprise and changed the name to NV Padang Portland Cement Maatschappij (PPCM). As a result of Presidential Decree No. 10/1958, issued by Sukarno, the Indonesian government again took over the company on July 5, 1958. Government Regulation No.135/1961 changed the status of the company, making it a state-owned enterprise (PN Semen Padang).

¹⁶ Padang Press Club, *Kembalikan Semen Padang ke Pangkuan Negara* (Padang: Padang Press Club 2001), p. 12.

private cement maker.¹⁷ The president and his family had focused on controlling cement production, or the supply side.

After Indonesia was hit hard by the Asian economic crisis of 1997, the central government entered into an agreement with the International Monetary Fund (IMF). One of the measures adopted by the government at this time was the privatization of some state-owned enterprises, an action that was expected to help control the enormous budget deficit. In March 1998, Suharto established a new government body, the Ministry of State-Owned Enterprise, responsible for overseeing the privatization of a range of SOEs.

After he succeeded Suharto as president, B. J. Habibie decided in July 1998 to privatize Semen Gresik as part of the structural reform of the country's economy.¹⁸ The central government was committed to raise US\$1 billion for the fiscal year 1998/99 through the privatization of seven large SOEs, including Semen Gresik.¹⁹ Privatization was aimed at reducing the budget deficit—8.5 percent of the GDP—in the fiscal year 1998/99.²⁰ In 1998, the Habibie government moved the privatization of Semen Gresik one step further by inviting a strategic partner to invest in the company. After several bidding exchanges, the multinational company Cemex of Mexico was appointed as partner, and it purchased 14 percent of the shares of Semen Gresik for US\$122.1 million. Nevertheless, due to political pressures from the province of West Sumatra where Semen Padang is located, Cemex²¹ was not granted permission to purchase additional shares outright, although it did manage to buy more shares on the Jakarta stock exchange. Under this arrangement, the central government retained 51 percent of the total shares, while 25 percent was purchased by Cemex, and 24 percent was owned by public investors in the Jakarta Stock Exchange.

Table 1
Semen Padang Production

Year	Production (tons)
1996	3,344,489
1997	3,374,985
1998	3,464,024
1999	4,002,163
2000	4,501,845
2001	4,744,229

Sources: *Annual Report of PT Semen Padang 2000* (Padang, Semen Padang, 2000) and *Annual Report of PT Semen Padang 2001* (Padang, Semen Padang, 2001).

¹⁷ Richard Robison, "Industrialization and the Economic and Political Development of Capital," in *Southeast Asian Capitalists*, ed. Ruth McVey (Ithaca, NY: Cornell Southeast Asia Program Publications, 1992), p. 79.

¹⁸ IMF, MEFP (Memorandum on Economic and Financial Policies), issued on January 15, 1998, outlined the needs for privatization in Indonesia but did not specify which SOEs should be privatized. In a Supplementary MEFP on April 4, 1998, in appendix IV, it is stated clearly that PT Sement Gresik must be privatized.

¹⁹ "Target perolehan dana privatisasi BUMN direvisi," *Bisnis Indonesia*, December 19, 1998.

²⁰ *Ibid.*

²¹ For more information on Cemex, see www.cemex.com. See also Bersihar Lubis, *Who's Who in Cemex* [Suntingan Dosa-Dosa Cemex] (Jakarta: Yayasan Swadaya Mandiri, 2001).

3. Politics in the Post-Suharto Era

No single political force inherited Suharto's power due to serious divisions in the military and Golkar. In 1998, the military was split by a fierce competition between General Wiranto and Prabowo, Suharto's son-in-law and the commander of the Army Strategic Reserve Command, who both wanted to command the armed forces.²² Golkar experienced a similar fate, as it broke apart into a number of different factions from 1998 up to 2000. The struggle between Akbar Tanjung and Edi Soedrajat, who wrestled each other for the chairmanship of the party, first divided Golkar, and this fragmentation grew worse when a number of Habibie supporters, most of them from Sulawesi, Papua, and Kalimantan, decided to oppose Akbar.²³

The introduction of governmental policies granting more autonomy to the regions created new arrangements in politics and the economy. With the implementation of Decentralization Law 22/1999, the privilege of the president to appoint regional governors was revoked. This law also gave the provincial assemblies power to elect their own governors. As a result of this new rule, a governor became responsible and accountable mainly to his provincial assembly and relatively free of responsibilities to Indonesia's president, as the law merely required him to inform the president of his assembly's annual activities.²⁴ This new regulation altered the relationship between the center and the region. The existing political alliances of the Suharto era changed overnight, replaced by new networks of politicians.

4. The Local Elites and Their Efforts

A. The Golkar Connections

Golkar had begun to penetrate local politics after 1966. Saafroedin Bahar²⁵ laid the groundwork for the establishment of an organization designed to mobilize political support for its local (*adat*) leaders in West Sumatra, and the party established the Forum of *Adat* Association of the Minangkabau (Lembaga Kerapatan Adat dan Alam Minangkabau, LKAAM) in 1966.²⁶ Under the New Order regime, Azwar Anas²⁷ of Golkar was appointed as governor of West Sumatra, and the party successfully penetrated West Sumatra under his rule. He secured Golkar's victory in 1982 with 60.4

²² Takashi Shiraishi, "Indonesian Military in Politics," in *The Politics of Post-Suharto Indonesia*, ed. Adam Schwarz and Jonathan Paris (New York, NY: Council of Foreign Relation Press, 1999).

²³ Bimo Nugroho and Stanley, *Golkar Retak?* (Jakarta: Institut Studi Arus Informasi, 1999).

²⁴ Djohermansyah Djohan, *Kebijakan Otonomi Daerah 1999* (Jakarta: Yarsif Watampone, 2003), pp. 140-41.

²⁵ Saafroedin Bahar was born in Padang Panjang on August 10, 1937. He graduated from Gadjah Mada University (UGM) in Yogyakarta (1955), and he earned his doctoral degree from UGM. He was an expert staff for the Ministry of Cabinet in 1995, expert staff in Lemhanas (1983-1989), chairperson of Golkar in West Sumatra (1970-1973), and chief of information for Kodam II Padang (1970-1973). He played a crucial role establishing LKAAM.

²⁶ LKAAM is Golkar's political wing and is used to consolidate ethnic leaders. It was designed to stop the expansion of the communist movement. Golkar used LKAAM as its political vehicle in West Sumatra to gain votes in every election under Suharto. Captain Saafroedin Bahar was its first secretary.

²⁷ Azwar Anas was born in Padang, on August 2, 1931. He graduated from primary school in Bukittinggi (1944); junior high school in Bukittinggi (1948); senior high school in Padang (1951); and from the Bandung Institute of Technology (1959). He served in various ministries posts as part of the Suharto government.

percent and in 1987 with 78.7 percent of the votes. Azwar made use of the same strategy that had been employed by Bahar: he relied on bureaucracies and local leaders to gain votes for Golkar throughout the region. In the 1999 election, the first election after Suharto's fall from power, the party was still ruling the region with 23.63 percent of the votes. In the early years of his political career, Azwar was supported by the previous governor of Harun Zain, who thought he would be the right man to promote economic development in Sumatra. Azwar was a brigadier general and a chemical engineer who had succeeded in restructuring the near-bankrupt Semen Padang into a profitable business. He had strong connections in the military because of his standing as a military officer.

During his two terms as governor, from 1977 to 1988, Azwar was able to "develop" the region mainly because he responded to the wishes of Suharto. His success in attracting development funds from Jakarta was a good measure of his effectiveness. He did it by implementing a Javanese village unit called *desa* at the expense of the traditional extended village unit, called *nagari*. The outcome of this policy was that the number of the villages (*desa*) increased from 543 (that had been the number of *nagari*) to 3,138 (the number of *orong*, the smallest unit of a *nagari*), plus 408 urban districts, or *kelurahan*.²⁸ As a result, West Sumatra received approximately six times the amount of government funds for development of the region. In addition, Azwar also helped the central government to integrate the region into the unitary state (this region has a history of rebellion against the central government, originally called the Pemerintahan Revolusioner Republik Indonesia [Revolutionary Government of Republic of Indonesia, PRRI]).

In the context of the privatization of Semen Gresik, Azwar Anas shared interests with those provincial politicians from West Sumatra who wanted to prevent the privatization of Semen Padang; these politicians understood that it would be easier to defend their local cement industry against foreign investors if Semen Padang were separated from the parent company, Semen Gresik. Azwar's political standing was more than powerful enough to offer a counterbalance to the central government of Habibie, where Tanri Abeng was the minister of SOE. After Azwar successfully won Suharto's trust due to his ability to integrate West Sumatra into Indonesia's unitary state, the president rewarded him with a ministerial post: he served as Minister of Transportation in 1988-1993. Later on he managed to secure his political career by allying with Habibie to support the establishment of an Indonesian Intellectual Muslim Association (Ikatan Cendekiawan Muslim se-Indonesia, ICMI) in 1991. Azwar was among the three ministers who supported ICMI.

While he proved adept in winning the approval of the executive branch, Azwar's political ascendancy was also determined by internal politics within Golkar. He was already the member of the party's powerful central board in 1988-1993. When Golkar held its Congress in October 1993, Harmoko,²⁹ the Minister of Information, was appointed its chairperson, while Habibie operated in the background.³⁰ Thus Golkar

²⁸ Audrey Kahin, *Rebellion to Integration*, p. 258.

²⁹ Harmoko and Habibie were Suharto's trusted politicians in 1993; see "Mencari Ketua, Menyiapkan Sukses," *Tempo*, May 8, 1993, p. 23.

³⁰ Adam Schawrz, *A Nation in Waiting* (NSW, Australia: Allen and Unwin, 1993), p. 177; and Michael R. J. Vatikiotis, *Indonesian Politics Under Suharto: The Rise and Fall of the New Order* (London and New York: Routledge, 1993), p. 211.

placed a civilian politician at the head of the party, with Suharto's permission, to act as a counterweight to the military. As a player in this political game, Azwar sided with Habibie, whom he had come to know as a result of their work on the ICMI. Linked to Habibie through both Golkar and the ICMI, Azwar was rewarded with an influential position in 1993: Coordinating Minister of People's Welfare.

Azwar was then in a good position to offer protection to those politicians who wanted Semen Padang separated from Semen Gresik. In fact, on various occasions, Azwar expressed his support for Ikhdan Nizar and Titik Nazif Lubuk, who advocated separating Semen Padang from Semen Gresik. In 1998, relying on his authority as a member of the DPA (Dewan Pertimbangan Agung, Supreme Advisory Council),³¹ Azwar summoned the Minister of SOE at the time, Tanri Abeng, to his office and ordered Tanri to stop selling shares of Semen Padang to Cemex. Azwar strongly argued that this sale would reduce the government's share of stock in Semen Padang. More importantly, Azwar was clearly engaged in protecting the interests of Ikhdan Nizar and Titik Nazif Lubuk. Though the minister was not obligated to take this advice, by this time he had learned that it was very difficult to oppose Azwar, who enjoyed such close relations with Habibie.

In the process of privatizing Semen Gresik, which included Semen Padang, the CEO and the commissioners of Semen Padang were the key players. Padang's elites were led by Ikhdan Nizar, the CEO of Semen Padang, and Saafroedin Bahar, the president-commissioner of the company. Ikhdan Nizar's career had mainly developed within the structure of state-owned companies that were part of the cement industry. He joined Semen Padang after graduating from the Bandung Institute of Technology. Two years before he was appointed as the CEO of Semen Padang in 1998, he served as the CEO of a much smaller cement factory, Semen Baturaja, an SOE located in South Sumatra. Saafroedin's political position was significant. He had been involved in the creation of LKAAM in 1966 and subsequently served as its first secretary and then as chairperson. He chaired the regional Golkar branch in the 1970s. He then moved to Jakarta to serve as an expert for the Ministry of Cabinet Secretary in the 1980s.

Ikhdan Nizar's long relationship with Azwar Anas worked as a glue that bound them together. At different times, each had served as the CEO of Semen Padang, and Ikhdan had worked under Azwar's supervision at the company. Under Azwar's tutelage, Ikhdan learned that cement must be treated as a strategic commodity that should receive protection from the government. This perspective must be understood in the broader context of the Suharto government's policies concerning Import Substitution Industry (ISI). Since the 1970s, the cement industry had been developed on an "import substitution basis,"³² which meant the government sought to encourage the use of domestically produced cement, rather than imported cement, and was willing to protect the industry with a substantial tariff; this tariff was abolished only in October 1990 in response to a temporary cement shortage in the domestic market. Azwar directed Semen Padang during a time when this ISI policy, and its tariff, was firmly in place, when laws made it extremely difficult for foreign investors or

³¹ DPA is Dewan Pertimbangan Agung (Supreme Advisory Council), a high political body that advises the president. Many of the members were former ministers, such as Azwar Anas.

³² Economic Intelligence Unit, *Indonesia: Industrial Development Review* (London: Economic Intelligent Unit, 1993), p. 136.

companies to penetrate the industry. Due to this experience, Azwar judged that Semen Padang would fare best if cement production were still treated as a strategic industry, protected by the government. Ikhdan was essentially following this argument when he defended the separation of Semen Padang from Semen Gresik.

In Padang, Ikhdan depended on Titik Nazif Lubuk, the deputy speaker of the provincial assembly.³³ Titik was a local Golkar politician who had developed her political career as a loyal party member since the 1970s. She had served as a member of the provincial House of Representatives for Golkar, and from 1998–2004 she was the deputy speaker of the House. Her political position was quite important since she could help reinforce the political network connecting Padang and Jakarta. On the regional level, she had contact with mass organizations linked to Golkar, such as Bundo Kandung (a local women's organization) and LKAAM. Even when the party split at the national level, this schism had little effect on provincial politics in West Sumatra. After Akbar Tanjung³⁴ secured his position as the leader of Golkar, the party's branch in West Sumatra, including local Golkar politicians like Titik Nazif Lubuk, sided with him. At the national level, Titik's influence was enhanced by her working relationship with Azwar Anas.

In 2001, Ikhdan Nizar began his campaign to resist the privatization of Semen Gresik because he had learned that his position would be in jeopardy if foreign investors dominated the company's management; once Cemex had control of the company, it would install its own managers to oversee operations. In fact, Cemex had already placed two of its managers in Semen Gresik. Thus Ikhdan saw that his post at Semen Padang would be threatened by the privatization of Semen Gresik. In order to save his own job, he needed either to prevent Semen Gresik, the umbrella company, from being privatized, or to separate Semen Padang from Semen Gresik.

B. Raw Material

The immobility of raw materials needed for cement production, such as limestone, provided power for Ikhdan. Immobility was turned into political leverage,³⁵ for it meant that Ikhdan could easily hijack the operations of the plant by withholding its access to raw materials.

The raw materials for cement production in Padang were predicted to last for between 50 and 150 years.³⁶ The limestone deposit is mainly located in Lubuk Kilangan subdistrict, with an area of approximately 128 hectares. Semen Padang has been exploiting the limestone from Lubuk Kilangan since 1910. Other deposits are located in Padangpanjang (250 million m³), Sawahlunto Sijunjung (7 billion m³), and

³³ "Gaya Ikhdan Nizar Mencari Dukungan," *Zaman*, June 9, 2002.

³⁴ Akbar Tanjung was born in Sibolga on August 14, 1945. He completed primary school in Tapanuli, junior high school in Medan, and senior high school in Jakarta; he graduated from the Faculty of Engineering at the University of Indonesia. He joined the anti-Sukarno movement in 1966, and through the following decades, he established various youth organizations related to Golkar. From 1988 to 1993, he was minister of sports and youth; from 1993 to 1998, he was state minister for housing; from 1999 to 2004, he was chair of the House of Representatives.

³⁵ Theodore H. Moran, *Multinationals and the Politics of Dependence: Copper in Chile* (Princeton, NJ: Princeton University Press, 1974).

³⁶ "Divestasi Semen Gresik Kontroversial," *Bisnis Indonesia*, December 5, 2000.

Paninggahan Solok (7.5 billion m³). This abundance solidified Ikhdan's position in the political debates over privatization.

C. Political Target

In 2001, as noted above, Ikhdan Nizar began openly to oppose the privatization of Semen Gresik. When Minister Laksamana Sukardi pressed for the implementation of the plan, Ikhdan sent an early warning that the move would ignite social chaos in West Sumatra³⁷ and asserted that the chaos would damage the image of Semen Gresik. At the same time, Ikhdan argued that the introduction of international cement companies to Indonesia was dangerous because these companies were buying up local cement factories at very low prices. He referred to global cement enterprises that were already operating in the country, such as Holderbank of Switzerland, which had bought 12.5 percent of Semen Cibinong's shares, and Heidelberger, which had planned to acquire 60 percent of Indocement's shares. He claimed that Semen Gresik had been sold cheaply to Cemex and argued that Cemex should have been made to pay US\$114.3, rather than US\$47, for each ton of capacity, similar to the price it paid for Rizal Cement in the Philippines.³⁸

By the middle of October 2001, Ikhdan Nizar had focused his argument against the privatization of Semen Gresik by citing national interest. He characterized privatization as systematic looting of national assets by foreign investors, a fatally mistaken policy that would automatically transfer the industrial plants and natural resources to the foreign investor. He called for the central government to reconsider the proposal to privatize Semen Gresik and defended his position by claiming that Semen Gresik, particularly Semen Padang, had the managerial capability to run the company.

Ikhdan won political support both from national politicians, like Azwar Anas, and members of the provincial elite, like Titik Nazif Lubuk. Then he made his move. He presented a detailed plan for buying back the shares of Semen Padang that had been transferred to Cemex, thereby forcing Laksamana to restructure the ownership of the company. The first thing that Ikhdan did was to identify the exact number of shares Cemex held in Semen Padang, a necessary task, since Cemex owned shares of Semen Padang indirectly through its holdings in Semen Gresik. Ikhdan came up with a formula to calculate the shares of Semen Padang that Cemex controlled based on the proportions of shares different parties held in Semen Gresik: the Indonesian government, 51 percent; Cemex, 25 percent;³⁹ and the public, 24 percent. Then he concluded that Cemex's equity in Semen Padang amounted to 83 millions shares (total shares of Semen Padang being 332 million units). These shares could be valued at IDR533.4 billion.⁴⁰

³⁷ "Kegagalan Spin Off Bisa Picu Chaos," *Bisnis Indonesia*, February 24, 2001

³⁸ "Interview with Ikhdan Nizar," *Forum Keadilan*, April 29, 2001.

³⁹ Cemex paid US\$114.6 million or US\$1.38 per share.

⁴⁰ Tim Spin Off PT. Semen Padang, *PT Semen Padang: Dari Spin Off Menuju Perusahaan Kelas Dunia, Padang*, (Padang: Tim Spin Off PT. Semen Padang, 2001), p. 55. The calculation was based on the price of shares of Semen Padang in 1995, IDR 3,205.

Ikhdan's plan could not be executed, however, because the central government had no funds to repurchase the shares of Semen Padang held by Cemex. One of the most important reasons behind the central government's original decision to privatize Semen Gresik had been its need to raise money to fill the gaps in its budget. Any expenditure that would damage the stability of the budget, such as buying back Semen Gresik shares in Cemex, would be unacceptable.

D. The Maklumat Affair

On October 31, 2001, the provincial assembly, led by Titik Nazif Lubuk, claimed control of Semen Padang in an action subsequently described as the *maklumat* (declaration) affair. Even though the *maklumat* was staged on behalf of the people of West Sumatra, in fact it was signed by only five mass organizations: the National Council of Indonesian Youth (KNPI, Komite Nasional Pemuda Indonesia), the Indonesian Council of Ulama (MUI, Majelis Ulama Indonesia), LKAAM, the Association of Indonesian Muslim Intellectuals (ICMI), and the women's organization Bundo Kandung. KNPI, LKAAM, and, to some extent, Bundo Kandung all have relations to Golkar: KNPI has been a recruiting vehicle for Golkar, and the chief of the present LKAAM is a member of Golkar. Titik Nazif Lubuk has been deeply involved with Bundo Kandung.

The takeover was the outcome of a meeting of the provincial assembly. It highlighted the tensions between Ikhdan and Titik Lubuk, on one side, and Laksamana, on another side. The councilors in Padang issued a declaration that stated four points:

- 1) From November 1, 2001, Semen Padang, upon approval of the provincial government, will operate under the supervision of members of the West Sumatra provincial assembly. Eventually Semen Padang will be separated from Semen Gresik and return to being a state-owned enterprise run by the government of Indonesia;
- 2) Management, members of the board, and employees of Semen Padang will report to the provincial government and provincial assembly of West Sumatra;
- 3) Management will disseminate the contents of this declaration to the relevant organizations, including banks and creditors, affirming that the company will continue to operate as usual; and
- 4) Further technical issues that arise will be solved in the best possible way in line with prevailing procedures.

This unilateral takeover was intended to prevent the further privatization of Semen Padang, which would have been made possible by the central government's agreement with Cemex, for when the government sold the shares of Semen Gresik to Cemex, the government reserved the right to execute the option to sell its remaining shares to Cemex. The deadline for this "put option" was scheduled in late October 2001, and if the central government executed its right, Cemex would have been the majority shareholder for Semen Gresik. The takeover also had a political function, of course, for it helped consolidate Ikhdan and Titik's political power. After the event, these two individuals practically ran the whole company. Titik made it clear that from then on

the central government, particularly Minister Laksamana, could not make any meaningful decisions concerning Semen Padang's operations or ownership independently, without consulting the provincial assembly.⁴¹ In short, Ikhdan and Titik would be involved in any decision related to Semen Padang.

5. Laksamana's Responses

Laksamana Sukardi⁴² was the Minister of SOE under the Megawati government from 2001 to 2004. He had spent most of his career in the business sector as a professional, having started at Citibank and risen to become the chief of its customer banking unit in 1988. He moved to the domestic conglomerate, Lippo,⁴³ and became a manager of Lippo Bank in 1993. He served as its CEO from 1994 to 1999. He became involved in politics in 1992, when he joined PDI (Partai Demokrasi Indonesia, the Indonesian Democratic Party; and later PDI-P, Partai Demokrasi Indonesia-Perjuangan, the Indonesian Democratic Party of Struggle) under Megawati. From 2001–2004, he served as the Minister of SOE, responsible for privatizing some of the state-owned enterprises.

Initially Laksamana did not make any serious attempt to confront Ikhdan and Titik directly. He expressed his disappointment with the takeover and blamed the duo for violating existing laws. He had reasons for not taking any serious measures against the two provincial politicians, for he wished to avoid a collision with Golkar, an important political ally in Megawati's coalition government. Laksamana fully understood that Megawati of PDI-P needed the support of Golkar in order for the government to survive. Any rifts within the coalition would put the government in jeopardy.

In early December 2001, Laksamana proposed a deal with Ikhdan and Titik, offering to buy back Semen Padang, thus effectively severing it from Semen Gresik. After Laksamana sold the government's stake, the shareholdings of Semen Gresik would have been divided with 76.50 percent held by Cemex and 23.5 percent held by the public.⁴⁴ The minister hoped this move would satisfy the provincial advocates by separating the Semen Padang unit from Semen Gresik, and that the scheme would also honor its commitment to Cemex by allowing it to increase its shareholding in Semen Gresik to 76.50 percent. Under the proposed deal, the government would sell its 51 percent stake in Semen Gresik to Cemex, but at the same time it would acquire a majority stake in Semen Gresik's Padang and Tonasa units. But the Gresik unit still owned 49 percent of the Padang unit (and the Tonasa unit), with the 51 percent majority held by the government. Laksamana came up with a net income of US\$200 million after the whole deal was completed. His calculation was simple: the government would sell 51 percent of Semen Gresik shares worth US\$529 million. The government would then buy 51 percent each of Semen Padang and Semen Tonasa for a combined value of US\$282.5 (100 percent of their combined shares were worth US\$554

⁴¹ "Maklumat Wajib Laport," *Gatra*, November 10, 2001, p. 29.

⁴² Laksamana Sukardi was born in Jakarta on October 1, 1956. He graduated from Bandung Institute of Technology in 1979.

⁴³ Lippo Group is owned by the Riady family; the CEO now is James Riady. Lippo is one of Indonesia's largest conglomerates. It survived the economic crisis of 1997.

⁴⁴ "Pemerintah Buyback SP dan ST dari Cemex," *Bisnis Indonesia*, December 1, 2001.

million). Then the government would pay US\$282.54 million to Cemex. After this transaction, the government retained the remaining US\$246.46 million.

Laksamana's proposal could not be implemented because Titik Nazif Lubuk demanded that the government claim a bigger share in Semen Padang. She asked that the state purchase 75 percent instead of 49 percent, arguing that only by controlling a majority of the stock could the government control Semen Padang.⁴⁵

Governor Zainal Bakar⁴⁶ defended the management team of Semen Padang when in January 2002 Laksamana announced his plan to replace Ikhdan Nizar and Saafroedin Bahar, the managers of the company at that time.⁴⁷ Zainal's political career had been deeply embedded within the provincial bureaucracy ever since his graduation from the Faculty of Law of Andalas University in 1968.⁴⁸ Zainal's support for Ikhdan Nizar was an outcome of a political process at the regional level. Golkar had supported Zainal for governor in 1998 with the hope that he would guard the interests of the party in the province; therefore, the governor could not ignore directives from the provincial branch. In addition, he was accountable to the provincial House of Representatives according to the regional autonomy regulation. This explains why he chose to resist Laksamana and declare that the central government had to consult with him or with West Sumatra's provincial government before these individuals could be dismissed from their positions in Semen Padang. Titik Nazif Lubuk joined him in rejecting Laksamana's plan because Ikhdan and Saafroeddin were her allies.⁴⁹

Due to strong resistance from Titik Lubuk and Zainal Bakar, Laksamana had to consider his moves carefully. He adopted three political measures to ensure that he could appoint a new CEO for Semen Gresik, replace the management and board commissioners of Semen Padang, and persuade Zainal Bakar to become his ally.

First, Laksamana appointed Satriyo as the new CEO of Semen Gresik. Satriyo is a Javanese who joined the company in 1984 and later served as its finance director (2000-2001). In order to keep his position, Satriyo had little choice but to implement the order from the Minister of SOE. Laksamana intended to use Satriyo as his proxy in dealing with Ikhdan Nizar. Second, In March 2002, Laksamana wrote a letter to Satriyo with instructions that he replace the management team of Semen Padang.⁵⁰ The letter mentioned that this change in management would be part of the internal restructuring process, which was being undertaken to improve the performance of Semen Padang. Satriyo responded by writing a letter to the board of directors of Semen Padang,⁵¹

⁴⁵ "Pemerintah diminta Mayoritas Lagi di SP," *Bisnis Indonesia*, January 29, 2002.

⁴⁶ Zainal Bakar was born in Pariaman on August 16, 1940. He received his primary education in Pariaman (1955); attended junior high school in Padang (1958) and senior high school in Pariaman (1961). He graduated from the Law Faculty of Andalas University in Padang (1967). Most of his career was spent in the bureaucracy of the Ministry of Home Affairs.

⁴⁷ "Kaji Ulang Pergantian Direksi Semen Padang," *Bisnis Indonesia*, June 5, 2002.

⁴⁸ Zainal Bakar's first post was in Agam, where he served as chief section in the district chief office. In 1981 he was promoted to the governor's office, working in public relations. In 1993, he served as the secretary of the province, responsible for dealing with the daily operations of the province.

⁴⁹ "Sumbar Tolak Pergantian Manajemen SP," *Bisnis Indonesia*, January 3, 2002.

⁵⁰ Letter from Minister of SOE No. SR-294/M-BUMN/2002 to the board of directors of Semen Gresik, dated March 28, 2002. See Serikat Pekerja Semen Padang, *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang* (Padang: Serikat Pekerja Semen Padang, 2003), p. 61.

⁵¹ Letter of the Director Semen Gresik, No. 2853/KS.00.01/1001/04.002 to the board of directors of Semen Padang, dated April 30, 2002. See *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang*, p. 61.

speaking as a representative of Semen Gresik, explaining that his company was going to hold an annual shareholders' meeting to discuss the condition of the subsidiary company. By this time, Satriyo had called for an annual meeting of Semen Gresik's shareholders and announced that a key item on the agenda would involve replacing Semen Padang's management team and board of commissioners in 2002.

One month after having received the letter from Satriyo, Ikhdan replied, requesting an explanation for the change in management.⁵² Although Satriyo's chief reason for calling the general shareholders' meeting had not been disclosed in his letter, Ikhdan could guess it: he knew the SOE meant to eject him from his position. Satriyo answered that the replacements were needed in order to improve the performance of Semen Padang. Ikhdan then responded with two more letters expressing his disappointment with Satriyo's rationalization.⁵³ Ikhdan appealed: he wanted to be given specific reasons why he and other members of the management team of Semen Padang should be replaced, and he wanted time to prepare an adequate defense.

After having received Ikhdan's letter, Satriyo wrote an appeal to the court of Padang to seek an opinion on the legality of the general shareholders' meeting. Satriyo's appeal centered on three issues: he asked for the court to give permission for a general shareholders' meeting, to grant Semen Gresik permission to invite the entire body of shareholders to attend such a meeting, and to allow the meeting to be held in Jakarta. The court of Padang issued a verdict rejecting Satriyo's appeal.⁵⁴

Recognizing that Semen Gresik could not rely on any verdict issued by the provincial court of Padang, Satriyo wrote a letter to Semen Padang's management demanding that an extraordinary general shareholders' meeting be held. In this letter, Satriyo still insisted his main reasons for replacing the management of Semen Padang concerned the company's financial problems: a decreasing rate of profit before tax; a decreasing cash flow that could potentially cause a major cash deficit at the end of 2002; a failed cost-reduction program; and a failed program to increase market share.⁵⁵ Ikhdan resisted by citing the decision of the court of Padang.⁵⁶ Satriyo wrote another appeal to the court of Padang calling for an extraordinary meeting, yet the court again refused him.⁵⁷

At this point, Satriyo chose to take his case to a higher court. In October, he submitted an appeal to the Indonesian Supreme Court, asking it to reevaluate the verdict issued by the court of Padang. In mid-March 2003, the Supreme Court issued a verdict⁵⁸ revoking the Padang court's decision. With this verdict in hand, Satriyo then began to prepare for an extraordinary shareholders' meeting, to be guided by an agenda calling for the replacement of the management team of Semen Padang and its

⁵² Letter of Director Semen Padang, No. 701/KRE/Dirut/05.02, dated May 2, 2002. See *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang*, p. 61.

⁵³ Letter of Director Semen Padang, No. 806/KRE/Dirut/05.02, dated May 22, 2002; and Letter No. 883/KRE/Dirut/05.02, dated May 29, 2002. See *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang*, p. 62.

⁵⁴ Determination No. 93/PDT/P/2002/PN.PDG, dated June 12, 2002.

⁵⁵ Letter of Director Semen Gresik, No. 4810/KS.00.01/1001/07.2002, dated July 10, 2002. See *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang*, p. 63.

⁵⁶ Letter of Director Semen Padang, No.122/KRE/DIRUT/07.02, dated July 30, 2002. See *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang*, p. 64.

⁵⁷ Determination of the court of Padang, No.124/PDT/P/2002/PN.PDG, dated September 7, 2002.

⁵⁸ The Supreme Court Verdict No.3252/Pdt/2002.

commissioners. He demanded that the company's management be required to complete their financial audit since they were responsible for the operations of the company through 2002. As the CEO of Semen Gresik, Sutriyo needed this audit to meet a requirement of companies listed in the Jakarta Stock Exchange. The initial response from Ikhdan was to question the grounds of the Supreme Court's verdict, but the Court ultimately sustained Satriyo's request.⁵⁹

In early May 2003, Satriyo demanded that Ikhdan prepare all the necessary documentation for the extraordinary meeting.⁶⁰ Ikhdan Nizar refused to cooperate, and he and his allies met in Hotel Dharmawangsa, in Jakarta, where they formulated their position, making it clear they would refuse to attend.⁶¹ The president-commissioner of Semen Padang, Saafroeddin Bahar, protested that the meeting was authorized only by the decision of the Supreme Court, which was insufficient, and strongly recommended that Semen Gresik postpone the event.⁶²

Even though the management of Semen Padang, led by Ikhdan, had rebelled in this manner, Satriyo presided over the extraordinary shareholders' meeting for Semen Padang on May 12, 2003. The previous director of research and development of Semen Padang, Dwi Soetjipto,⁶³ a Javanese, was appointed as the president-director. Laksamana's move to place a Javanese as the top manager in Semen Padang was a bold decision because only Minangkabau (both Ikhdan Nizar and Azwar Anas were Minangkabau) had occupied the position previously. The new president-commissioner, Ismed Yuzairi, the former chief of command in Bukit Barisan, responsible for Sumatra, was named to replace Ikhdan Nizar. Ismed Yuzairi was brought in as the president-commissioner because the appointment of Dwi Soetjipto had created significant political tensions. Laksamana appointed Ismed with a clear intention of protecting his wholesale restructuring of the company's management. Laksamana's decision to choose Ismed proved to be strategically wise because of Ismed's background as the former chief of command in the West Sumatra region and because Ismed was an ethnic Minangkabau, a fact that would incline provincial politicians to accept him.

Led by Ikhdan and Saafroedin, those managers and commissioners who had been unseated by Laksamana's maneuvers declared the meeting of May 12, 2003 to be illegal; as a result, they retained their posts for some time, creating chaos in the company, which was saddled with two management teams.⁶⁴ Ikhdan and Saafroedin alleged that they had been replaced by men who did not support separating Semen Padang from Semen Gresik. Satriyo fought back and eventually managed to isolate Ikhdan and Saafroedin by instructing banks to block their access to the company's

⁵⁹ "Supreme Court Sustains Semen Gresik Appeal," *Bisnis Indonesia*, April 20, 2002.

⁶⁰ Letter of Semen Gresik, No. 03432/HK.02/4010/05.03, dated May 1, 2003.

⁶¹ "Menyingkirkan Orang Lama," *Gatra*, May 17, 2003, p. 41.

⁶² Statement by Saafroedin Bahar in *PT Semen Gresik Biang Kerok Kemelut di PT Semen Padang* (Padang: Serikat Pekerja Semen Padang, 2003), pp. 9-10.

⁶³ Dwi Soetjipto was born in Surabaya in 1955. He graduated from the Surabaya Institute of Technology in Chemical Engineering, and he served as the director for research and development from 1995 to 2003.

⁶⁴ Report on the background of the conflict between Semen Padang and Semen Gresik, issued by the commissioner of the board of Semen Padang, signed by Saafroedin Bahar, dated June 8, 2003, as published in *PT Semen Gresik Biang Kerok Kemelut di Semen Padang* (Padang: Serikat Pekerja Semen Padang, 2003), p. 83.

accounts. In late June, the new management team under Dwi Sutjipto started to carry out their daily duties.

In part as a result of these developments, Azwar lost influence and found himself incapable of offering strong political protection to both Ikhdan Nizar and Titik Nazif Lubuk. He no longer occupied his position in the DPA, and Habibie, his political patron, had been unseated by Megawati, so that now the PDI-P was in power, not Golkar. Moreover, Azwar realized that it was almost impossible to block Laksamana's move to oust Ikhdan Nizar because the maneuver was carried out under the authority of the minister. Azwar saw no opportunity to get involved directly in the conflict over Semen Padang except by offering his opinions and advice; unfortunately, these now carried little weight.

Laksamana persuaded the governor of West Sumatra, Zainal Bakar, to side with him. It was actually Zainal who approached Laksamana first, seeking political support for his effort to appease Titik Lubuk and other members of the provincial assembly, who were displeased that Semen Padang had not been split off from Semen Gresik and dissatisfied with the governor because he had failed to achieve this goal. Titik Nazif Lubuk had begun to put pressure on Zainal regarding his earlier commitment to divide Semen Padang from Semen Gresik after a year.⁶⁵ Since the Minister Laksamana had never issued any formal agreement approving such a division, however, it was clear at the time (through late 2002) that this plan's chances for success were slight. As the holder of the *maklumat*, governor Zainal reminded his provincial colleagues that the decision to separate the subsidiary from its parent company was not within his authority but would be decided by the central government. In addition, the governor made it clear that the central government had never formally approved of subdividing Semen Gresik.

Five months later, the regional assembly began to pressure Zainal more forcefully. This was possible because in the middle of April 2003, Zainal had to report on his accountability to the provincial assembly. His political future depended on his ability to convince the assembly, of which Titik Nazif Lubuk was the deputy, that he had done everything possible to split Semen Padang from the larger conglomerate. Recognizing the difficulties he would soon face, Zainal lobbied the Minister of Social Welfare, Jusuf Kalla,⁶⁶ a member of Golkar, who responded promptly, for Jusuf had received informal permission from Laksamana to offer a solution that might satisfy both Zainal Bakar and Laksamana.⁶⁷ This process was unorthodox because the privatization of Semen Gresik was not under the authority of Minister Jusuf, as he was responsible for social affairs. His readiness and willingness to accept this difficult diplomatic task was important in gaining Laksamana's trust. Laksamana calculated carefully that Jusuf was from Golkar, one of its chairpersons at the national level, and that assistance from a man in such a position would be crucial because he could deal

⁶⁵ "Gubernur Menolak Di-deadline," *Padang Ekspres*, November 4, 2002.

⁶⁶ Jusuf Kalla was born in Watampone on May 15, 1942. He graduated from the Faculty of Economic Hasanuddin University, Makassar. He was involved in the establishment of Golkar from the time of its founding in the mid-1960s. He also pursued a career as a successful businessman. Through Golkar, he served as the Coordinating Minister for Social Affairs (2001-2004) under the Megawati government, and as Minister for Trade and Industry (1999-2001) under the Abdurrahman Wahid government.

⁶⁷ Interview with Minister Jusuf Kalla, "Ongkosnya Jauh Lebih Murah," *Tempo*, May 4, 2003, p. 130.

with fellows from Golkar. By granting Jusuf the authority to take action, Laksamana avoided openly challenging West Sumatra's regional elites.

In April, Governor Zainal prepared to deliver his annual accountability report to the provincial assembly because he now held the mandate to separate Semen Padang from Semen Gresik, for Jusuf had offered him a compromise solution called a "split-off." Jusuf understood that his main task was to propose a compromise that would be accepted both by Laksamana and by the regional councilors, Titik Nazif Lubuk and her friends, who had the power to oust Zainal from his post as governor if they were unhappy with his performance. The split-off solution involved a redistribution of shares, according to which a majority of Semen Padang's holdings would be owned by the central government (51 percent), a portion by Cemex (25 percent), and another portion by the public (24 percent).⁶⁸ The distribution of shares for Semen Gresik was similar. Within this scheme, the central government did not need to spend any money; it simply reassigned the shares to the different parties. Laksamana and Governor Zainal accepted Jusuf's proposal. On April 16, Laksamana wrote a letter reflecting his readiness to agree to split Semen Padang from Semen Gresik,⁶⁹ as outlined in Jusuf's split-off plan. But this compromise did not come without cost to the provincial advocates who had fought to maintain control over their local cement industry. As a consequence of this agreement, Zainal had no choice but to allow Laksamana to embark on his plan to weaken the power of the provincial elites by replacing Ikhdan Nizar and Saafroedin Bahar with his own appointees.

6. Cemex's Response and the Outcome

As noted above, after several rounds of bidding, the Mexican company, Cemex, had been appointed as a partner in Semen Gresik, and in October 1998 Cemex purchased 14 percent of the shares, worth US\$122.1 million. While the Ministry of SOE was allowing Cemex to purchase these shares, in September 2001 it also offered the company a "put option," which could be executed within the next three years; this option was included in the Conditional Sales and Purchase Agreement (CSPA). In February 1999, authorized by this agreement, Cemex purchased additional shares of Semen Gresik on the Jakarta Stock Exchange, finally accumulating 24 percent of the total available.

The strength of Cemex as an enterprise lies in the mobility of its capital.⁷⁰ Having invested capital in this venture, the multinational was understandably concerned by the political maneuvers taking place in Indonesia. In the initial stage of the dispute over the separation of Semen Padang from its parent company, Cemex never chastised Laksamana for his inability to arrange and finalize the transfer of Semen Gresik shares into its control. On many occasions, the representatives of Cemex even expressed sympathy for the difficulties Laksamana was facing. This attitude changed in 2000, however, when Laksamana failed to make a decision that would have enabled Cemex

⁶⁸ A "split-off" is different from a "spin-off." The term "spin-off" was used by Ikhdan when he spoke of separating Semen Padang from Gresik and making Semen Padang into a state-owned enterprise that would have no shares controlled by Cemex.

⁶⁹ Letter of Minister, SOE, No. S-14/M-MBU/2003, dated April 16, 2003, signed by Laksamana Sukardi.

⁷⁰ Jeffrey Winters, *Power in Motion: Capital Mobility and the Indonesian State* (Ithaca, NY: Cornell University Press, 1996).

to purchase additional shares in Semen Gresik. In December 2000, for the first time, the CEO of Cemex in Indonesia, Francisco Noriega, threatened to withdraw his funds from Indonesia entirely.⁷¹ As the situation continued to deteriorate, as indicated by Laksamana's inability to adopt necessary measures to prevent the illegal takeover of Semen Padang by provincial authorities and management, Cemex started to express more frustration.

In August 2003, Cemex began to send strong signals to Laksamana. The company wrote a letter urging him to settle the dispute with Ikhdan and his allies.⁷² If he could not bring the situation under control, then Cemex threatened to submit the case before an international arbitration body. When Laksamana managed to appoint Dwi Sutjipto as the manager of Semen Padang, Cemex was still not entirely satisfied, for Dwi failed to complete the requisite financial report and to replace mid-level management.⁷³ According to Cemex's analysis, Dwi failed to submit an audited financial report because he could not square the IDR50 billion (US\$5 million) that Ikhdan Nizar's management team had spent in 2002.⁷⁴ Cemex set a deadline for the central government to complete an updated, consolidated financial statement for Semen Gresik.⁷⁵

Finally, in November 2003, Cemex took its first step toward a complete withdrawal from the deal by bringing the case to an international arbitration body. Cemex considered that this action was in accord with the CSPA it had signed, which granted Cemex the right to request arbitration if the Indonesian government failed to show good will. Cemex now refused to engage in new negotiations with the minister of SOE.⁷⁶ Cemex demanded that the original agreement it had signed with the central government in 1998 to acquire Semen Gresik be cancelled.⁷⁷ Cemex also asked the Indonesian government to return its entire investment of approximately US\$290 million, which it had paid for a 25 percent stake in Semen Gresik. Throughout the arbitration, Cemex focused on its demand that this investment be returned and would not discuss peripheral issues. In February 2004, the International Center for the Settlement of Investment Disputes (ICSID),⁷⁸ in Washington, DC, registered the case following a request from Cemex.

VII. Conclusion

The primary aim of this paper has been to argue that in the absence of well-delineated boundaries establishing the property rights of the different parties, actors involved in the conflict under study here diverted their energies into efforts that would clarify those boundaries. Even though property rights were in place, the central government's weak enforcement powers led to a situation in which those rights

⁷¹ "Sulit Kuasai Semen Padang, Cemex Ancam Henggang dari RI," *Bisnis Indonesia*, December 11, 2001.

⁷² "Cemex Considers Bringing SP to Arbitration," *Bisnis Indonesia*, August 14, 2003.

⁷³ "Cemex Brings SG's Case to International Arbitration," *Bisnis Indonesia*, November 21, 2003.

⁷⁴ "Yang Menyesakkan Napas Satriyo," *Tempo*, April 13, 2003. See also the *Jakarta Post*, April 7, 2003.

⁷⁵ "Cemex Janjikan Neraca Selesai Oktober," *Bisnis Indonesia*, October 12, 2003.

⁷⁶ "Cemex Refuses to Make Peace with RI," *Bisnis Indonesia*, December 12, 2003.

⁷⁷ "Indonesia's Dispute with Cemex Intensifies," *The Wall Street Journal*, December 11, 2003.

⁷⁸ ICSID is affiliated with the World Bank and is tasked to settle disputes between governments and private investors.

became blurred and disagreements consequently flourished. The provincial politicians, such as Ikhdan Nizar and Titik Nazif Lubuk, took full advantage of such circumstances to assert their own claims to the local cement industry—the wealth it generated and the local resources it consumed. In the beginning, they negotiated and bargained over Semen Padang. At a later stage, they attempted to appropriate the company by force from its legal owner, the central government of Indonesia. When the central government tried to regain full control over Semen Padang, the dispute evolved into a contest of political power; from that point on, the disputants had to maneuver within the existing political institutions. In sum, the privatization of Semen Padang illustrates how a struggle between Indonesia's central government and one of its provinces to achieve a more efficient allocation of resources devolved into a fight over power itself. At this stage, the issue of property rights retreated into the background, and the contest for power took the front stage.

The case under investigation thus embodies two different institutional concerns: how will Indonesia deal with contests for power that match the central government against the provinces, and how will the country create new institutions capable of accommodating the new power arising from the provinces? It is true that the central government controls the entire state-owned enterprise system, and as such it has the right to sell off any particular enterprise, or a subsidiary piece of such an entity, either for resource allocation or simply to control the national deficit. However, as provincial politicians become increasingly capable of establishing networks with those wielding power in Jakarta and of manipulating politics at the provincial level, the central government will find it increasingly difficult to maintain or even protect its rights over natural resources located in the regions. In other words, following the introduction of Indonesia's decentralization policy, politicians in the provinces throughout Indonesia are bound to seek various loopholes in the existing rules in order to make the laws accommodate their growing influence and authority.

The conflict described here, between the central government and politicians in West Sumatra, obviously created institutional uncertainties. Stable institutions themselves are key elements in establishing and maintaining enforcement mechanisms that would facilitate productive interactions between the center and the periphery in Indonesia. This article suggests that stable institutions are likely to emerge if these political actors, both in the center and the provinces, are able to agree on their construction. By considering the dispute concerning Semen Padang, this article concludes that institutions may be destabilized by political processes that intend to change incentives. Since political processes may significantly manipulate incentives,⁷⁹ they need to be considered in such business disputes. Rules governing industry are never created free from politics; they evolve as a result of negotiations among the relevant actors. A fair, negotiated settlement among contending parties is a key element to establishing a stable institution, and such settlements require certain

⁷⁹ This point is a modification of an argument developed by Douglass C. North. In his words, "If the highest rate of return in an economy comes from piracy, we can expect that the organization will invest in skills and knowledge that will make them better pirates. Similarly, if there are high returns from productive activities, we will expect organizations to devote resources to investing in skills and knowledge that will increase productivity." See Douglass C. North, "Some Fundamental Puzzles in Economic History/Development" (St. Louis, Missouri, mimeo, 1995), p. 9, as quoted from Joachim Ahrens, *Governance and Economic Development: A Comparative Institutional Approach* (Cheltenham: Edward Elgar, 2002), p. 73.

preconditions: (a) redefinition of the right; (b) the establishment of a joint arrangement between the central government and the provinces; and (c) accommodation of various interests.

In the context of broader changes, the central and provincial governments need to redefine their rights regarding natural resources. Redefining these rights can be thought as a first step toward establishing a groundwork for stable institutions. As long as the rights of those parties who have a vested interest in Indonesia's natural resources remain ambiguous because provincial politicians are tempted to challenge and blur them, no parties can be certain of their rights, and the central government will continue to be embroiled in disputes. Simply assigning all rights to the central government obviously will not work. Redefinition must specify how these rights will be divided. The next possible step would be to establish a joint arrangement between the central and provincial governments through negotiation. Theoretically, negotiation and cooperation offer maximum benefits to the conflicting parties,⁸⁰ in part because conflict is invariably costly. The last requirement is that the interested parties must accommodate each other to a certain degree. Though Indonesia's central government still wields much more power than any provincial body, its authority is not as strong as it was during the New Order. A weak central government must learn to tolerate and accommodate the increasing power of provincial politicians by tailoring its rules to fit actual conditions. Political actors who directly interact with one another and respond to their nation's changing political context can modify the rules over time to fit not only Indonesia's business and political conditions, but global business challenges as well.

⁸⁰ See, for example, the treatment by Elinor Ostrom in *Governing the Commons: The Evolution of Institutions for Collective Actions* (Cambridge: Cambridge University Press, 1990).