Global Expansion of Emerging Market Multinational Corporations: International Political Economy Perspective—Case Study: PT Semen Indonesia

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Declaration

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

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Abstract

Until relatively recently, multinational corporations from emerging markets (EMMNCs) were minor contributors to the global stock of foreign direct investment (FDI). This research seeks to understand the significant expansion of EMMNCs in the past two decades, using PT Semen Indonesia as a case study. This research is particularly important in highlighting the developmental state model's persistence in Southeast Asia. The state continues to play a directive role in the design of structure, strategies and targets by adjusting to new global and regional economic challenges and opportunities for Indonesia's state-owned enterprises (SOEs). The political economy of Indonesia's industrial policy reflects the efforts of successive presidents and their advisors to encourage national economic development by finding a workable formula to balance often-competing economic pressures—from global institutions and economic powers to domestic business and political constituencies. A qualitative case study was the methodology used to examine the trends and tensions of PT Semen Indonesia's growth and its internationalisation. As a case study, PT Semen Indonesia was analysed from an international, political and economic perspective. Research findings indicate that the expansion of PT Semen Indonesia reflects key aspects of the developmental state model. The expansion was influenced by national priorities, and the institutional arrangements between the Indonesian state and PT Semen reveal the strategic importance of the cement industry for the state, which retains a decisive shareholding in the company. This thesis contends that the intricate relationship between the Indonesian state and PT Semen exemplifies the persistence of various elements of the developmental state, despite the adoption of a privatisation agenda in the wake of the 1998 Asian Financial Crisis. However, this thesis concludes that the internationalisation of PT Semen, as the first Indonesian multinational corporation (MNC) SOE, was primarily driven by commercial pragmatism that reached the government target on infrastructure and good economic factors, such as rapid economic growth and the ASEAN Economic Community. The company's growth and maturation correspond to the dominant model of EMMNCs in terms of ownership, weak institutionalisation, business capacity, market seeking motivation and preference for horizontal FDI. The latter preference is exemplified by PT Semen's acquisition of Thang Long Cement in Vietnam.

Keywords: Global expansion, MNC, EMMNCs, IPE, developmental state

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List of Abbreviations

ASEAN	Association of South East Asia Nations
Bappenas	National Development Planning Agency (Bappenas Badan Perencnaan Pembangunan Nasional)
BKPM	Indonesia Investment Coordinating Board
BPKM	Investment Coordinating Board (Badan Koordinasi Penanaman Modal)
BPS	Central Bureau of Statistics
BULOG	State Logistic Agency (Badan Urusan Logistik)
CEPD	Council for Economic Planning and Development
CP	Charoen Pokphand
CSA	Country Specific Advantage
DSM	Developmental State Model
DWN	National Economic Council (Dewan Ekonomi Nasional)
ELG	Export-Led Growth Strategy
EMMNCs	Emerging Market Multinational Corporations
EMs	Emerging Markets
Enref	Engen Refinery
EOI	Export Oriented Industrialization
EPB	Economic Planning Board
EPZ	Export Processing Zones
EU	European Union
FDI	Inward Foreign Direct Investment
FSA	Firm Specific Advantage
GDP	Gross Domestic Product
GLCs	Government Linked Corporations
GNP	Gross National Product
GPI	Global Political Economy
HICOM	Heavy Industries Corporation of Malaysia
IBRA	Indonesian Banking Restructuring Agency
ICT	Information and Communications Technology
IMF	International Monetary Fund

INPRES	President Instruction
IPE	International Political Economy
IPPKH	Use Forestry Area Permits (Izin Pakai Pinjam Kawasan Hutan)
IRs	International Relations
ISI	Import-Substitution Industrialization Strategy
KADIN	The Chamber of Commerce And Industry
KMT	Kuomintang
KPPU	Komisi Pengawas Persaingan Usaha (Business Competition Supervisory Commission)
LOI	Letter of Intent
PPCM	Padang Portland Cement Maatschappij
MINT	Mexico, Indonesia, Nigeria, Turkey
MITI	Ministry for International Trade and Industry (Japan)
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
NIC	Newly Industrialized Country
OECD	Organisation For Economic Co-Operation And Development
OFDI	Outward Foreign Direct Investment
OLI	Ownership-Location-Internalization
Outward FDI	Outward Foreign Direct Investment
PDIP	Indonesian Democratic Party Of Struggle (Partai Demokrasi Indonesia Perjuangan)
PERSERO	Limited Liability Company
PERUM	Special Purpose Entity
Petronas	Petroliam Nasional Berhad
PKB	National Awakening Party
PPP	Purchasing Power Parity
SASAC	State Asset Supervision and Administration Commission
SOEs	State Owned Enterprises
TLCC	Thang Long Cement Company
TNCs	Transnational Corporations

UMNO	United Malays National Organisation
UMW	United Motor Works
UNCTAD	United Nations Conference On Trade And Development
WTO	World Trade Organisation

Chapter 1: Introduction

In the contemporary world, emerging markets (EMs)[1] have experienced rapid economic development and are key players in global trade and investment, together with developed economies, in the past couple of decades (Development, 2017; IMF 2018). As an example, China became the third-highest investor and the first among EMs (OECD 2017). The primary concern on the raising of EMs is how they undertake global expansion with the longstanding belief that they lacked the competitive advantage or that they couldn't protect their companies from international competition (Cuervo-Cazurra and Ramamurti 2014; Williamson 2014). The primary question to address is whether the literature on emerging markets multinational corporations (EMMNCs) [2] is enough to cover the discussion on EMs such as Indonesia and whether it can identify the challenge they face today, as many studies have previously focused on Indonesian conglomerates. To date, there has been little agreement among developing countries on the theory of international investment. This research suggests that Indonesia's investment overseas contributes to the study of EMMNCs. This project provides an advanced understanding of Indonesia by focusing on the case of PT Semen Indonesia and comparing the state-owned enterprise with prior global companies in similar sectors, such as Cemex and Temasek.

To understand EMMNCs like Cemex, one may expect that Mexico liberal economic policy has influenced the company's decision to internationalise and that Singapore's export

[1] EM or emerging economy (EE) are terms (though used in the same context) that although they vary in meaning, are substantially similar (Hoskisson, Eden, Lau & Wright 2000). EM refers to the country that has two standards. First, it has rapid economic development. Second, it also has applied favourable policies on liberalisation and free-market principles. However, it is crucial to note that EMs represent heterogeneous and vast groups of countries, based on their economic and political capacities. IMF has a more visible identification of EMs: they broadly applied towards two views. From purely economic measurements, EMs were coined to the states that have GDP per capita between 2,000 and 12,000 US dollars (Ghosh 2010). In socio-economic aspects, it applies to states that have at least two features. First, they are volatile due to natural disasters, external price stocks and domestic policy instability. Second, they experience a transition status, especially in demographic, economy, political and social aspects. For example, cases of fertility rates, life expectancy and education levels (Mody 2004). The OECD, in one of its publications refers EM to the six largest economies but non-OECD countries following Brazil, Russia, India, Indonesia, China and South Africa (OECD 2009).

[2] The terms of multinational corporations (MNCs), transnational corporations (TNCs), and multinational enterprises (MNEs) are often used interchangeably, as well as the term firm-enterprises and company. However, in this thesis, MNC is preferred because it aligns with the terminology used in the core literature for this project. To avoid ambiguity in the definition of MNC, this thesis simply asserts that the multinational companies are the firms operating in the production activity in two or more countries.

industrialisation gave rise to Temasek's successes. However, the case of Indonesia is more complicated. Indonesia has been promoting foreign direct investment (FDI) for a long time. Indofood's is successfully the world's largest instant noodles manufacturer and flour miller (Aguiar 2007). Indonesia recently became a recipient of inward FDI, with numbers that far exceed its outward foreign direct investment (OFDI). Despite this, in 1994 and during 1998–2004, Indonesia has achieved a higher number of OFDI compared to inward direct investment (IFDI) (Sambodo 2017). However, the current data indicate that Indonesia is behind countries in Southeast Asia, such as Singapore and Malaysia (ASEAN 2018). Falling behind other emerging economies in terms of international companies does not mean that Indonesia lacks OFDI, despite the claim that Indonesia has been lagging OFDI promotion (Sambodo 2017). In fact, the number of Indonesia's OFDI has been growing (ASEAN 2018). The most compelling evidence for this is the expansion of its state-owned enterprises (SOEs) overseas, which were previously dominated by conglomerates.

The progresses of Indonesian SOEs beyond national borders have both pros and cons. However, the state capital flight through OFDI is something new for Indonesia. Indonesian OFDI, as mentioned above, was undertaken by conglomerates such as Salim Group. However, Indonesian SOEs participation in OFDI as argued by this thesis may be regarded in a positive light. This research aims to unravel the changing nature of Indonesian OFDI. The optimistic outlook on Indonesia's SOEs to become more globalised has been linked to Indonesia's sound economy. It is the largest economy in Southeast Asia (World Bank 2018). By 2025, Indonesia is expected to be among the world's six-most significant emerging market economies, along with Brazil, China, India, South Korea and Russia—which will account for more than half of all global growth (World Bank 2011). Accounting for Indonesia's economic boom, the transformation of its SOEs is interesting to note and should not be overlooked. The question, then, is how is this possible with the liberal economic prescriptions that are imposed by the international community in the wake of the 1998 Asian Financial Crisis that negate SOEs?

This thesis primary focus is the formation and expansion of PT Semen Indonesia, a cement company operating in a strategic sector of the Indonesian economy that is linked to construction and infrastructure, including the subsidiary in Vietnam through its SOEs—one of which is PT Semen Indonesia, the case study of this this. This case study provides advanced understanding of how SOEs still play a key part of Indonesian development projects. Expanding nationally and internationally, PT Semen Indonesia was the first Indonesian SOE that acquired Vietnam's cement company through FDI (Semen Indonesia Tbk 2016c). This thesis thus examines how the Indonesian state has sustained its 'developmentalist' role in an era in which the developmental state was supposed to have ended.

Subsequently, this thesis contributes to the argument that Indonesia is carving out a unique economic development path by seeking a balance between domestic economic priorities and international pressure for economic reform. The expansion of Indonesian firms arguably endorsed by Al-Fadhat (2017), who demonstrated the continuing importance of the state in a market-oriented system. This research thus explores PT Semen Indonesia's mechanism and motivations of growth and expansion. This project also touches on the global context that supports its expansion, which is influenced by factors such as the ASEAN Economy Community, the rise of China and the economic weight of emerging market SOEs that are demonstrated through numbers of SOE EMMNCs in Southeast Asia (ASEAN 2018). The nature of SOEs and the relationships between state and private companies are changing under globalisation, but this does not mean that economic models are converging to a global consensus on the best way to engineer growth.

The following section will review the current trend of SOE EMMNCs in the world and SOEs in Asia to provide the context of this research project.

1.1 The Shifting Trend of Multinational Corporations

Multinational Corporations (MNCs) from the global north continue to occupy positions of strength in the global economy and in technology—MNCs such as Apple, Microsoft and ExxonMobil. In 2016, despite its slowing sales, Apple still achieved US$233 billion in sales and US$53 billion in profit. In the oil sector, ExxonMobil remains the world's largest oil company (Forbes 2016a). Microsoft is in the top rank of technology companies in the United States (US) and dominated over 14 out of 25 of the largest technology companies, including Intel, IBM and Apple (Forbes 2016b). This reflects historical advantages, which include the length of time that developed countries have been able to dominate international trade and investment. Despite the growth of emerging markets, MNCs from developed economies are still the largest sources of global FDI (UNCTAD 2016). Therefore, MNCs are still conventionally regarded as agents of Western economic and political dominance within the global political economy.

From an international political economy (IPE) perspective, the question of motive for offshore investment is pertinent. To foreground issues of power and commercial self-interest, Frieden and Lake (2003) question why English investors from Manchester were willing to invest in tea plantations in Ceylon during the British Raj. The answer is complicated and linked to issues of power, the opportunity to invest outside the home country and commercial interest in the increased profitability by reducing production costs. Fieldhouse (2002) proposed that, to study MNCs and compare them with EMMNCs, one must simply ask whether the same holds true for each. This thesis follows Fieldhouse's (2002) lead in researching the experiences of corporations from emerging economies and asks how their evolutionary patterns mirror or depart from the MNC ideal type.

MNC formation in emerging market economies is gathering pace. The OFDI from third world countries were, until relatively recently, minor contributors to the global stock of FDI. It was widely agreed among critical IPE scholars that FDI flowed from 'north to south', while the economic benefits—in the form of an economic surplus—flowed in the opposite direction (Galtung 1971; Wallerstein 2004). Most scholars argued that developing nations were lacking in capital, technology, managerial skills and other resources compared to developed countries (Tarzi, as cited in Frieden & Lake 2003). It was thus difficult, in theory, to reverse the direction of economic flow and 'catch up' (Frieden & Lake 2017). For decades, third world countries had no choice but to become satisfied as FDI recipients and were thus deemed 'dependent'. Although developing countries had key elements for economic growth, low-cost labour, natural resources and mass markets, they lacked capital and bargaining power (Tarzi, as cited in Frieden & Lake, 2003). This led them to be powerless when they negotiated their interests to the MNCs and developed world, as they were locked in a pattern of what Andre Gunder Frank termed 'dependent development' (Frank 1979).

However, political economists of a statist persuasion, such as Weiss (1997), Beeson (2004), Thurbon and Weiss (2016), place greater emphasis on the role of the state in leading industrial development and being the *raison d'être* of the 'developmentalist state' (Caldentey 2008). By the same token, this thesis this finds that the expansion of PT Semen Indonesia was consequently the implication of state support to some extent. Despite being privatised, PT Semen Indonesia is still classified as a state asset. In that regard, PT Semen Indonesia has enjoyed government favour, while the sector competitor, Indocement, was no longer ‘protected’ after Suharto stepped down. The discussion of this conglomerate is beyond the thesis’s scope; this thesis instead pays more attention to how the government and its political institutions have treated the cement sector as a strategic industry for supporting the national infrastructural project and what this implies for PT Semen Indonesia’s growth and expansion.

1.2 EMMNC SOEs Global Expansion in the Asian Context

The narrative of EMMNCs, particularly the SOE, has a long history, yet it is limited. EMMNCs began during Asia’s rapid industrialisation in 1960s to 1990s, following the end of World War Two. The rising of East Asia (except China) has prompted a major structural change in the global economy. Japan was the first country in the region to industrialise and contribute an increasing share of global FDI from the 1960s onwards, followed by the ‘tiger economies’ of Hong Kong, South Korea, Taiwan and Singapore. In 1965, the tiger economies only provided one-twentieth of the world’s manufacturing output. Thirty-five years later, these countries reached almost one-fifth of total global exports (Amsden 2001). This was known as the second period of outward FDI of developing countries (Rajah et al. 2010), or the pre-globalisation time (Dunning 2007). Yet, most of the companies like Samsung (South Korea) and Indofood (Indonesia) are tycoons; Temasek Holding (Goldstein & Pananond 2008) may have been the only government linked company (GLC).

The current period of developing countries’ OFDI, which began in the late 1990s, indicates a new trend. As the studies by Cuervo-Cazurra and Ramamurti (2014), Marinov and Marinova (2013) and Ramamurti (2012) identified, there are some changes. First, based on quantities and qualities, more home countries and companies are participating, including several SOEs. Second, there have been substantial progresses within the expansion mechanism; for example, large investments flow to developed countries, which was not common in previous decades. The same idea can be applied to the sector, which concentrated on manufacturing and primary industries, but then shifted to service sectors such as telecommunications, tourism and finance (Development 2017; UNCTAD 2007). The other transformation is the motives of EMMNCs, from being mostly market seeking to also being asset seeking (Rajah et al. 2010). These novel transformations can reflect the comparison of PT Semen Indonesia, Cemex and Temasek, which is provided in Chapter 7. However, the comparison will be limited to identifying similarities and differences. The findings show that PT Semen

Indonesia emerged as the first Indonesian EMMNC out of a complex situation between an outward and inward-looking economy.

In the light of Indonesia's OFDI, the trend is fascinating itself. Indonesia has been a minor contributor to global FDI (Carney & Dieleman 2011), though some argued that this is also due to the consequence of having a large market (ASEAN 2018) However, other EMs, such as China, also have big markets and keep expanding abroad (Peng 2012). It is common to see Indonesia's largest conglomerates such as Salim Group or Sinar Mas Group invested overseas and how it related to the country's success as a national player, as well as its close link to Suharto. It is unpopular for SOEs, like PT Semen Indonesia, to do so. Like many other SOEs, the idea to internationalise is not a strategic option for Indonesian SOEs, especially due to Indonesia's large domestic market (Hiratsuka & 平塚大祐 2006; ASEAN 2018). Some also argue that Indonesia is preoccupied with domestic problems, such as the poverty gap, environmental challenges and infrastructure bottlenecks, and that it is too inward looking (Warburton 2017; Aspinall 2016; OECD 2015a; Patunru & Rahardja 2015; Robison & Hadiz 2017).

This is likely the reason why the narrative on Indonesia's OFDI has been neglected. In the past 10 years, there were only seminal works on Indonesia's companies' expansion, such as that by Carney and Dieleman (2011), Al-Fadhat (2017) and Sambodo (2017). What is not yet clear is Indonesia's SOEs. To understand why Indonesia's SOEs have been slow to internationalise can never be explained by simple factors, such as market size. This thesis thus seeks to complement previous research on Indonesia's MNC as found by Carney and Dieleman (2011) that the country has been missing what they called a 'dragon' or business group and to go beyond that puzzle to understand how it would be possible for Indonesia's SOEs to conduct business more than just doing export? It is interesting to note how Indonesian SOEs—not only PT Semen Indonesia, but also PERTAMINA, Telkom and Perusahaan Gas Negara—are today starting to acquire foreign companies. However, this thesis will only focus on PT Semen Indonesia, as it provides a deeper understanding on the company's evolution and sector setting.

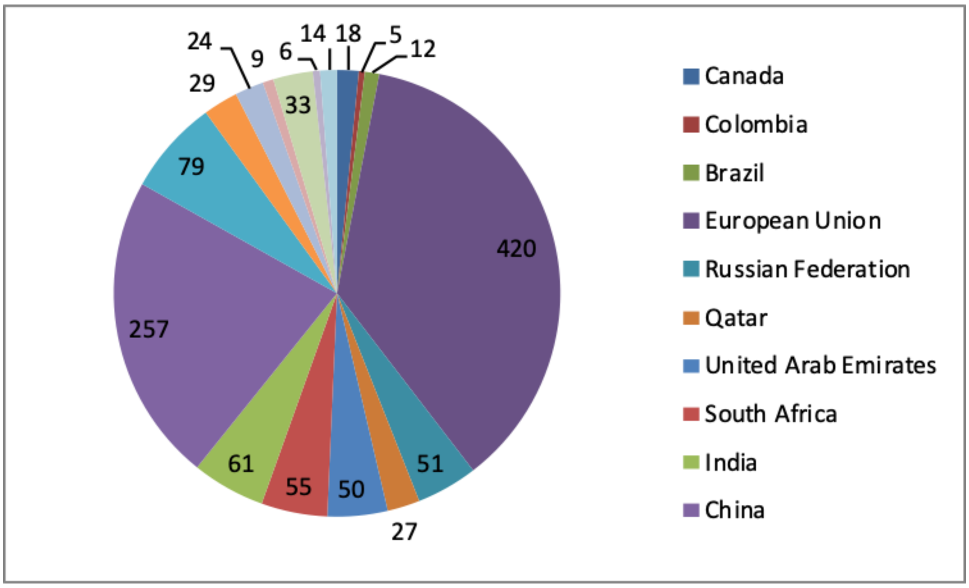

Figure 1.1: EMMNC SOES Distribution by Major Home Economy In 2017.

Source: UNCTAD (2017)

1.3 PT Semen Indonesia Overview

PT Semen Indonesia has always been the pioneer among Indonesia's SOEs. It is the first to invest abroad and is one of the earliest state-run businesses that has transformed into a strategic holding entity (Semen Indonesia Tbk 2016c), which is not common among Indonesian SOEs. The company itself is the biggest Indonesian cement producer. It shared around 39,4 per cent of the national market (Semen Indonesia Tbk 2018,p.22) and its capacity as well is the largest in Southeast Asia especially after taking over Holcim Indonesia (Jakarta Post 2018).

Prior to its gradual change in management from separated entities to strategic holding, the company (which was previously PT Semen Gresik[3]) was the first SOE open to the public in July 1991. The decision to privatise the company was not motivated by the desire to substantially make the cement group more efficient; it was to boost the state's funds. Otherwise stated, the company was being sold due to the needs of state financing rather than any strategic reasons. Regardless of this change of ownership, selling the state asset to the

[3] This thesis is using the parent company (HoldCo) to imply PT Semen Indonesia and its subsidiaries (OpCo) which refers to PT Semen Gresik, PT Semen Padang, PT Semen Tonasa, TLCC, PT Semen Indonesia Aceh and PT Semen Kupang. The previous operational and strategic holding company before 2012, which is later explained in this chapter, will refer to PT Semen Gresik Group with PT Semen Gresik as the parent company (HoldCo).

public consequently placed the company as a corporate law subject, meaning that the SOEs expected to follow the corporate mechanism instead of the state rule. However, the company continued to be controlled under government interventions because even after the privatisation, the government remained the majority shareholder by having a 51-per cent government of the company's share.

In terms of positive effects, following the period of being partly privatised, PT Semen Indonesia managed to compete with the leading player in the sector—Indocement. Chapters 6 and 7 conclude that there were at least three influencing factors on the matter. First there is a government factor, in which cement was the top priority since Suharto developed a long-term agenda (REPELITA) and it remained a priority until Susilo Bambang Yudhoyono (SBY) and Joko Widodo (Jokowi); cement companies all over Indonesia pushed the company to be managed under one management—the PT Semen Gresik Group. Second, the presence of professional leadership, including Dwi Suciptjo, on the board has encouraged positive transformation and innovation in the company, making the group more mature and ready for global expansion. Third, the situation after the Asian Financial Crisis (AFC) made Indocement face difficult financial problems—the company was no longer protected by Suharto and PT Semen Indonesia took advantage and became the government's favourite company.

The success of PT Semen Indonesia being the largest cement producer in Southeast Asia is linked to its heavy work and a gradual evolution that the SOE experienced. In general, there were three periods before PT Semen Indonesia transformed into a strategic holding company. In 1995, PT Semen Gresik (the previous version of PT Semen Indonesia) started to acquire shares from other cement SOEs—PT Semen Padang and PT Semen Tonasa—and subsequently changed into an operating holding company, under PT Semen Gresik as the leading firm. From 2003 to 2005, the management and operation were joined and accelerated. This time, the holding system operated as a functional holding and still assisted PT Semen Gresik as the parent company. In 2012, the company continued the holding in terms of management and operation, but in a more sophisticated design as a strategic holding. This structural change began with the acquisition of 70 per cent of the Vietnam-based company, Thang Long, which officially made the company an international investor. The sophisticated design itself signified that all the subsidiaries could enhance their potential and competence in their field operations, production and marketing (Semen Indonesia Tbk 2016d).

After its strategic holding, PT Semen Gresik Group changed its name to PT Semen Indonesia. The new name represented the company's vision. In line with the government's support in holding the management system, findings show that the motives behind PT Semen Indonesia's holding was to enhance its competitiveness and raise its bargaining position. According to Dwi Suciptjo, the ex-CEO of PT Semen Indonesia, the hope was to create a synergy among subsidiaries and maximise the potential of each production.

Prior to the appointment of Hendi Prio Santoso as the current president director, the company was preparing a strategic plan to expand overseas and to be the ASEAN tiger in the cement sector (Lubis 2014). PT Semen Indonesia is also aiming to purchase more cement companies in the region. However, its successes also come with challenges. In the present day, the global economic downturn has affected PT Semen Indonesia sales. Cement consumption has dropped since 2016, despite the company's profits being raised by 1.3 per cent compared to the year 2014 (Semen Indonesia Tbk 2017a). Competitors increased from 12 companies in 2012 to 15 in 2017 (Semen Indonesia Tbk 2017a; Jakarta Post 2018). These issues are starting to influence the holding's ambition for internationalisation. Hendi's decision to Jakarta Post pone the overseas expansion and focus on the domestic market by acquiring the local subsidiaries of Holcim Indonesia (2019)—the third-largest Indonesian cement company (Berhad 2018)—seems to be the new strategy that the company will use. The question is, will be this domestic strategy ruin the holding's long-term vision of being a global player? Or is the strategy simply an alternate path to building a cement empire in the region? This thesis offers insights to advance the understanding of what is happening to PT Semen Indonesia as one of the earliest internationalised SOEs in Indonesia.

1.4 Research Questions and Scope of the Study

This thesis intends to address research questions as follows:

1) Does the growth and expansion of PT Semen Indonesia demonstrate the developmental state model's persistence in Southeast Asia?
2) How and why has the state encouraged PT Semen Indonesia?
3) How far has the country's agenda developed since the era of SBY and what will Jokowi's eagerness to follow the agenda lead to?
4) How has PT Semen Indonesia adapted its firm structure, strategies and targets to adjust to new global and regional economic challenges and opportunities?

5) Are existing models of EMMNCs enough to explain the expansion of PT Semen Indonesia?
6) How representative is PT Semen Indonesia of EMMNCs?

In this thesis, the case is limited to PT Semen Indonesia[4], which consists of Semen Padang, Semen Gresik, Semen Tonasa and Thang Long Vietnam. Global expansion refers to the company's FDI by acquiring Thang Long Cement. IPE refers to the body of theory that is used to analyse and describe the political and economic dimensions of transnational economic processes. This thesis thus bridges the fields of IPE, economic policy and international business studies to present a fresh perspective on corporate-state dynamics in an emerging market economy.

1.5 Research Statement

The contribution of my research lies in the belief that Indonesia's OFDI has its own unique path that has not been much focused on, especially after the AFC. The expansion of the firm in this context arguably demonstrates the role of the state in the free-market system. On that point, this research seeks to discover the motives of PT Semen Indonesia's growth and expansion, in line with the key questions addressing how far the state has been controlling the business, to what extent, with what method and how differently it has been done compared to prior EMs in the regional and global economy. Additionally, by undertaking this research, this thesis explores the global economic context that supports the expansion of PT. Semen Indonesia.

This thesis is thus built on two propositions. First, the internationalisation of PT Semen Indonesia has not been solely shaped by the logic of business; it should be understood as an implication of the home country's development agenda (Yadong & Huaichuan 2009; Aguiar 2007; Marinov & Marinova 2013). This can be accomplished by considering the elements of Indonesia's developmental state that survived despite the structural adjustment programs that were adopted under the guidance of the IMF and the World Bank after the 1997 AFC and its link to the SOE as Indonesia's agent of development (see Dicken 2011). Meanwhile, liberal economic theory, such as that supported by Dunning (2007), cannot fully explain the

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[4] To minimise confusion in this thesis, the use of the word Semen Gresik refers to the cement company before it became PT Semen Indonesia, while PT Semen Indonesia refers to the parent holding company.

formation and expansion of Southeast Asian EMMNCs because it downplays the pivotal role that the state and political institution plays, which is context sensitive in Asia.

The basic argument is that from the liberal perspective, government intervention is detrimental to economic growth in the long run. Liberal economic theory from Smith (1776) to Friedman (2009) asserts the primacy of market processes over government control and Marx (2018), or the Marxist perspective, believed that state control creates clientelism, which serves only an oligarch interest. However, the developmental state model (DSM) theory argues that it is only by following the model's path that a country as experienced as the first Asian Miracle Group[5] will have power over the global economy. The DSM path refers to the state's role in reflecting on at least three concepts: national priorities, institutional hardware and institutional software (see Weiss 2003; the Literature Review). In the case of Indonesia, one can observe that the state's intervention in the economy has been extended through its ownership of strategic firms. SOEs like PT Semen Indonesia remain a significant feature of the Indonesian economic landscape.[6]

Instead of arguing that the neoliberal system, with its free-market principles, has brought positive outcomes to Indonesian firms, this thesis advances the claim that the state's presence inside the Indonesian industry is a major commercial advantage for companies like PT Semen Indonesia. It can be both argued and demonstrated that an SOE can be an asset to the national economies of EMs when the state does not exploit such enterprises as sources of supplemental revenue or patronage. As such, this thesis claims that the evolution of PT Semen Indonesia exemplifies a residual 'developmentalist' orientation in Indonesian industrial policy and that it mirrors the continuing interest of many Asian governments in strengthening rather than privatising state-owned EMMNCs. The Asian Model, with some important modifications, continues in the proper role of the state in national economic development. Therefore, the characteristics of the old DSM persist in more dynamic and adaptive ways. They can be found in the continuing of the cement industry as the

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[5] According to Page, JM (1994, p. 615) Asian Miracle Group is a group that has high performing economy during 1965 to 1990s consists of Japan, Hong Kong, the Republic of Korea, Singapore, and Taiwan as well as the Indonesia, Malaysia, and Thailand.

[6] This thesis focuses on one company as single case study, rather than captures an agglomeration of Indonesia SOEs. This is because, in the earlier time of this research, other Indonesian SOEs just started their internationalisation projects. Second, focusing on more than a case study will cost much energy and resources. It is more feasible to undertake research about a successful SOE and select more details for investigation.

government’s priority and in the high demand for infrastructural development in the past decade. They can also be clearly observed in the perpetuation of the Indonesian bureaucracy’s organisational arrangements, in which Indonesian officials’ mindsets focus on development catch-up. Additionally, adapting the DSM becomes apparent through the close connections between the government and the SOEs. As this thesis will argue, these connections were highlighted as a major contributor to Indonesia’s economic difficulties at the time of the AFC (Kirkpatrick 2014, p. 17) rather than the full privatisation of the state’s assets that the Indonesian state had opted for. This modified version of developmentalism is referred to in this thesis as ‘neo-developmentalism’, which is led by a ‘neo-developmental state’.

As very little was found in the literature on Indonesia’s SOE internationalisation, this thesis also proposes the inner and outer factors of the overseas expansion (which follows the Firm Specific Advantage and Country Specific Advantage theories). This thesis focuses on the home country rather than the host country since selecting Vietnam was a decision that was made after the motivation to expand[7]. The CSA explores the economic, political and sociocultural condition of the home country, including the market size, government policies and infrastructure. The high demand for infrastructure and economic performance is a key factor that can significantly boost PT Semen Indonesia’s sales. The growing market subsequently helped the group win its domestic competition. These findings confirm the links between the home country’s economies to the success of the company. However, there are also other relevant factors, such as Indonesia’s longstanding position of looking inward. As this chapter has explained, the expansion of Indonesian SOEs has been slow to progress.

Conversely, the FSA considers the internal company’s factors to understand expansion. This includes the ownership, business capacity, performance and technology of the company. This thesis’s findings are consistent with previous works on EMMNCs. For example, regarding ownership, PT Semen Indonesia demonstrates a strong link with the Indonesian government as the majority shareholder. Therefore, the company has no standard of rate of return and incentives given. In exchange, the company must ‘pay’ through its public service program. This result matches earlier studies on the same topic of EMMNC SOEs (Aguiar 2007).

[7] Interview with PT Semen Indonesia Board of Directors on 28 October 2016, in Jakarta, and with staff of the Ministry of SOEs.

The findings regarding the management factor also clearly support the idea of being a conglomerate, or a diversified group. This is beneficial for fixing the market's imperfection, as it helps the group leverage and be cost effective. In terms of performance, the group has improved its capacity, production and market shares. This can be observed in how the company became the national champion in the cement sector. Regarding motives and strategies as determinants of internationalisation, this project found that PT Semen Indonesia was motivated by a market-seeking motive. Concern for fierce competition after the AFC as well as the desire to depend on its traditional market were the reasons underlying the company's decision to look for another potential market outside Indonesia. These thesis findings also suggest that PT Semen Indonesia used strategies of horizontal acquisition to globalise. This is in line with Marinov and Marinova (2013), who argued that the type of OFDI taken in the natural resources sector tends to be horizontal based on two considerations: the transaction cost advantage and the competitive advantage of the subsidiary.

This study further offers important insights into the discussion of EMMNCs—notably, in the case of Indonesia and the policymaking of Indonesian SOEs. Along with this thesis's contribution to the theoretical and empirical stance, one may argue that the expansion seems to occur regionally instead of globally. However, this thesis rejects such claims and instead argues that the geography of the market areas have spread outside Asia and that the Vietnamese subsidiary became the hub of overseas market.

1.6 Research Strategies

1.6.1 Design and Method

This thesis used a qualitative design with a case study method. The background of this project was to investigate the area of EMMNCs, which was previously dominated by quantitative studies.[8] Nevertheless, this thesis will not claim that earlier studies—mainly those of Luo and Tung (2007), Marinov and Marinova (2013), Pananond and Zeithaml (1998), Yadong and Huaichuan (2009) and Yiu et al. (2007)—were wrong and that this different approach was superior, as such an argument would not be fair. This thesis only underlines the importance of

[8] Piekkari and Welch (2004) admitted that qualitative research remains a minority and that it can even be marginalised within international business. Even so, their book tried to bring the IB study outside the range of either quantitative or qualitative studies alone.

reiterating the same need for applying a qualitative approach to the theory of EMMNCs, especially for the topic of expansion. The reason is that observing the trend of EMMNCs today would be misleading if it was simplified through the statistical lens.[9] Further, the argument underlying qualitative research is its capability to let humankind be examined, regarding their motivations, reasons, actions and beliefs (Kuo & Myers 2012).

As previously mentioned, the theory of EMMNCs is limited to Indonesia's experiences. Therefore, by employing a case study method, the investigation of EMMNCs is practical and theoretical, and it will lead to a better understanding. Creswell (2009) explained that a case study can explore a program, event, activity, process or individual in-depth. Although other studies have been undertaken in relation to private EMMNCs in Indonesia (specifically, the firm PT Indofood Makmur or Salim Group) and Pertamina is a state-run company, studies of Indonesian corporations is limited, and there have been no previous attempts to research and analyse PT Semen Indonesia. The significance of PT Semen and the justifications for this research focus are as follows:

1) PT Semen Indonesia is a state-owned company (51 per cent of its shares are owned by the Indonesian government).
2) PT Semen Indonesia is the first Indonesian government–owned company to extensively and internationally expand its operations—for which reason PT Semen Indonesia is preferred to Pertamina Persero, which is a SOE focused on exports and one that has only a minor shareholder in overseas projects.
3) PT Semen Indonesia is the largest cement company in Indonesia and in Southeast Asia in terms of production and assets (i.e., business capacity).
4) Becoming a new holding company, PT Semen Indonesia is a representative sample of the EMMNC SOEs population, which recently found a way ahead compared to other well-established SOEs in Indonesia and Southeast Asia.
5) PT Semen Indonesia is originally established in Indonesia, which is regarded as one of the most significant emerging markets following China and India.

Similarly, critics also appeared with the case study output. It is true, at some points, that case studies could not provide a conclusion to the broader group. Just because PT Semen

[9] Today, subjects that were previously studied by social scholars, such as family, marriage and religion, are legitimate areas of economic analysis. Although economics welcome all kinds of topics, in terms of methods, it is still limited (Cronin 2016).

Indonesia was identified as an EMMNC does not mean that all of EMMNCs will exhibit in the same fashion. However, the qualitative case study is powerful because it offers alternative insights through an understanding of the reality. The researcher witnessed the rise of Chinese and Singaporean SOEs and found many fascinating findings. However, it is not enough; researchers need new analytical tools to be better informed. Because the transformation of the world economy is not finished yet, it is fluid and transformative.

1.6.2 Data Collection Technique and Ethical Issues

In line with the data collection method, the case study technique combined different methods for gathering data (Yin 2015). This thesis will use two methods: secondary data and semi-structured interviews.

1.6.2.1 Secondary Documents

Secondary document archives were used to gather all ready-made data (Merriam & Tisdell 2015), which provided a strong base for the research's further steps. The documents included relevant primary documents such as annual reports, official press releases, policy papers, journals and firm open-access data sets and supplementary documents. For a literature search, it is necessary to identify high-quality papers and evaluate those papers' applicability to the research (Vom Brocke et al. 2009).

During this research, the secondary data collection started with the official documents from both the government and the company. Next, the researcher extracted articles from newspapers and media archives, including videos from television programs. From statistical data, the researcher can piece together the firm's production capacity and market share and compared it with data on the total market in regional and global levels.

1.6.2.2 Semi-Structured Interviews

Semi-structured interviews are the primary source of the findings. This is because the interviewees were experienced eyewitnesses of the phenomena directly (Merriam & Tisdell 2015). Therefore, the interviewee is classified as a key person. The interview is designed to include open-ended questions to reflect the shareholder or decision-maker's perception, meaning, experiences (Yin 2015) and firsthand information. Therefore, the main questions that were addressed related to the firm's expansion, which enabled a deeper exploration for more information and clarification.

At this data collection stage, the chosen method was purposive sampling. The participants of the interview are limited (nine interviewees, listed are provided in Appendix 1). This method of sampling does not intend to acquire many informants because there is no need for either representation or generalisation of the interviewees. This method was only chosen to access deeper information from the insiders. However, in light of qualitative philosophy, it is unfeasible to explain why a person or institution acted a certain way or why any event occurred without asking people about it (Myers 2013). Those insiders were decision-makers and highest-level staff who were selected in the company search based on their positions and experiences of the company.

Interviews were conducted in Indonesia, in Jakarta, Pangkep and unintentionally in East Java (a face-to-face session with the consent of the interviewees). The interviews were recorded and noted in a particular time, as the interviewees agreed. The key person from each institution was expected to give answers, but not all accepted the invitation. To manage this issue, the basic expectation was to interview no fewer than one figure from the government side and one from the company side. Both the board of PT Semen Indonesia and the government officials had a great deal to do. This is understandable, as their positions represent pivotal institutions and even the country's public interest. In the end, the interviews were undertaken in at least four ministries, with the PT Semen Indonesia parent company director on the period of 2017 when the interview was undertook and one subsidiary. The data collection through field work finished for about year, as the interviewees were difficult to meet and the author must flight back and forth Melbourne -Jakarta.

1.7 Thesis Structure

This thesis begins with a broad-to-specific context of PT Semen Indonesia as the case study. Overall, the thesis content structure is illustrated in Figure 1.2.

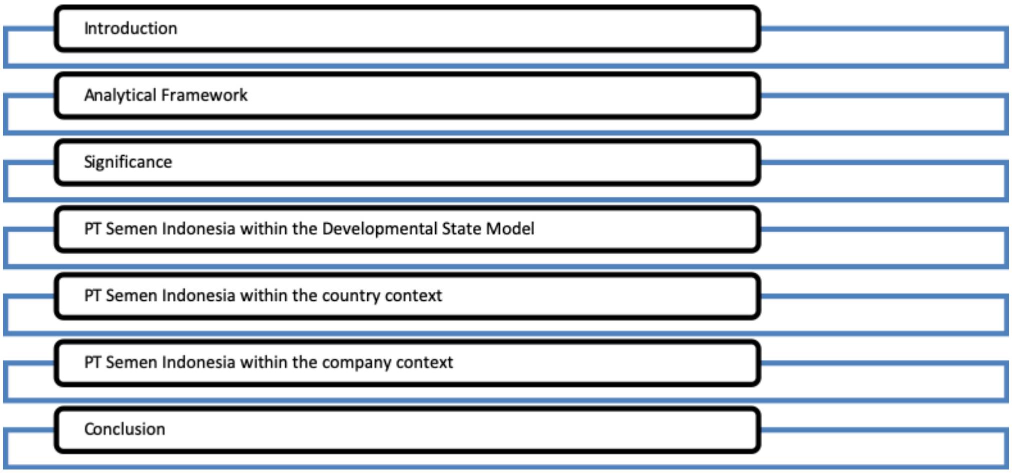

Figure 1.2: Thesis Structure Overview.

The Introduction aims to bring the context of MNCs from Ems, particularly on the presence of SOEs, into the current project, particularly by focusing on what has occurred on a global level. Following this is a discussion on SOE expansion in Asia and the overview of PT Semen Indonesia's holding. The next section of this chapter presents the core of the research: the comprehensive questions regarding PT Semen Indonesia, along with the scope of the study, statement of the research, research strategies and structure.

The second chapter conceptualises and justifies the IPE logic of thinking and perspectives, with an emphasis on the theory of the developmental state. Along with the literature, Chapter 2 also elaborates on the theories of the EMMNCs. It is essential to map the theoretical conceptualisations behind the topic of EMMNCs today as the basis to unfold the works of the global political economy.

Next, the third chapter will clarify the significance of Indonesia's case, including the political economy situation, in general and specifically regarding SOE. This is crucial because it outlines the narratives of Indonesia's economic changes, notably its investment records to give a background of the case.

Chapter 4 recognises and investigates the DSM features of Indonesian SOEs. The theory of the DSM becomes the analysis tool to examine PT Semen Indonesia from a global political economy. The examination was accomplished based on the DSM proposed by Weiss (2000, p.23): national priorities, organisational arrangements and institutional links and was further added with the latest work of Weiss and Thurbon's (2016, p. 639) strategic industrial policy, institutional software and institutional hardware. This section will also elaborate on the correlation between Indonesian SOEs and the country's industrial policies and institutional software—such as the Indonesian president, a well-known nationalist who promised to launch a new economic policy package and who tried to boost economic growth through infrastructure investment. The institutional hardware refers to the institutions of Indonesian government, such as the Ministry of State-Owned Enterprises, or the Indonesia Investment Coordinating Board.

After understanding the case of PT Semen Indonesia from a DSM perspective, Chapter 5 provides the context of PT Semen Indonesia and its evolution from being an operational company in 1991 to becoming a strategic holding in 2012. This chapter is thus useful for understanding how the SOE began as the national champion in cement industry.

Chapter 6 attempts to identify PT Semen Indonesia as a representation of EMMNCs among the ones analysed based on internal (FSA) as well as external determinants (CSA). These two determinants call for a further comparison between PT Semen Indonesia and the other EMMNC SOEs. This chapter also addresses the motivation and strategy that PT Semen Indonesia pursued to become internationalised.

The final part of the thesis, Chapter 7, will contain the implications of the findings, including the theoretical contribution and the policy implications, together with limitations of the study.

Chapter 2: Analytical Framework and Literature Review

While EMMNCs are a popular topic for research and many studies like Pearce (2012), Goldstein (2009) and Cuervo-Cazurra and Ramamurti (2014) gave systematic explanations, limited studies exist on the political institutions and development process within the home countries, which may be common due to the nature of investment as economic term. This literature review tries to build on this research and goes beyond the economic calculation. This research thus locates the study of EMMNCs within the broad field of IPE, though it still incorporates some elements of international business with PT Semen Indonesia as a case study. It brings together scholarship on Asian industrialisation and the developmental state debate to build an analytical framework with which to analyse the evolution of PT Semen Indonesia. Emphasis is placed on the importance of analysing power structures and power relations, both inside and outside a company, to appreciate its mode of operation. Power and institution are central to the study of IPE, as is the study of MNCs. This thesis draws on IPE theories—realist, liberal and critical—to inform its analysis and establishes how the study adds a missing piece to the jigsaw of our understanding about the growing significance of EMMNCs. More specifically, this thesis delivers discourse about the DSM to present an explanation of the role of the state and institutions. It finally explores EMMNCs to identify the concept and motives of expansion and models.

2.1 International, Political Economy Logic of Thinking

IPE was this thesis's framework to analyse and explain EMMNC formation. Distinct from formal business studies, IPE takes a critical stance towards the economic phenomenon and assumes that political and economic phenomena are causally related. Economic events and patterns cannot be considered independently of parallel and conterminous political processes. Instead of analysing EMMNCs purely in terms of ownership, market-, resource- and strategic-asset seeking, firm-specific advantages, country-specific advantages, leverage and global supply chains, the IPE framework allows for the study of relevant non-economic factors, such as the influence of political actors, power structures, roles of institutions, policies and cultural ethics. This thesis uses an eclectic approach by combining 'middle-range' theories from different IPE models or paradigms and business economics to synthesise the analytical approaches and establish richer research findings.

The study of EMMNCs benefits from inquiry into the rules or institutions that shape company operations, and that constrain or facilitate company decisions. Institutional frameworks that affect PT Semen Indonesia directly include the Indonesian government as the home country and the governments of countries in which it invests as the host country; ASEAN cooperation arrangements that cover trade and finance; and global regulatory institutions, especially the WTO and IMF. Institutional analysis extends to the cultural and social factors that influence economic behaviours, which, in the case of this thesis, involves the examination of the so-called ‘Asian way’. This Asian way has a broader meaning and context, yet it is used here to show the typical economic landscape in Asia.

The beginning of IPE as an independent study began in 1970s, with an interest on whether economics led politics or politics led economics in terms of shaping economic outcomes. There is realistically no example of a perfect market economy of a polity in which economic outcomes can be determined purely by government policy. Cohen (2014) thus stated that IPE emerged as discipline to close the gap between economics and politics in empirical and theoretical research. IPE scholars like Palan (2013) and Miller (2008) could then claim to be interdisciplinary because of their ability to comprehend social phenomena using the tools of political and economic analysis.

IPE as a study principally focuses on three core premises (Underhill 2000). First, social phenomena are unable to occur without a link between economy and politics. Second, the link of those concepts lies on politics as the objective and method, while the economy represents the structure. Third, it is irrelevant to separate local and national constraints with an international level of analysis. Those three premises reflect the understanding of IPE intellectuals that economic outcomes of any kind are mostly affected in the political sense. The implication for the distribution of power in the IPE context is related to the distribution of wealth.

Further, the roots of IPE are shared with international relations in the four paradigms: mercantilist or realist (and statist), liberal, socialist/Marxism and the latest constructivism (Frieden & Lake 2017; Gilpin & Gilpin 2001; Walter & Sen 2009). In classical mercantilism (or realism in some of the literature), the main actor is the state. The state has power over other actors, including economic actors. Kindleberger (1986) in *The World Depression* argued that the world needs a powerful state to create stability for international public goods (this later became known as the theory of hegemonic stability). A powerful state in classical mercantilism refers to a militarily powerful state. Later, under the field of neo-mercantilism, the power of the state included economic resources and capabilities. Economic power signifies both the relative size of a country's economy and the state's capacity to translate this power into political influence abroad. Mercantile states also seek to influence economic actors at home through selective support, subsidies or privileges to special regions, industries or companies through comprehensive and national-focused economic policies (Malmgren 1970).

In contrast to mercantilism, liberalism holds the view that individuals and firms interacting in open markets are the key to economic prosperity. Liberals thus argue that the state should not interfere directly in the affairs of business but that it should instead be concerned more with policies to promote free trade and free markets. State intervention in the form of state-run businesses and controlled markets only restrict and minimize economic potential (Smith 1776; Friedman 2009). In the modern world, the Reagan and Thatcher administrations marked the neoliberalism period with their economic policies in the Era of the New Right (Cooper 2012). Under Reagan and Thatcher, privatisation and deregulation were claimed as the best policy prescriptions. Debates about East Asian economic growth has focused on whether liberal market forces or state intervention was decisive in promoting Asian industrialisation, beginning with Japan (Johnson 1982). Chang (2007), for example, argued that without state intervention in the form of tariffs, subsidies and strategic direction in the form of industrial policy, East Asian states would not have been able to industrialise. Stiglitz (2007) also questioned the claim that there can be anything remotely resembling an idealised 'level playing field' in a global economy that is dominated by powerful multinationals. Chang (2007) and Stiglitz's (2007) argument spans statism and liberalism in that neither advocates against capitalism, only an extreme liberal (neoliberal) version of it that is shaped by theoretical propositions and value judgements rather than broad-based empirical evidence.

The third classical IPE body of theory is socialism/Marxism, which unlike the two previous approaches, focuses on the relations between actors and the subsequent implications. Socialists maintain that a market–capitalist mode of production undermines the livelihoods of working people, or 'labour' (Palan 2013, p. 8-10). Under market conditions, capitalists become richer and the labouring classes are exploited. Rather than giving prosperity to the whole society, the liberal–capitalist system segregates society into classes and increases inequality between the poorest and the richest. Consequently, socialist scholars look for evidence of the weaknesses within capitalism to argue that market economies are in decay and that, eventually, capitalism will collapse or be transformed into socialism, in which there will be no classes and the means of production is enjoyed by the whole of society (Frieden & Lake 2017; Gilpin & Gilpin 2001). Further, the extended study of Marxism with neo-Marxists such as Wallerstein (2004), Frank (2018) and Cardoso and Faletto (1979) continued the tradition of Marxist intellectual thinking by taking the context of the twentieth century to explain the inequality. Wallerstein (2004) further took the division of labour into a broader context of capitalism to a world system theory. He described the world's inequality into three levels of hierarchy: core, semi-periphery and periphery, with the core as the top of the production chain. This theory maintains economic power, making profits and pushing the semi-periphery and periphery to provide raw material and cheap labour.

However, this thesis adopts the view that the three approaches will not satisfactorily explain the case. Instead, they need to be elaborate. The reality of today's world is multidimensional, dynamic and fluid, which means that no single perspective or paradigm is enough to grasp and explain these complexities. Starting from that understanding, there is another approach that, because of its 'non-mainstream' status and multi-method approach, is not widely accepted in IPE. This is because of its 'undefined' ontology, epistemology and methodology roots. However, this eclectic perspective is gathering support, such as in the works of Strange (1991) and Stubbs (1999). The application of this eclectic and pragmatic interdisciplinary approach to this thesis is explained further in Chapters 4 and 5.

2.2 The Developmental State Model

Within the IPE framework, this thesis is particularly interested in taking the developmental model as the point of departure to make sense of the expansion of Indonesian SOEs. This is because there is an indication that the transformation of the company is a part of the bigger picture of Indonesian economic growth, which is directed by the state. This model of economic development was popular in the 1980s and 1990s. It was first proposed by Johnson (1982) to describe Japan's success, accuracy or explanatory power, and its persistence remains a matter of debate.[10] The paradigm discussed above posits an explanation of this

[10] At the IPE workshop in Brisbane, I discussed with Elizabeth Thurbon on how she placed the DSM into theoretical consideration. However, she argued that the DSM is beyond the ideology of the three main paradigms of IPE. She underlined that the model cannot be squeezed into a paradigm. In fact, it is more practical than theoretical. It illustrates the policymaking and outcome of some countries notably Northeast

model. The liberal view is that the developmental state is an example of a capitalist, national and industrial state (Pirie 2007; Park et al. 2012). It exists to coordinate the development of capitalist market economies, and liberal scholars draw on the experiences of European countries in their early stages of industrialisation (Fritz & Menocal 2007). The economic success of countries is claimed to be the result of outward-oriented economic policies that support private business, capital accumulation and export production. High growth in East and Southeast Asia is widely attributed to export-oriented industrial development that is led by market forces with a strong private sector (Öniş 1991). For neo-liberal economists, reliance on the state for protection impedes company efficiency and constrains national economic growth (Jomo 2001). Ctiticisms of developmental states which focussed on 'rent-seeking' or so-called 'crony capitalism' became more strident following the Asian Financial Crisis.

This perspective on the DSM opposed the view that the model is permanently owned by East Asian countries. Fritz and Menocal (2007) argued that to be judged, as 'developmental', a state does not need to be in control of everything and successful in all spheres. Further, the model is not associated with specific policies. DSM countries are widespread in different times and places and they have different social and economic policies (Fritz & Menocal, 2007). In that regard, Yeung (2017a) supported the view and identified that the key of DSM success is the allocation of financial resources, which were substantially given by the US during the Cold War.

Unlike the liberalist view, the mercantilist or statist view is that the market alone is incapable of ensuring growth in the long run and that markets cannot always operate to their maximum efficiently. Beeson (2004) called this state-led development. The states thus has a necessary role in correcting market failures by directly investing in the industry and promoting the conditions that are favourable to long-term economic development (Jayanthakumaran 2016; Öniş 1991; Amsden 1992; Wade 1990). To that end, the state is intentionally 'getting the price wrong' (Amsden 1992).[11] However, the success of getting the price wrong is

Asia in dealing with global economy. I will still explain the model based on the three approaches since many literatures support the idea that there is still some degree of ideological basis to it. However, as this thesis uses an eclectic approach, the concept of the DSM will not be argued in paradigmatic debate.

[11] This term for distorting the market is expressed in two ways; foreign exchange rates and long-term interest rates. This strategy consists of varied policy outputs, such as trade controls, foreign exchange controls, export incentives, selective credit allocation, tax incentives, public enterprises other means of punishing firms that do not comply (Wade 1990).

determined by the ability to ‘govern the market’, including protecting it from powerful interest groups (Wade 1990). This approach situated the state, its intervention and its role in the heart of the DSM.

A realist paradigm is taking its own position by asserting that the developmental state is neither free market nor socialist, but instead a rational and pragmatic response to the competitive power dynamics of capitalism (Woo-Cumings 1999). Some literature categorised this approach as ‘institutional’ because the premise that is advanced is neither neoclassical liberal nor mercantilist or statist. According to Duysters et al. (2009), the DSM is the mixture of market orientation and state intervention.

Some studies (Yeung 2017b; OECD 2015c; Stubbs 2009) identified this school of thought as neo-mercantilism, with the notion that they are aware of the globalising influence on the market economy, but they also contend that the state—as their core of analysis—is being transformed (Weiss 2000, 2003). According to Weiss (1997), states are not working against the global system, but they are working collaboratively with global processes. From Weiss’s view, there were two important prepositions regarding developmental states, which she explained below.

> First, globalisation impacts on the state, but not necessarily in the restrictive way anticipated by the standard view. Contrary to the idea of globalization as constraint, the global economy does not preclude a role for national governance, but tends increasingly to demand it … The related proposition however is that the ways in which these enabling conditions of globalization are likely to inform state response and be actualized in policy outcomes will depend heavily on existing features of the domestic institutional environment (Weiss 2003, p. 245-6).

In this thesis, the discussion of the developmental state is most influenced by the third perspective and the work of Thurbon and Weiss (2016) and Weiss (2000). It is asserted that the state playes a vital role in early industrial development and, while there are undoubtedly weaknesses in regulatory capacity and widespread distributional injustice in developing countries, the removal of state direction is not the solution.

The developmental state frame helps to appreciate the dynamics of state–firm interactions, in the case of PT Semen Indonesia. To better articulate a model for this thesis, it is important to track the concept of developmentalism. According to Park et al. (2012), developmentalism is an ideology that places the state as the main driving force for attaining economic progress. Economic sectors must thus be ruled by specific policies to protect, expand and adapt domestic industries to cope with the challenges of the global economy. In that respect, states play a strategic role in governing the national and international markets to meet national ends (Öniş et al. 1991).

However, DSM is not simply about the state leading the market. The state and market have to be synergised (Öniş et al. 1991). This comes with two consequences: a direct link between the bureaucrats, which has the responsibility to rule the market with the business, and a stable and predictable environment (Öniş et al. 1991). The two are crucial in assuring that the intervention works to reach the top priority of developmental goals. However, it does not necessarily mean that the country must be authoritarian to have a DSM, as many studies demonstrated. Johnson (1999) refuted this idea and explained that authoritarianism works to solve the problem, such as mobilising the country to direct its energy to the developmental project.

Dicken (2011) stated that interventionist states have successfully and simultaneously integrated the functions of owner, coordinator, regulator and entrepreneur. Those multi-function levels and forms could be identified through the types of enterprise, governance structure, incentive system and resource allocation (Pearce 2012). This was, as written by Amsden (2001, p. 3), 'new institutional economics'. Amsden (2001, p.8) further explained that:

> This model qualifies as new because it was governed by an innovative control mechanism. A control mechanism is a set of institutions that imposes discipline on economic behaviour. The control mechanism of 'the rest' revolved around the principle of reciprocity. Subsidies ('intermediate assets') were allocated to make manufacturing profitable—to facilitate the flow of resources from primary product assets to knowledge-based assets—but did not become giveaways. Recipients of subsidies were subjected to monitorable performance standards that were redistributive in nature and results-oriented. The reciprocal control mechanism of 'the rest' thus transformed the inefficiency and venality associated with government intervention into collective good, just as the 'invisible hand' of the North Atlantic's market-driven control mechanism transformed the chaos and selfishness of market forces into general well-being.

Although the DSM may be popular in the tiger economies, the DSM was adopted simultaneously in Malaysia, Indonesia and Thailand (Amsden 2001). It was also adopted by other countries outside the region. However, the cultural context is emphasised, making it difficult for other countries in the world to experience the same mechanism and outputs (Park et al. 2012).

In general, there are some characteristic that DSM countries shared. Weiss (2000, p. 23) specifically distinguished them by at least three criteria:

1) priorities that were aimed at enhancing the productive powers of the nation, raising the investible surplus and ultimately closing the technology gap between themselves and the industrialised countries
2) organisational arrangements that embody a relatively insulated pilot agency in charge of that transformative project—which in turn presupposes both an elite bureaucracy that is staffed by the best managerial talent available who is highly committed to the organisation's objectives—and a supportive political system
3) institutional links with organised economic actors that privilege cooperative rather than arm's-length relations, and sectors or industry associations rather than individual firms as the locus of policy input, negotiation and implementation.

In an updated work, Thurbon and Weiss (2016) refined Weiss's (2000) conceptualisation of the DSM by clarifying three key characteristics: the institutional hardware, which refers to the professional insulation and economic connectedness of the bureaucracy; the institutional software, which is the mindset of the political actor that guides their action; and the strategy, which reflects the country's industrial policy. The institutional hardware can be found in the existence of pilot agency that takes the responsibility of policy input and the national development plan. Although this agency is insulated, it has consultative and coordinating relations to the economic actors, including private sectors (Thurbon & Weiss 2016).

However, having institutional hardware is not all that is needed. The DSM needs to possess institutional software. The bureaucrats of the pilot agency must maintain political will and commitment to the developmental goals. This may differ among countries, yet it is usually motivated by outside pressure, such as China's motive to catch up with the West (Thurbon & Weiss 2016). Even so, a DSM not only consists of institutional hardware and software. It needs a strategy to pursue its development agenda. This is widely known as strategic industrial policy. This kind of policy, however, is not only export oriented, but it can be mixed and changed over time and place. However, this policy will only be effective from input to output if the institutional hardware and software are supported by state capacities (Thurbon & Weiss 2016).

Weiss (2000) argued that when any one of these three elements was missing, it sways the rest of the elements. If a state development system lacked the first element, it could be weakened and unable to coordinate economic affairs that re insulated from special interests. If the third element cannot be established, policy design is likely to be of poorer quality and policy implementation would be compromised, leading to policy failure. However, this is not to say that the lack of three elements absolutely negate the DSM. To use the DSM, a country has to experience a process of becoming one. This means that neither Japan nor South Korea succeeded with the DSM by transforming suddenly. The determinants by Weiss (2000) and Thurbon and Weiss (2016) thus become the point of departure of this thesis.

However, it is important to note that the economic context in the two decades after the era of the DSM has been changed. With that in mind, this thesis further claims that the neo-DSM—the modified version of the classic DSM—goes beyond some of the recent DSM studies of Yeung (2017a), Pirie (2018), Dent (2017) and You (2017). This thesis suggests that after the AFC, the existing studies (Hill 2014; Park et al. 2012; Minns 2001; Pirie 2007; Jayasuriya 2005) concluded too quickly regarding the failure of the DSM, or how East Asia turned to neoliberal ideology. Nevertheless, it must be acknowledged that today's DSM and the old version were never the same. With this notion, it is too much to believe that the classic DSM is still present, so this thesis will not attempt to defend such a view. It instead proposes that the neo-DSM exists now. The neo-DSM considers the three indicators of the old DSM model, as identified by earlier studies (e.g., Weiss [2000], see Table 2-1). However, this case study seeks to examine the changing nature of the model as it manages the present dramatic changes of the world political economy. The structural adjustment adopts the economic reform—for example, it unavoidably changes the power of the government to reign, making it difficult to insulate the bureaucracy as much as before. Conversely, the democratic political system hinders the state's activism to find a way to intervene with the economic process so that it follows its lead. Countries continue to believe in the economic development agenda based on state intervention. Therefore, this thesis proposes a practical context for Indonesian SOEs and investigates deeper than just the ideological debate regarding whether the model is situated, as Hill (2014) or Rock (2015) did.

Table 2-1 DSM Key Points.

Key Point by Weiss and Thurbon	Explanation by Weiss and Thurbon	Key Point by Weiss	Explanation by Weiss
Institutional hardware (the institutional architecture)	Professional insulation and economic connectedness	Organisational arrangements	Embodying a relatively insulated pilot agency in charge of that transformative project—which in turn presupposes both an elite bureaucracy that is staffed by the best managerial talent available who are highly committed to the organisation's objectives—and a supportive political system
Institutional software (the mindset that guides their actions)	The mindset of the political actor	Institutional links with organised eco actors	Privileging cooperative rather than arm's-length relations, and sectors or industry associations rather than individual firms as the locus of policy input, negotiation and implementation
Developmental state actions (what policymakers actually do)	Strategic industrial policy	Priorities	Aimed at enhancing the productive powers of the nation, raising the investible surplus and ultimately closing the technology gap between themselves and the industrialised countries

Source: Thurbon 2016, p. 639-44; Weiss 2000, p. 23

2.2.1 The Developmental State in Southeast Asia: Historical Background

From 1965 to 1990, no other region had the fastest-growing economy than East Asia (Page, 1994). The golden era of Jakarta Post -WWII marked Japan as the only non-Western industrial country (Tipton 1998). By 1990, Japan was the second-largest economy with a GDP per capita that was twenty times bigger than that of the US (Charles 1995). Japan's competitive advantage was based on a relatively low-paid but educated workforce, the availability of huge export markets in the West and social stability at home that was buttressed by improving living standards, a heavily protected domestic market (which ensured the local consumption of Japanese goods) and the political dominance of the Liberal Democratic Party. Scholars noted that this advantage made Japan the ‘number one’ of Asian growth (Tipton 1998, p.3).

During this high-growth phase, the Japanese government—in cooperation with industry–directed the rapid expansion of heavy industries including motor vehicle and electronics industries that are synonymous with modern-day Japan. It was during this period that the Japanese economy developed a strong export-oriented focus (EOI) and foreign investment. Its OFDI climbed from US$4.7 billion in 1980 to US$12.2 billion in 1985 (Appelbaum & Henderson 1992). One of the most profitable areas was Japanese car manufacturers, who began to out-compete their US rivals and who made brand names like Nissan and Toyota, which are as well-known and respected as major US carmakers, General Motors and Ford (Charles 1995).

It is important to note that industrial growth fed both international and domestic demands for Japanese-produced goods. Export as well as national sales played an important role. By joining the world trade, Japan had successfully produced agricultural and protoindustrial products outside the country (Tipton 1998). The importance of national institution—the Ministry for International Trade and Industry (MITI)—was also likely to establish efficient and effective industrial policies in Japan (Weiss 2000).

Japan’s industrial success eventually prompted other East Asian countries to pursue a similar path. Taiwan and South Korea gained much attention after Japan’s success. In South Korea, President Park Chung Hee established a monopoly on political power in the early 1960s by controlling the judiciary, press, public assembly and speech (Tipton 1998, p. 424) and by copying the example that was set by Japan (Appelbaum & Henderson 1992, p. 38). Park ‘guided’ major Korean industrial corporations—Samsung, Hyundai, Hanjin, LG and SK (the *Chaebol*) (Lasserre & Schütte 2006 p. 119))—to develop export-oriented manufacturing enterprises by creating the Economic Planning Board (EPB) (Appelbaum & Henderson 1992, p. 125) and allowing selectively foreign investment (Appelbaum & Henderson 1992 p. 39). However, unlike Japan, Park’s regime was extremely repressive (see Tipton 1998, p. 425-7). The country saw no democratic elections until Roh Tae-woo- the chairman of the ruling Democratic Justice Party announced the next direct presidential election (Minns 2011, p. 1033).

Empirically, FDI that flows from the so-called Asian tiger economies to the developing and developed worlds increased significantly from 1977 to 1985 (Lecraw 1993; Guillen & Garcia-Canal 2009). Countries like Hong Kong, Taiwan, South Korea and Singapore became important players in the field of foreign investment in various industries—from plastics, garments, textiles, electronics, chemicals and heavy machinery. Their subsidiaries were located in Asia, the Middle East, Latin America and Europe. Taiwan's investment strategies enabled the global expansion of firms such as Taiwan Semiconductor, HTC and Acer. Other investments made by EMMNCs were related to manufacturing, trading and construction. The electronic product maker, South Korea, is also known for Samsung, LG, Hyundai and Kia. Further, Singaporean real estate firms such as CapitaLand and hotel names such as City Developments have done well, yet their operations are still slow compared to the giant MNCs (Kumar 1982; Guillen & Garcia-Canal 2009).

Taiwan moved down the path of EOI in the 1970s, under the control of the Kuomintang (KMT), which imposed martial law after arriving from mainland China in 1949. By the 1960s, it had created, through the repression of political opponents, a 'stable political climate' (Tipton 1998; Kuo & Myers 2012). The beginning of Taiwan's economy was smaller than Myanmar in terms of GNP (Tselichtchev & Debroux 2012, p.222). Like in Japan and Korea, government policy directed the local and foreign investment from the United States and Japan. One remarkable instance of the government's control was observed in the government's first four-year plans for economic development (Tipton 1998, p. 305). In the 1950s, Taiwan changed from ISI to export promotion to catch up with South Korea (Tselichtchev & Debroux 2012, p. 223). Even so, the US had just started to focus on electronic products in 1960s, with Texas Instruments, Sharp, Philips, Sanyo, and Sony Matsushita.

Taiwan followed an outwardly oriented industrial policy that favoured corporations that were loyal to the KMT, despite its limited domestic market and scarcity of raw materials and technology (Tipton 1998, p. 429-30). Taiwan's success, like Japan and South Korea, relied on economic institutions—such as The Council for Economic Planning and Development (Tipton 1998, 431). It was the first country that created export processing zones (EPZ) (Appelbaum & Henderson 1992,p. 43). Through EPZs, Taiwan had shifted from the import–substitution industrialisation (ISI) strategy to the export-led growth (ELG) strategy by becoming the producer of machinery, mechanical goods, electronics and electronic equipment (e.g., Acer). This is considered the key to understanding the economic transformation of Eastern Asia.

The rise of EMMNCs in Southeast Asia reflects the major economic transformations in the region during the 1970s and 1980s. Prior to the Asian Development era, most Southeast Asia countries depended on ISI. Foreign companies were considered the main contributors for the economy (Lasserre & Schütte 2006,p. 168) and made those countries dependent to foreign investment (Athukorala 2010, p. 23). ISI in Southeast Asia gave way to EOI in the 1970s and 80s (Studwell 2013,p. 148). Japan, where the state took the lead in setting industry policies and promoting export growth in which competitive advantages could be exploited to break into markets in the US and Europe, attracted the attention of policymakers in Southeast Asian states. This happened in Malaysia, where foreign companies were invited to build export processing operations, and the country had not built any well-established industries until the 1980s (Studwell 2013, p. 105).

Learning from the first Asian development model, based on Japan's experience with industrialisation, export-oriented strategies began to be implemented in other Southeast Asian states besides Singapore, who adopted EOI policies after leaving the Malaysian Federation in 1965. Malaysia was an early adaptor to this form of industrial expansion. Its industries were not based on local innovation in new products and processes, but instead they were downstream-processing sites for capital and ideas that were generated elsewhere (Amsden 1995, p. 793). As part of the tiger economies' success story in the region, the conglomerates—giant group companies such as Petroliam Nasional Berhad (Petronas) from Malaysia, Charoen Pokphand (CP) from Thailand and Indofood from Indonesia—started to rise. State-owned enterprises and most of all enterprises with close ties to government politicians were important players in this new phase of industrialisation in Southeast Asia.

The Malaysian case started in the early 1980s; the Mahathir government moved to reduce United Malays National Organisation (UMNO)'s financial dependence on Malaysia's ethnic Chinese business elite, and to reduce imports of steel, pulp, paper and petrochemicals. Prime minister Mahathir Mohammad (1980–2003) established the Heavy Industries Corporation of Malaysia (HICOM). As a state enterprise, HICOM was a product of Mahathir's 'look East' policy (Appelbaum and Henderson 1992, p. 183-184; Wad and Govindaraju 2011,p. 153), which aimed to emulate South Korea's development of domestic heavy industries in the 1970s. HICOM was intended to oversee the creation of the Proton, Malaysia's national motor car. It was produced by United Motor Works (UMW) Holdings, which was owned by a Chinese businessman who was close to Mahathir and a board member of HICOM (Studwell 2013).

The other Malaysian giant company is Petronas. It began in the 1970s when the nationalistic policy wave reached Southeast Asia, including Malaysia. Petronas is currently still dominating the market. Last year, it was listed among the world's largest companies. It owns the Engen Refinery (Enref) in South Africa through a majority shareholding in Engen Petroleum Ltd. Under Engen, Petronas is present in over 20 countries. It also exports its products to over 30 more countries, mostly in Africa and in the Indian Ocean Islands. By having around 1,500 service stations through Engen, Petronas operates all over sub-Saharan Africa and India (BERHAD 2014). In downstream oil production, most of Malaysia's oil is exported to Japan, Thailand, South Korea and Singapore (Rahim & Liwan 2012, p. 265).

Further, as the rest of 'the next' NICs in the region, Thailand also enjoyed an economic boom with a double-digit growth from 1988 to 1990 (Tang 2000, p. 99). One explanation for this was the industrial restructuring **(**Tang 2000, p. 101**)**. The export of Thai products climbed since 1980—a trend led by private agribusinesses like Thailand's CP. It is one of the largest internationalised Thai firms and is closely linked to prominent Thai politicians, and the group's CEO, Dhanin Cheeravandona (Pananond & Zeithaml 1998, p. 168). CP was able to have subsidiaries in 20 countries and succeeded long after the 1950s; it was able to pass through the AFC (Ramamurti & Singh 2009, p. 169; Pananond & Zeithaml 1998, p. 167). Its business victory over the fluctuations in the global economy, according to Pananond and Zeithaml (1998, p. 169), was caused by many factors, including its responsiveness to the changing political and economic environment in Thailand, its maintaining of group cohesion, acquisition of advanced technology, achieving of market integration and strategic diversification.

High levels of FDI from Japan and Northeast Asia fuelled this growth spurt. The trust that placed too heavily on the boom of NICs economy then ended chaotically. The decline in Japanese FDI in industrialising Asia in the early 1990s is one underlying factor in the region-wide financial crisis of 1997-1998 because countries like Thailand, the epicentre of the 'meltdown', replaced Japanese FDI with credit (Tselichtchev & Debroux 2012, p. 35). The miracle of Asian countries with high growth did not last long; they created more vulnerability (Stiglitz & Yusuf 2001, p. 65). The assumption was that economic growth would be sustained at the higher levels of the late 1980s (Page 1994; World Bank 1993), which was not the case. The conglomerates went bankrupt and the high inflation hit almost every Southeast Asian country because of currency depreciation (Stiglitz & Yusuf 2001, p. 70-2).

Industry in Asia, including in Southeast Asia, has not been conducted in the same manner as Western countries. If Western companies based on individualistic orientation and were established by professional contracts, then business in Asia work according to patron–client system. According to these firms, the principle of the economic man in the context of Asian industrialisation was questionable (Lasserre & Schütte 2006). This is because, first, family ties and community-based relations shaped interactions in Asian social, political and economic aspects. Second, as the consequence of these community-based relations, the value of power in terms of economy or politics leads to personal rather than professional connection. Third, the role of the state is highly significant, and it controls private and public matters at once. All those inquiries regarding the economic man in the Asian context was thus misunderstood by Western thinkers. Despite its shortcomings that influenced the AFC (i.e., corruption and abuse of power), those characteristics are also pivotal explanations of the Asian Miracle.

2.2.2 The Developmental State and East Asian SOEs

Yeung (2017a) highlighted that SOEs were the cornerstone of the developmental state's initial industrialisation program and that many have been internationalised. Therefore, it is impossible to ignore SOEs in the discussion about the DSM. Many studies investigated the link between the DSM and SOEs. For example, Kim and Chung (2018) suggested that Asia's economic model, which placed the state in the centre of the economy, might have been the reason behind the SOEs gaining prominence. This can be observed in the early history of Asian countries, including China, Singapore and Indonesia, who relied on SOEs in their nation building (Vietor and Thompson 2003, p.7). In the case of Taiwan and Singapore, SOEs became a key actor in both economies during DSM's prime.

In Singapore's economic setting, GLCs (another type of SOE) have been long associated with the country's development success. Even so, the case of Singapore's SOE—Temasek—will be the focus of Chapter 6; it is still relevant to demonstrate here the context of GLCs in a tiger economy. The DSM that Singapore demonstrated can be better understood by understanding the role of GLCs in Singapore's export-led industrialisation since the 1960s

(Zutshi and Gibbons 1998,p. 223), which was managed by the investment company, Temasek. Apart from other tiger economies, Singapore more heavily relied on its state than its private companies to promote its industrial growth (Zutshi & Gibbons 1998,p. 224). Having the GLCs assume the entrepreneurial role, government ownership is considered the key aspect of the DSM that is presented in Singapore's economy.

Despite being owned and led by the state apparatus (especially before the late 1990s) (Chwee Huat 1990, p.48), Temasek ran on a commercial basis, which was a factor that many subsidiaries listed in the stock market (Ramirez & Tan 2004, p. 511). Most of the national projects, including the industrial estates and infrastructural development, were completed by GLCs (Goldstein & Pananond 2008). The investor company also outperformed the private sectors, such as telecommunications, media, Jakarta Post al services and transport (Goldstein & Pananond 2008). Temasek has been an active, worldwide investor (Huat 2016).

Today, Singapore is not alone. There is China, which has numerous SOEs globally. It is unsurprising that a growing body of literature has now investigated China's SOEs (Gang 2013; Luo et al. 2010; Horesh & Lim 2017; OECD 2016a; Lin 2015; Peng 2012). Most of those studies (Horesh & Lim 2017; Baek 2005; Xu 2012) highlighted the association between its SOEs and the development model. Gang (2013) affirmed that China's SOEs have been key actors in strategic industries and sectors. The Chinese government gave them some privileges, such as access to the market (Kim & Chung 2018), licensing and government contracts (Gang 2013) and financial support (Xu 2012; Breslin 2007)—especially to strategic industries, like oil industries that are crucial to China's economic growth (Xu 2012).

This economic openness has brought reform to China's SOEs. The largest example of this was the transfer of Chinese SOEs from the ministry to the State-owned Assets Supervision and Administration Commission (SASAC). The Chinese government initially undertook massive SOE reform in the late 1990s by turning a subject to company law (Gang 2013). The third-largest momentum of China's SOEs was the 'go global policy'—one of China's development plans (Luo et al. 2010; Horesh & Lim 2017). The marrying of national interest and economic efficiency was a part of China's development strategy. Luo et al. (2010, p. 69) stated that:

> The early years of the 21st century have witnessed a growing awareness on the part of both government and Communist party leaders that globalization offers China an

> opportunity to project its influence and power beyond the boundaries of the Chinese nation-state.

But the one that joined such an international competitive market are the national champion. Those SOEs were merged and consolidated based on sectors after the implementation of the strategy 'grasp the large and release the small' by privatised the loss and small SOEs (Baek 2005). They thus became large conglomerates. According to Breslin (2007, p. 52-53) and Baek (2005, p. 489), China might have been inspired to establish such business from the *zaibatsu* in Japan and Chaebol in Korea.

In recent years, Beeson and Pham (2012) have conducted research on Vietnam's SOEs from a DSM perspective. To explain the state-led development process in Vietnam, Beeson and Pham (2012) used two case studies of Vietnamese SOEs to explain the role of those two firms as agents of state-directed economic development. Beeson and Pham (2012) argued that state behaviour must be considered from a historical and geopolitical perspective. After the end of WWII, North Vietnam followed the one-party state—the command economy model of the Communist Bloc—and it shunned the capitalist global economy. At the end of the war with the US in 1975, the same model was enforced across a unified Vietnam, until the demise of the Soviet Union prompted a reorientation towards the capitalist West. Beeson and Pham (2012) noted that this was the time when capitalist economy merged with socialist principles. Like China, Vietnam pursued international market-oriented and state-led industrialisation, within a system of authoritarian one-party rule.

Despite the support from the international and financial institution for assuring Vietnamese economic reform, the country can maintain a degree of autonomy regarding international agency prescriptions (Beeson & Pham 2012, p. 544). The country maintains an East Asian tradition of state-led and 'interventionist' public policy. According to Beeson and Pham (2012) and supported by Leftwich (1995) and Stubbs (2009), the government is still competent in guiding the direction and style of economic development, despite the lack of state capacity and ability to identify a developmental state. For Beeson and Pham (2012), Vietnam is a positive model of developmentalism.

In East Asia's general experience, any attempt to separate between politics and economics is problematic. In Vietnam, the state had the economic development role. After the 1997 crisis, Vietnam had experienced some reform of its SOEs, much like other Southeast Asian countries (Beeson & Pham 2012). By then, there were two notable indications. First, there was a sharing of ownership over the SOEs. Second, the state still possessed the 40 per cent shares. The anticipation of observing Vietnamese SOEs being transferred from state to private seemed misjudged. Rather than being ‘free’, the state power became formalised and centralised over legal and managerial reform (Beeson & Pham 2012).

The other notable aspect of Vietnamese SOEs is the strategy of extending the business capacity of the SOEs by merging the national champions with local firms, such as Thang Long Cement. The rest, which were considered weak or unprofitable, have been equitised, sold or liquidated. Many that escaped from being equitised were incorporated into General Corporation 90 and 91 (two of the biggest SOE groups). Although it was difficult to trace China’s influence on Vietnam after 1979, it is noticeable that SOE management in both countries mirrored each other. SOE reform in Vietnam more closely followed a ‘Beijing consensus’ rather than the ‘Washington consensus’ (Beeson & Pham 2012).

Beeson and Pham (2012) also found that state-run firms in Vietnam treated the state as their principal consumer, in return for monopolistic or oligopolistic rights and favourable involvement in national key projects. Beeson and Pham (2012, p. 540) noted that the SOEs were placed within the heart of Vietnam’s developmental strategy. Each SOE was an arm of the government, and the government and SOEs existed in a symbiotic relationship (Beeson & Pham 2012, p. 551-2).

Beeson and Pham (2012) demonstrated the DSM’s continuing appeal. The persistence of state-led developmentalism in the case of Vietnam, through its SOEs, is useful for examining the same situation in the Indonesian context. SOE policies in Vietnam and Indonesia share some characteristics. For instance, even after the AFC, Vietnam did not privatise its SOEs; it maintained them instead, due to their importance in the strategic sectors of Vietnam’s economy. Nevertheless, there are significant differences. The Vietnamese state’s equity in its SOEs is still lower compared to the Indonesian standard of 51 per cent of the company’s shares, which makes the state financially more powerful than public shareholders.

2.3 The Conceptualisation of EMMNCs

Why should there be renewed interest in EMMNCs? One reason could be the consequence of the growing size and influence of corporations and corporate business networks over the past half century. Debate regarding EMMNC theory has been increasing, particularly in recent years. There are studies, as mentioned above, that have claimed that EMMNC is similar to the old MNC—such as Dunning, Kim & Park (2008, p. 158) and Dicken (2011, p. 3) who believed that the ownership of the means of production and the national origins of a business firm are totally irrelevant. However, more expertise explored the specific characteristics of EMMNCs. For that reason, this part of EMMNC theory will highlight the discourse regarding the nature of EMMNCs and the motives for expanding.

The latest studies by Hennart (2018), Demirbag and Yaprak (2015), Cuervo-Cazurra and Ramamurti (2014), Marinov and Marinova (2013), Peng (2012), Marinov et al. (2012), Ramamurti (2012), Rajah et al. (2010), Gammeltoft et al. (2010), Goldstein (2009), Dunning (2007) and the author (together with Arfani [Arfani, R & Bachtiar, F.(eds) 2013]), the co-editor of *Economic Powerhouse of the South: Emergence and Transformation of Developing Countries MNCs*,seek to explain the rise and expansion of EMMNCs.

To understand EMMNC, it is important to know the difference between MNC and EMMNCs. In a broader sense, Gilpin & Gilpin's (2000) defined MNC as a company that has headquarters in its country of origin and at least one international branch or affiliate in a host country. While a definition provided by Yeung (1994) defined EMMNC as a domestic corporation with headquarters outside the OECD that controls the assets and/or influences the decision-making process of one or more branches, cross-border businesses and/or venture partners. This second definition might be identical to the general concept of MNC by Gilpin & Gilpin.

However, the distinction lies behind the two: the subject and object of the capital flight of the investment. EMMNCs refer to the MNCs that arise from developing nations (home countries), which have subsidiaries in developing or even developed countries. The FDI destination and origin has substantially separated EMMNC from prior MNC. At a minimum, the nature of the home country economy is typically different, which can affect the method and behaviour of home countries in foreign investment activities. This is what this thesis regards as an EMMNC characteristic. Several studies—such as Heenan and Keegan (1979), Lall (1982), Li (2003), Luo and Tung (2007), Goldstein (2007), Ying (2008), Gammeltoft (2008, 2009), Ramamurti and Singh (2009), Gammeltoft et al. (2010), Marinov and Marinova (2013), Rajah et al. (2010) (see Table 2-2)—addressed the characteristics of EMMNCs. Even Dunning (2007), who tended to regard MNCs and EMMNCs as similar, still acknowledged that developed and developing countries have emerged from different contexts and features.

A developed country's MNC that was dominated by the private sectors has been expanding with both horizontal and vertical FDI from capitalistic economies. Developing countries' FDI has just emerged in the Jakarta Post –globalisation era, in search for a market that is close to their boundaries.

Despite that many studies address EMMNCs, there is no consensus among scholars regarding whether EMMNCs are different than MNCs and how to define them. This thesis thus proposes four determinants to identifying and understanding EMMNCs, based on prior literature: a) Country Specific Advantage (CSA), b) Firm Specific Advantage (FSA), c) motivation and d) FDI type. However, this thesis goes beyond the FSA and CSA theories to give a clear and contextual picture of the case study, with some elaboration of the concepts from various scholars regarding management, economics and IPE studies (see Table 2-3). CSA is evident at the country situation such as national capacity, state policies and the international economic context. Whereas FSA focuses on the company level like ownership, management and technology.

CSA includes political, economic, cultural or financial strengths, as well as the natural resources or human resources that a country possesses, known as the 'diamond' of the home country. For example, in terms of political advantage, being politically stable is a key advantage that allows a company's confidence to shift its attention of offshore opportunities, if it is assured that investments are safe at home. Similarly, the tariff and non-tariff policies also become crucial in the context of economic factors and crucial to economic capacity and growth (Cuervo-Cazurra & Ramamurti 2014, p. 156; Rugman 2005, p. 34-5).

Table 2-2 Outward FDI from Emerging Economies.

	First	Second	Third
Period	1960s to mid 1980s	Late 1980s to mid-1990s	Since the late 1990s
Outward investing regions/countries	Especially Latin America	Especially Asia	More geographically diserve country origins Resurgence of Latin America
Large outward investors	Brazil, Argentina, Singapore, Malaysia, Venezuela, Philippines, Hong Kong, Korea, Colombia, Mexico, and India	Hong Kong, China, Taiwan, Singapore, South Korea, Brazil, and Malaysia	Rising flows from Russia and South Africa Hong Kong, Taiwan, Singapore, Brazil, South Africa, China, Korea, Malaysia, Argentina, Russia, Chile, Mexico, and India
Destinations	Mainly other developing countries in same region	Mainly developing countries, but also to more distant locations, including developed economies	Increasingly global with knowledge, intensive activities spreading to develop economies
Types of OFDI	Primary sector small-scale manufacturing	Into developing primary sector, difficult-to-trade services (finance, infrastucture) into developed: mature, cost-competitive industries (automotives, electronics, and IT services), asset-aughmenting investments	As second wave, but with more going into developed economies
Stucture	Mainly horizontal	Horizontal and vertical	Horizontal, vertical, and integrated
Ownership advantages	Home country specific Low cost inputs, production process capabilities, networks and relationships (e.g. ethnic), organizational structure (e.g. conglomerates) “appropriate” technology, business models, and management	Home country and firm specific Same as in first wave	Home country and firm specific Now also: economies of scale technological, managerial, and organizational capabilities, vertical control over factor/product markets
Motivations	Resource and market seeking	Into developing: resource and market seeking, into developed: market and asset seeking	As in second wave, but increase in asset seeking
	Asset exploitation	Asset exploitation minor asset augmentation	Also asset augmentation, market power enhancing (especially natural resource related)
Trade orientation	Import substitution	Export orientation	Globalization
Ownership policy	Regulated FDI	Coordinated and facilitated FDI	Promoted FDI

Sources: Adapted from Gammeltoft (2008); in turn relying on Dunning (1994); Lall (1983); Chudnovsky and Lopez (2000); Andreff (2003); UNCTAD (2006)

Source: Rajah, Peter and Yang 2010, p. 337

Goldstein (2009) argued that strong ties between governments and the firms are significant to explain the rise of EMMNCs. An example would be Chinese firms that have expanded rapidly after the Chinese Communist Party adopted China's 'go global' policy[12] (Gammeltoft et al., 2010). Ultimately, the state has a crucial part to play in the development and expansion of companies in which the government acts as 'supporter and organizer of technology networks' (Duysters et al. 2009). This argument is also confirmed by the literature from Marinov and Marinova (2013).

Table 2-3 EMMNCs Characteristics

Context	Indicators	Description
Country-specific advantage (mostly home country)	Regulatory environment	Weak institutions, including property right regime and legal system—but states are highly supportive (e.g., 'go global' policy)
	Economic environment	Poor infrastructure and high growth of the economy and consumption, massive infrastructure development, large consumers both in home and global markets, an integrated market system and free-entry barriers
	Cultural Environment	Family/community values and flexibility of networks
Firm-Specific Advantage	Business capacity	Weak competitive advantage and limited assets, dominated

[12] The 'go global policy' is a Chinese government policy started in 1999 to push the country's national champion companies to advance their competitiveness by expanding overseas. This policy includes giving incentives and financial support to Chinese companies (Luo & Tung 2007) As Luo, Xue and Han (2010) described it:

'To curtail these problems and achieve the 'go global' mission, the central government made changes in areas relating to OFDI, including (1) the creation of incentives for OFDI, (2) streamlining administrative procedures (including decentralization of authority to local levels of government), (3) easing capital controls, (4) the provision of information and guidance on investment opportunities, and (5) reducing political and investment risks'.

However, the SOEs obtained more privilege than private companies in this particular policy setting (Guo & 2015).

		by medium scale
	Performance	Adopted corporate governance, follower in innovation
	Technology	Not possessing advanced technology
	Ownership	Public (state-owned) and private (small or large)
Motivation	market/resource/asset/efficiency seeking	Asset seeking, but many took market seeking as well
Type of FDI	Horizontal or vertical	Horizontal and vertical in strong and distinctive relational structures (e.g., Chaebol and Keiretsu)

Heenan and Keegan (1979), Lall (1982), Li (2003), Dunning and Lin (2007), Luo and Tung (2007), Goldstein (2007), Ying (2008), Gammeltoft (2008), Duysters et al. (2009), Ramamurti and Singh (2009), Gammeltoft et al. (2010), Marinov and Marinova (2013), Rajah et al. (2010), Dunning et al. (1996), Gammeltoft et al. (2012) Aykut and Goldstein (2006) and Guillen and Garcia-Canal (2009)

Dunning (2007) cited government policies as one of the central factors transforming firms from EMs to expanding globally. As such, the firm's expansion relies much on the government's role, including what Dunning exposed as national objectives and economic competitiveness. This thesis must also relate to Dunning's (2007) research on firms, as he offered an eclectic paradigm for explaining EMMNC activity through ownership–location–internalisation (OLI). Yet, Dunning's theory may failed to explain the leapfrogging of stages which Ems undertook in order to internationalise.

Regarding the economic determinants, several studies have reported that EMs are widely known for their poor infrastructure (Athukorala 2007; OECD 2016a). EMMNCs face a more challenging set of global circumstances than developed-country MNCs, in that competition is fiercer and developed-country competitors are far ahead in terms of innovation, processes and networking (Cuervo-Cazurra & Genc 2008, p. 957). On a positive note, EMs might be enabled with a high-growth economy and growing consumption at home with government protections, and in the global market (World Bank 2011; IMF 2016). These advantages can help EMMNCs develop infrastructure (UNCTAD 2007; Hill & Gochoco-Bautista 2013), become a part of the integrated market system and expand without barriers (Dunning 2007).

The integration of the global economy thus enhanced the EMs to be significant players. Duysters et al. (2009) even argued that the internationalisation of EMMNCs starts from its response to globalisation. As IMF defined, globalisation is the result of human innovation and technological progress (IMF 2008). Consequently, globalisation then integrated the economy in terms of the exchange of goods, services and capital. The more mobile the activities across boundaries are, the greater the possibilities for profits and power sharing among countries that could lead EMMNCs to participate. Indeed, internationalisation become EMMNCs strategy to overcome the intense competition that is a consequence of globalisation.

2.3.1.1 Modelling EMMNC Advantages

The FSA is defined as the internal factors that influence a company's decision to invest internationally (Rugman and Verbeke 2001, p. 243). According to Rugman and Verbeke (2001, p. 238), there are two types of FSA: the functional production and organisational capability. The first type relates to propriety assets like technology, manufacturing, marketing and know-how. Organisational capability includes coordination and asset control (Rugman & Verbeke 2001, p. 283). This kind of company advantage, although authentic, contrasts with the CSA, as it is transferable between the home and the host countries (Rugman 2006, p. 20). This transferability is beneficial for the company to copy or move their competitiveness from their home to their host countries.

South Korea's global expansion was a result of what Lee and Lim (2001, p. 50) refer to as imitation innovation—the technological regime that provides a catching-up ladder and leapfrogging catching-up patterns. This organisational capacity enabled companies to adapt their business structures; it borrowed ideas from successful Western companies and adapted these for Korean social and cultural conditions. This performance capability influenced corporate governance and innovation and enabled Korea, and subsequently Southeast Asian industrialisers, to catch-up.

FSA focuses on a firm's business capacity. This capacity, however, is not only limited to the economic value of the company or its asset; it also reflects the production capacity, market share, sales and profit. Usually, EMMNCs have a weak competitive advantage and limited assets, and dominated by medium-scale (Cuervo-Cazurra & Ramamurti 2014). Despite that they were able to turn into a key player in the sector and compete with MNCs from developed economies through acquiring assets or by taking over their competitors (World Bank 2011; Dunning 2007).

To add to their weak performance, EMMNCs are still followers in terms of technology, with some who succeeded to compete the developed MNCs. However, this situation was not always a disadvantage for EMMNCs. Although they possessed usually lower technology capacity (Duysters et al. 2009; Lall 1983; Yeung 1994) than their counterparts from developed economies, many have discovered new ways of efficient technology that fits their EMs market. Williamson (2014, p. 157) called this ‘cost innovation’. This relates to the accumulation of new expertise inside the firm that is crucial to determine the firm’s direction and success in the long term (Pananond & Zeithaml 1998).

Additionally, the ownership of the company is also vital for identifying EMMNCs and distinguishing them from MNCs. This is because the ownership reflects the strategic decision that was made within the company, including where to invest the capital or other factors than just economic reasons. Strange (1992, p. 61) highlighted that:

> It used to be thought that internationalism was the preserve of the large, privately owned Western ‘multinational’ or transnational corporations. Today, thanks to the imperatives of structural change, these have been joined by many smaller firms, and also by state-owned enterprises and firms based in developing countries. Thus it is not the phenomenon of the transnational corporation that is new, but the changed balance between firms working only for a local or domestic market, and those working for a global market and in part producing in countries other than their original home base.

However, the structural change as Strange mentioned above began in the 1980s, when private companies from East Asia emerged (Strange 1992, p. 62). Preceding the new millennium, little evidence has been found on MNC SOE. Conversely, for the past couple years, there has been a growing number of developing-country SOEs expanding overseas (Dunning & Lundan 2008, p. 28). The typical SOE is a legally autonomous entity that operates along commercial lines but is owned in whole or in part by a government, as it first established by state capital (Cuervo-Cazurra et al. 2014; Ramamurti 1987). Many companies, although they are hybrid entities between state and private (Cuervo-Cazurra et al. 2014), are directed at a greater or lesser distance by a national government. In line with this second type of firm, Luo and Tung (2007) highlighted that this kind of EMMNC operates on political objectives by their home government instead of corporate returns. According to Strange (on Frieden, Lake & Lake 2002), such firms were created to win a share of global markets for the benefit of wealth generation at home, which Dicken (2011, p.22) named as a state's basic economic goal.

For being an SOE, most EMMNCs deprive in making a hard choice between state-driven and market-driven agents, as they were somehow born to prefer both—which Collinson and Sun (2012) coined as a hybrid actor. There are two main factors in making the role of an SOE in a developing country become crucial. The first factor is the level of economic development among developing countries. This factor is substantial in determining the needs of the country to have a specific governmental body where it works to achieve developmental goals. The lower the development capacity of the country, the bigger role the SOE plays in pursuing the strategy of catching up. Most likely, the SOE that has the biggest role is the national champions. Second, the component that defines the diversity of SOE in countries is the history of economy and politics (Kirkpatrick 2014; OECD 2015c, p. 11).). The OECD report on *State-Owned Enterprises in the Development Process* argued that the path dependency matters in exposing a country to depend on state enterprises. If the country has a long history of socialism or a central, planned economy, then they presumably have SOEs by default. For the country that had only been committed for the developmental mandate, the creation of SOEs is part of a proactive strategy (OECD 2015c, p. 11).

Following the CSA and FSA, the third determinant is the motivation of EMMNCs to go global. This key determinant of internationalisation focuses on the host country. It relates to what the company or home country had and did not have (driven factor); it can be market seeking, resource seeking, or asset/efficiency seeking (Harrison & Rodríguez-Clare 2009; Marinov & Marinova 2013). The driven factor then affected the selection of the host country. Additionally, the FDI distribution will show the geography of EMMNCs. Generally, in contrast with MNCs from developed-world countries, EMMNCs tend to be regional rather than global, except for systemically significant global companies that operate in all world regions, such as in motor vehicle assembly, ICT and mining (Dicken 2011 p. 164; Gilpin & Gilpin 2000, p. 181). This is because developed countries tend to expand based on market or resource seeking due to their limited market and resources, while EMMNCs prioritise asset seeking instead. However, numerous EMMNCs today are motivated by market seeking FDI; the global companies in Southeast Asia and China have been choosing this path of expansion regardless of their large market (Hiratsuka & 平塚大祐 2006, p. 5) because of the competitive market that they encountered at their home market. In many cases, this consequently pushed the company to cut the production cost such as transport. It is important to note that the factor of production cost is affected by a better access to the market or the benefit of low wages. If the motive to expand overseas arises from having access to closer markets, then it becomes market-seeking FDI (Hiratsuka & 平塚大祐 2006, p.4). Hiratsuka and 平塚大祐 (2006, p.1) described it as so:

> The supposition is that when export expands until total transport costs become large, suppliers will move their production facilities to a nearby overseas market, in order to reduce operating costs. Otherwise, suppliers would lose their market due to global competition.

The last factor that must be accounted for is the type of FDI that EMMNCs pick. This different type of FDI links with the motivation to undertake internationalisation. Broadly speaking, EMMNCs transform into global competitors through two strategies: vertical or horizontal business. The process of the firm becoming an EMMNC started from its capability to improve its quality by establishing a new management model and entering new sectors as it transforms into a holding or conglomerate (Duysters et al. 2009). Vertical integration means vertically integrated, that the whole production process is made into separated production units (Frieden & Lake 2003) that earn the profits previously earned by suppliers, which makes this strategy of integration closely linked to efficiency seeking. There are some considerations for why companies undergo this process to internationalise, which include the nature of the production process, the complexity of technology, economies of scale, the speed of technical change and the evolution of demand (Lim & Fong 1982, p. 590). Simply put, the company is entitled to high levels of flexibility (Chandler & Mazlish 2005, p.30), but it can concurrently control the resources (Dunning & Lundan 2008, p. 165). It is not surprising that most vertical FDI is done by a ‘footloose’ industry (Blomstrom & Kokko 1996,p. 27) or the industry with characteristics of labour-intensive processes and component specialisation (Blomstrom & Kokko 1996,p.25).

Conversely, most EMMNCs used the second method—horizontal strategy, or horizontally diversified, in which the production process from start to finish is completed in one country (Athukorala 2007) usually through an acquisition, merger or strategic alliance (Dunning & Lundan 2008). This strategy usually picks to expand the market (Dicken 2011) or market seeking (Marinov et al. 2012). Conversely, this type of FDI also minimises the costs of production or boosting host-country revenue productivity compared to separate management (Frieden & Lake, 2003).

By the explanation above, it is evident that the difference between the horizontal and vertical method are influenced by the motivation and strategy that the company chooses. The motivation factor and type of FDI thus explain each other. Usually, EMMNCs undertook horizontal instead of vertical FDI (Walter & Sen 2009, p. 198). This is because EMs do not need efficiency seeking or low-cost production which usually achieved through vertical FDI to secure the market because they already have low-skilled labours and abundant resources.

Chapter 3: The Significance of Indonesia's Case

This chapter illustrates the shifts in Indonesia's political economy since independence, highlighting the different emphases and preferences of successive Indonesian presidents—from Sukarno (1950–1965) to the current incumbent (at time of writing), Jokowi (2014–present). It provides the economic and political context for the emergence of PT Semen Indonesia. Although the basis for privately owned conglomerates like the Salim Group or Lippo Group, Indonesia is far behind Singapore and even Thailand in terms of capital investment overseas (OECD 2016a). To understand EMMNCs, it is important to bear in mind that they have not emerged in a policy vacuum; they come from the complex industrialisation process in which state support is decisive. Departing from model of developed country MNCs in which industrialisation is posited as the driver for comapny formation, this thesis explains how EMMNCs fostered industrialization in Asia, led by the state. Thus, an overview of the Asian pattern of industrialization helps to illustrate the early emergence of EMMNC which generally originate from the region. In fact, the vital point of understanding the empirical context is exploring the policy and state agendas of development which will be the centre point of this thesis.

3.1 Indonesia Political Economy Changes and Evolution

Mishra (2015) advises that instead of thinking about Indonesian economic trends in linear terms, the direction of change must be viewed as a dynamic of transition, where development is growing faster and where global influences have been present for centuries. At the same time, there has always been a significant element of state control and state-supported monopolistic practices in the evolution of the Indonesian economy. As trade and investment began to globalise in the seventeenth and eighteenth centuries, the era of European mercantile expansion began. One of the oldest and most prominent proto- multinational conglomerates was the Dutch East India Company owned by Dutch merchants, the *Heeren* 17, and chartered by the Dutch state. This company established agreements and gradually secured monopoly trade rights with port cities along the seas route from Europe to island Southeast Asia (Gilpin & Gilpin 2001; Irwin 1991). Java was the hub of Dutch political and economic power from the early days of the Dutch East India Company's 'infiltration' of the Indonesian Archipelago and this is where infrastructure development occurred earliest and became most advanced (Booth 1998). The Dutch East India Company was followed by the similarly chartered British

East India Company, which established strongholds in India and on the Malay Peninsula, and they defined the mercantile model of colonial trade until the nineteenth century, when direct state control was exerted over colonial territories and modern joint stock corporations came to predominate.

The long period of Dutch colonialism had a huge effect on Indonesia's economy (Lindblad, JT 2010). Before and since its independence, Indonesia's economy has been mostly reliance to foreign capital (Oei 1969, p. 42; Dieleman 2007, p. 60). In the liberal economic theory, foreign capital (or FDI) is considered a productivity booster. The transfer of various requirements of economic development that is trusted for being able to bring the spill over effect, such as know-how, skills, money, technology and innovation from one country (usually who was developed who has all those requirements) to another (one mainly developing nations). Having said that, the spill over effect of FDI needs time to occur. However, foreigner involvement in the economy has always been a tense debate among Indonesians, both in grassroot groups and the government (Roberts et al. 2015, p. 59).

Indonesian economic policy was defined by its concern for development at home and for national control over the country's economic assets. During the era of President Soekarno (1949–1965), state economic policy prioritised the production of basic needs and export industries will be managed by state enterprises (Booth 1998). Hence, Indonesian development followed an economic–nationalist path. All the enterprises that belonged to the Dutch were nationalised, under Article 33 of the Indonesian Constitution, which granted the state control over the management of all economic resources, including the land, water, forests, fisheries, energy and minerals (Booth 1998). The *Foreign Investment Law* 1958, the country's first such law, highlighted eight areas that FDI inflows excluded: railways, telecommunications, shipping and aviation, electrical power stations, irrigation and water, gun power and weapons, atomic power stations and mining (1958). Mining and irrigation were erased from the next foreign investment law, while mass media was eventually included.

In the ensuing era of General Suharto, foreign investment was encouraged, but with a strong preference for local Indonesian shareholding in foreign companies (Oei 1969, p. 40). The democratic system was tightly controlled—with its power orchestrated through the state party, Golkar—and it was supported by the military. While retaining a strong nationalistic orientation, the Indonesian state encouraged market-led economic development that was supported by rising oil prices until the mid-1980s (Resosudarmo & Kuncoro 2006, p. 345).

After WWII, multinational corporations from the US expanded into Asia and Europe, as the US assumed its hegemonic role in the liberal international order (Gilpin & Gilpin 2001). In the 1980s, with the growth of global capital markets and transnational capital flows, Western FDI in Asia climbed—but, after decades of state-directed industrialisation, the emergence of Asian multinational corporations as significant competitors also signalled a 'global shift' in economic influence (Gilpin & Gilpin 2001; Dicken 2011).

During the Cold War, the Suharto presidency signified the victory of capitalist democracy or economics over politics and rationality over patrimonialism (Hadiz & Robison 2005). Suharto placed his trust on the Western-educated economists who believed in Western economic superiority (Liddle 1991, p.412). The previous economic condition, as mentioned above, was difficult. Foreign investment was ultimately one of the pivotal funding schemes for accelerating the economic development that was relied on US and Japan. Trade and the national economy were liberalised to invite foreign investors (Lindblad 2015, p. 219). Debt from international agencies flowed into many sectors and the physical infrastructure was rapidly constructed. The major change was the foreign investment law. It included open-handed tax concessions to the foreign investors (Resosudarmo & Kuncoro 2006, p. 341).

This *Investment Law* (1967) was issued to provide the investors with benefits and incentives. Despite the advantages of foreign investment, there were some conditionality in conducting business, which was restricted to the 1967 law. For example, the investment must be in the form of joint ventures. The portion of state equity also needed to expand to 75 per cent from 51 per cent. However, this was not until Suharto came into power and legislated the Mining Basic Regulation, which thereafter sent Freeport to Indonesia. Freeport was a signed contract, in which the company had a right to explore the most resource-rich region in the world. Successfully searching, in 1988 Freeport finally discovered gold and copper in Papua and started its operation. The Freeport company in Indonesia then embarked the foreign hunt for natural resources in Indonesia (Vaswani 2011).

A year later, the Indonesian government also enacted the *Domestic Investment Law* 1968. This act implied to the Chinese descant (non-*bumiputra*), who concurrently held domestic investment the most (Oei 1969). With this new regulation, any sectors opened for private sectors would be tax free in five years, commencing from the enactment in some productive fields. Many articles stated that investments had not been a subject to any property tax and were waived from import duties (Pangestu 1991, p. 95).

In general, the period of the 1970s to 1980s was remarkable. The economic structure was polarised between liberalist and nationalist. It revealed how the interest was pulled and pushed between domestic versus foreign capital, Chinese and *pribumi*, state and private and small-scale and large-scale capital (Pangestu, & Habir 1989, p. 234; Liddle, R. W. and R. Mallarangeng (1997, p. 111). According to Robison (2009), the 1980s phase indicated four major outlooks on investment. First, the large-scale investments were in for the oil and gas industry. Second, the law instrument of investment was contained under the foreign capital investment law, which extended to agriculture, forestry, mining, manufacturing and tertiary areas. Third, in facilitating and managing the investment by the Chinese descent, the new law under the first act issued was called the *Domestic Capital Investment Law* 1968. Fourth, the small-scale industry, such as petty trade and the cottage industry, were being supported by being given trade concessions; this promoted under the *Company Regulation Ordinance of 1934* as a part of the old Dutch Law (Robison 2009, p. 197-8).

For three decades of his presidency, to assure his control over politics and economics, Suharto presided over a regime that relied on patron–client connections (Resosudarmo & Kuncoro 2006). Political stability was achieved at the expense of popular legitimacy and it could only be sustained with continued economic growth to absorb the demands of a growing population. In the context of Indonesia, state decision-making processes involved the interplay of three influencer groups: technocrats, technicians and patrimonialists (Resosudarmo & Kuncoro 2006, Liddle 1991).

The technocrats were the pro-market economists who were educated in Western campuses and were worked as the economic professors from the University of Indonesia (Liddle 1991). They were appointed as Suharto's economic advisors and were given key positions within the policymaking process, such as the Head of Bappenas or Ministry of Finance (Kuntjorjakti 1988, p. 193; Liddle & Mallarangeng 1997, p.111). The technicians were also in a shared position with the technocrats in the economic policymaking. However, they came from different educational backgrounds. Trained as engineers, these figures were led by Ginanjar Kartasasmita and Habibie, who were called nationalists because of their state-led development thinking (Soesastro 1989, p. 858; Liddle 1991, p. 147). This shared position between the technocrats and technicians sometimes created a tension that the patrimonialists took advantage of. Patrimonialists are known as politicians around Suharto with Sudharmono—the secretary of state—as one of their key persons, who enjoyed patronage for economic gain (Soesastro 1989, p. 859).

All these groups compete for Suharto's favour, which narrowed the pool of ideas for how Indonesia was governed. The consequence of this was that the rising foreign debt and the accumulation of private wealth by Suharto, his family and key supporters went unchecked. During Suharto's abuse of power, Pertamina was the main source of Suharto's portage fund, together with the State Logistic Agency (BULOG) and family and cronies' businesses (Resosudarmo & Kuncoro 2006). Through them, Suharto benefited in his personal wealth and power support. This structural weakness was not considered serious enough to bring potential costs such as economic crisis in the future (MacIntyre et al. 2008). One of the closest of Suharto's cronies was Liem Sioe Liong (Sudono Salim). With Lim, Suharto mutually shared his economic power by giving the state contracts and opportunities to Lim's business in various sectors, along with Suharto's import–substitution economy in his early days (Resosudarmo & Kuncoro 2006; Sato 1993).

Triggered by events elsewhere in Asia, Indonesia's economic crisis in 1997–1998 exposed the weaknesses of the Suharto regime (MacIntyre et al. 2008). The high economy growth, low inflation and non-oil export were principally boosted by 'short-run' factors such as subsidy, physical infrastructure and the production of import-relied products (Nasution 2000). Recession followed the crisis because of the rupiah devaluation and dramatic rise of interest rates. The Suharto administration was incapable of handling the economic hardship and lost integrity. A Letter of Intent (LOI) with the IMF led to the implementation of 'stabilisation' and market openness (Nasution 2000). These events supposedly signified the end of so-called 'crony capitalism'—which, to Western analysts, was synonymous with developmentalism.

A few months before the fall of Suharto, the barrier to running the palm oil business was abolished. *President Instruction* (INPRES) Number 6 1998, regarding the foreign investment in the palm oil industry was released (Resosudarmo & Kuncoro 2006). That president instruction was a justification of the investment inflow promotion of foreign companies in the palm oil sector. By passing the law, the government claimed it had given investors business certainty and created supportive atmosphere. Even so, the economic downturn in 1997 started from the crisis in financial sector to political turmoil created significant distrust from investors. The FDI amount slumped. The Indonesian Investment Coordinating Board's (BKPM) approval over investment diminished by less than half, in contrast with the number of FDI in 1977 (Lindblad 2015, p. 227). The inauguration of Habibie returned the liberalisation of investment. The foreign takeover in the Indonesian banking system was approved in May 1999. The foreign banks were also welcomed to open branches anywhere across the country (Lindblad 2015, p. 228). The effect of the 1997 AFC in the next five to six years still foreshadowed the Indonesian economy, even after Suharto's fall. It also applied to investment. The recovery took time, especially to return investor confidence.

The consequences of the political crisis of 1997, specifically its consequence to economic downturn, were significant. The conglomerates were no longer dominated—at least, not to the same degree that they had been during Suharto's period (Dieleman 2007, p. 88). The collapse of the Suharto government following the financial crisis of 1997 forced many Indonesian privately owned businesses to escape political economic turmoil inside Indonesia by relocating to neighbour countries, like Singapore or Malaysia (Dieleman 2007, p. 90; Al-Fadhat 2017, p. 128). The conglomerates also tried to maintain a low profile. They understood that the situation was not beneficial for them, especially after they escaped from paying the debt. The uproar of the Indonesian public was despised by any group that was affiliated with Suharto (Dieleman & Sachs 2008, p. 1290-91). However, being unseen and keeping a low profile for more than decade, the conglomerate tried to find their way back to influencing the Indonesian economy. However, this will not be the focus of this thesis. This thesis will instead focus on how Indonesia managed its economy after private conglomerates relocated outside Indonesia and the correlations between Indonesia's rapid growth and massive economic expansion, to the trend of its SOEs to go global.

MacIntyre et al. (2008, p. 2) observed that even after the crisis, none of the countries in South East Asia implemented wide-ranging liberal economic reforms. Some industrial sectors were opened up to greater foreign investment, including as will be discussed the Indonesian cement sector. However, in Indonesia notably, despite claims that it was more liberalised and a visibly open economy and moving in the direction of the liberal capitalist ideal, still held to its economic nationalism. In every aspect of Indonesian periods of leadership, all have been globalised; however, Indonesia still implemented state-centric policies. Considering the nationalists view among Indonesian officials and scholars has been presented since a long ago on the point of independence ideas (Hill 2000, p. 95). Presently, there are still highly anti-Western sentiments in Indonesian society.

After three decades of Suharto's presidency, Indonesians were longing of having a new democratically elected president. Abdurrahman Wahid (Gus Dur) from the National Awakening Party won the indirect election and transformed Indonesia in his eccentric way, which included his large cabinet, numerous reshuffles and numerous official visits (Burton 2002). The cabinet matter, for example, was intentionally made for political consolidation rather than economical solution.

During his period in 1999, Gus Dur created Dewan Ekonomi Nasional (DWN), or the National Economic Council. This institution was appointed to be Gus Dur's economic advisory. According to Soesastro (2000, p.318), the situation might be related to Gus Dur's lack of economical understanding. The coordinating minister of economy, finance and industry was Kwik Kian Gie. At the time when Gus Dur was still in charge, the reformation-born institution Indonesian Banking Restructuring Agency (IBRA) was reformed and the bank of Indonesia officially became an independent agency (Soesastro 2000, p.400-1). The government that was supported by the IMF undertook a three-year economic agenda of a medium-term macroeconomic framework, to restructure policies, rebuild economic institutions and improve natural resource management (Soesastro 2000, p. 141).

Ultimately, apart from what Liddle stated about his mismanaging of Indonesian economic recovery and estranging the pro-democracy activists (MacIntyre et al. 2008, p. 235), Gus Dur had substantially promoted multiethnic and religious tolerance among Indonesians. He contrarily placed the fundamental pillar of democracy—multiculturalism and pluralism (Patunru and Von Luebke 2010, p. 9). The National Food Logistics Agency (BULOG) corruption scandal led to his downfall in 2001 (Roberts et al. 2015, p.78-9).

The impeachment of Gus Dur was a turning point of Indonesian presidential election. For the first time in the history, Megawati Soekarno Putri (Mega) acted as the first woman president of the country, even surpassed the history of any other country in the region. During her period, the international situation was in crisis. The terrorist attack of September 11, 2001 and US Global War on Terror raised a national reaction in Indonesia. As the biggest Moslems population, most Indonesians were opposed US unilateral foreign policy. Yet, Megawati instead was on the side of President Bush (Roberts et al. 2015, p.79).

Despite the debate of Indonesian Islamic identity and position towards the case of terrorism, the macro economy under Megawati tend to become more stable than previous period of Gus Dur (Roberts et al. 2015, p.79). Despite the debate of Indonesian Islamic identity and position towards the case of terrorism following 9/11, the macro economy became more stable (Aspinall & Fealy 2003, p. 36). The positive outlook could be observed from the Rupiah exchange rate to US dollars, which was 12,000 rupiahs for 1 US$ during Habibie to 9,500 rupiahs in the period of Gus Dur. The economy slowly recovered and the confidence for business had strengthened. The Indonesian debt ratio also dropped, following the fiscal reform (Aspinall & Fealy 2003, p. 36-7). The other good news was related to the positive number of public consumption, the fall of the unemployment rate and poverty reduction to the pre-crisis time (Aspinall & Fealy 2003, p.38).

But the economic optimism not turned back until the direct general election in 2004. It was when the recuperation truly came into being. The international community, particularly investors, considered this an opportunity to invest (Lindblad 2015, p. 230). The economic outlook was boosted by investment rather than consumption. The investment sector this time emphasised infrastructure more. The old law was considered insufficient to boost the investment, thus the new law on investment and tax enacted to cover broader sectors (Boediono 2005, p. 311-12). In 2005, SBY initially planned to revise the legislation and restructure the role of the BKPM together with the reform of investment procedure (Lindblad 2015, p. 229). The FDI Law 2007 stated that global economy changes and Indonesia's participation in many international institutions urgently needed a conducive, certain, fair and efficient system for the foreign investors (Indonesia 2007b). However, the investment issued under SBY faced fluctuating interest. Despite the new investment law, the government listed more forbidden areas for foreign capital ownership. In 2009, the mining law was launched. As a surprise to the international community, Indonesia included a time limit for foreign companies' operation and demanded that they implement more value-added activities (Acharya 2014, p.34). In practice, the financial crisis of 2008 had not affected Indonesia's inward FDI as much as the crisis of 1998 (Lindblad 2015, p.231).

In the SBY era, Indonesia had experienced political and economic stability after it struggled with the reformation transition phase. In SBY's term, Acharya (2014) argued, Indonesia was at the turning point of a political and economic situation. According to Acharya (2014), this occurred due to three main reasons. First, it was the phase when Indonesia finally transformed into a more solid condition after the political and economic crisis in the 1990s, particularly in the democracy context. SBY was elected directly in fair and open election for two periods. Second, due to the new model of democracy, political stability and economic growth, Indonesia slowly gained international recognition as an emerging power.[13] It intensively and positively engaged with ASEAN, became a part of the G-20 and became the centre of the global summit. Third, SBY also vigorously worked on Indonesia's foreign policy. SBY was greatly concerned about Indonesia's global image and influence (Acharya 2014, pp. vii-viii).

However, instead of transforming as an emerging power in the same way the BRIC had, Indonesia rose from an atypical direction. Instead of having a powerful military power and being economically prosperous at first, compared to its neighbours, Indonesia was considered a 'weak' state. However, the country possessed the capacity for being a regional and global mediator and facilitator outstrip China, India or even Japan (Acharya 2014, p. 2). Acharya might consider this a universal pledge. However, this thesis disagrees; it argues that, in the framework of Asia, cultural and historical matters greatly influenced how nations acted towards each other. Indonesia undeniably admitted being the 'elderly' neighbour that was respected. Contrarily, this had not occurred to other emerging powers, such as China or India, who had always been suspected by their neighbours. That is what makes Indonesia's position a way different compared to them (Acharya 2014).

Some scholars assert that the development of democracy and economy and Islam can occur side by side (Acharya 2014, p. 20; Roberts, et al. 2015, p. 69). Most (Acharya 2014, p. 1; Roberts, et al. 2015, p. 69), in contrast, were optimistic to that notion. Even so, in the case of Indonesia, it must be admitted that it is not 'good' for having authoritarian, but the consequence of being democratic also correlated with the slowness of the Indonesia economic condition after years of reformation that was juxtaposed with Malaysia or Singapore. Those who are pro-democracy might argue that democracy is parallel with economic growth. Although this may be true, this thesis retains some doubts. Indonesia has indeed managed difficult times of balancing democracy and economic prosperity. Basri (2013, p.2-3) acknowledged this too and contended that reformation was not an easy process

[13] The emerging power in Acharya's explanation refers to recognition of the growing, primarily economic, but also political and strategic status of a group of nations, most of who were once categorised as (and in some accounts still are) part of the 'Third World' or 'Global South' (Acharya, 2014).

and that Indonesia had essentially moved on from an authoritarian system to democracy in the blink of eye.

Pepinsky, in MacIntyre et al. (2008), also had a similar view. He believed that the political transition after Suharto’s fall hindered economic recovery. This was caused by the overly transitional costs combined with institutional re-equilibration. Those factors were compounded by the separatism movements in some of Indonesia’s provinces, such as Aceh, West Papua (MacIntyre et al. 2008). Lifted the needs and interest of millions of people, pulled and pushed between well-being as the number one goal or people’s aspiration above all, the solution to any given problem was not simple.

The Global Financial Crisis, which began in the US in 2008 and spread to Europe, affected the global economy. However, the Indonesian economy remained stable compared to other emerging economies. Currently, the level of Indonesian GDP has climbed and remained steady (see Figure 3.1; OECD 2016b). In 2011, the OECD reported that Indonesia was one of the highest contributors of world GDP and that they accounted for about 30 per cent of the total (see Figure 3.2; OECD 2015b). The lesson learned from the crisis in 1997 and other supporting factors such as good policies and small export share to GDP, which is explained by Basri and Rahardja (2010), made Indonesia more self-reliant (Economist 2016).

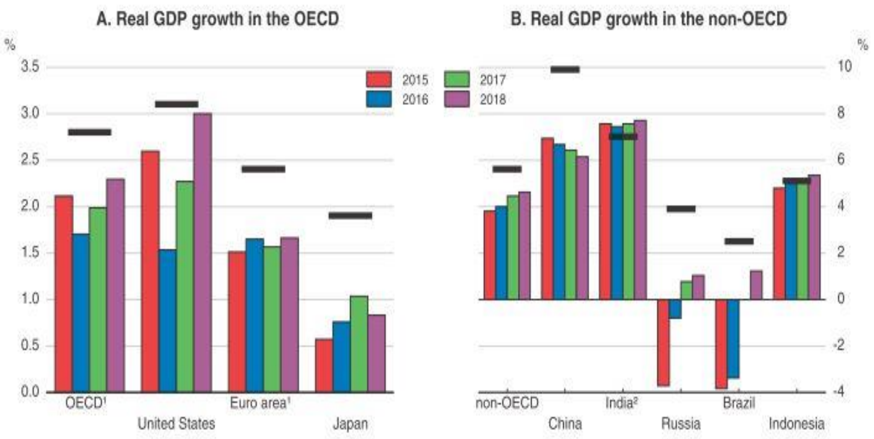

Figure 3.1: GDP Growth of Major Economies (%).

Source: OECD (2016b).

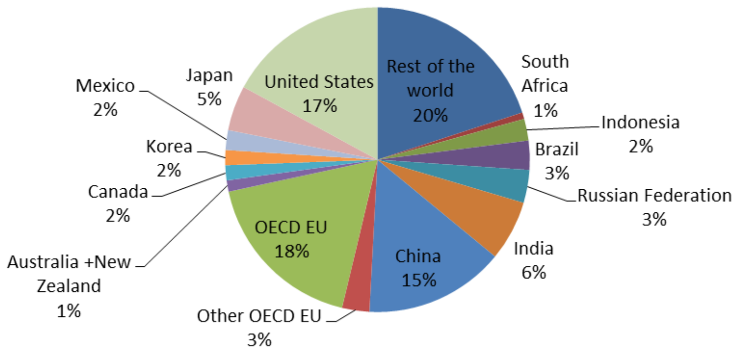

Figure 3.2: Percentage Shares in World GDP in PPP 2011.

Source: (OECD, 2015b).

The Global Financial Crisis in 2008, crashed if possible - to point almost all of countries in the world. Indonesia was one of them. Nevertheless, as Basri and Rahardja (2010) stated, the overall growth remained over 6.1 per cent. This signifies that Indonesia still grew higher followed China and India. Indonesian resilience over economic setback indicated in Basri terms the good policy and good luck factors (Basri & Rahardja 2010; Roberts et al. 2015).

It must be admitted that the effects of the 2008 crisis on the Indonesian economy was somewhat narrow and less influential (Basri & Rahardja 2010). There were at least four reasons behind those effects: the origin of the crisis, the exchange rate regime, policy responses and the national political economy factors (Basri & Rahardja 2010; Basri 2013). These four reasons rescued Indonesia from broader effects. Nevertheless, Indonesian national income revealed an upsetting outlook, with declining tax revenues and income from state enterprises (Roberts et al. 2015).

Almost 20 years after phasing into the new democracy, the Indonesian political party still lacks an ideological platform and thus it reflects to their parties' programs. This indicates that the Indonesian political economy can be more pragmatic. The pragmatic economy caused by the reality that transactional politics and systemic corruption still overshadow Indonesia's governance (Roberts, C., et al. 2015, p. 61). The political cost of the elections had brought negative consequences to managing the country, which can be observed in the SBY administration, when many of his loyal and coalitions were involved in political scandals (Aspinall & Mietzner 2014, p. 349). It is almost impossible to win an Indonesia election when one is not renowned or wealthy. Whoever the president may be, he or she must have strong political and economic support (Roberts, C., et al. 2015, p. 100). This is witnessed in the numerous cases during the former president SBY's period and, later, in the presidency of Jokowi (Aspinall, 2016, p.79).

Today, as the largest economy in the Southeast Asian region and as one of the leading economies in the world, Indonesia has demonstrated an impressive growth since overcoming the financial crisis in the late 1990s. Indeed, Indonesia has benefited from the international commodity price boom, the growing middle-income society, the upsurge of the working age group and the active millions of internet users (Acharya 2014, p.28; Basri & Patunru 2012, p. 201; Roberts, et al. 2015, p. 40; Tijaja, & Faisal 2014, p. 21;). The country is at its peak for almost every development indicator.

Under these circumstances, the economic development that Indonesia is experienced should be managed with a great leadership capacity. The Indonesian people have a higher expectation of their leaders. Social media became the most fashionable political instrument for aspirations and opinions, particularly for young voters. However, Indonesians are more polarised than any prior period of leadership. The most recent president, Jokowi, was elected in late 2014. His ability to step up from mayor to governor to president was new. Some believed that Jokowi appeared when many Indonesians started feeling hopeless in response to political affairs. His non-partisan background, even if he was eventually supported by the party under Megawati Soekarno Putri, was claimed as the main factor of his victory over the other candidates. Indeed, he bought a new hope for the old Indonesian leadership (Roberts, al. al 2015, p. 105, 123; Aspinall 2016, p. 73-4).

In managing his economic targets, Jokowi's past experience as a businessman let him focus on trade and investment issues. His prior export business activities helped him note what Indonesia needs, in a technical sense. Many anticipated his pro-market policies. Some highlighted his interventionist approach, which was suggested to be a consequence of his promise to his constituents during the election period (Patunru & Rahardja 2015). Further, Patunru and Rahardja (2015) noticed that the tendencies of Jokowi's economic strategy follow after China and other key players in East Asia. The energetic industrial policy and supportive act towards domestic investment in strategic priorities is also demonstrated in Jokowi's economic path.

3.2 Indonesia as a Source of FDI

There is a puzzle about Indonesia’s FDI outward. The data for Indonesian OFDI was inaccessible before the crisis and available data provided by OECD started in 2004 (see Figure 3.3; OECD 2016c). During Suharto’s presidency, the outward investment was dominated by the Salim Group. Indonesia’s industry remarkably ran by Lim Sioe Liong under the Salim Group, which considered Indofood an international food brand. His close political connection to Suharto and his family placed him in a privileged and profitable position, particularly regarding his monopolies over the import of cloves and domestic flour milling (Dieleman 2007, p. 47). Under his monopoly in the Indonesian food industry (through noodles), Indofood totalled 90 per cent of domestic market (Dieleman 2007, p.70). In 1998, the firm claimed itself as the largest producer of instant noodles worldwide (Williamson 2004; Aguiar 2007). Under his management, the Salim Group then expanded to the cement industry, steel, services and properties. The business survived and grew overseas, even after Suharto left (Lingga 2014). In 2004, the number of firms under the Salim Group were around 75, which spread across 24 countries (Chen 2004).

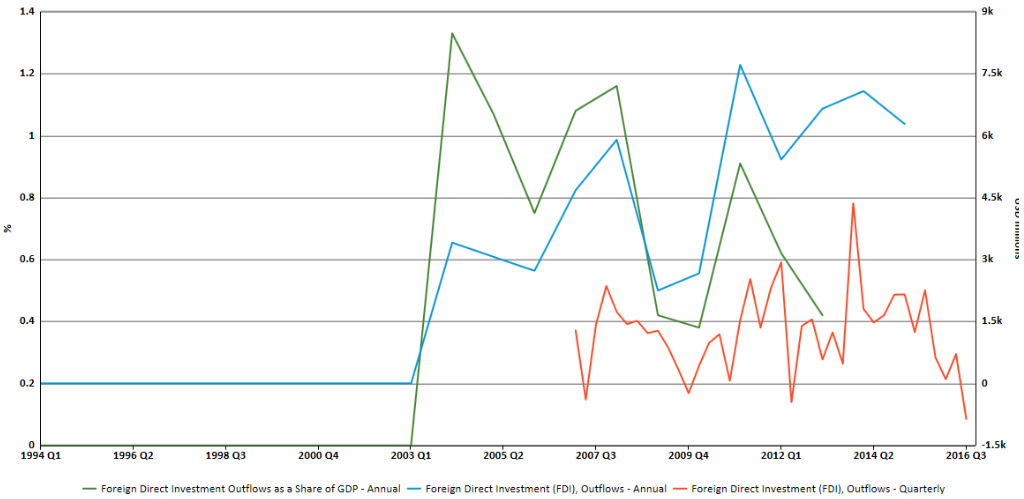

Figure 3.3: FDI Outflows of Indonesia.

Source: (OECD 2016c).

The history and trajectory of the controlling interest of foreign companies in Indonesia had begun even before the republic was brought into existence. It had and still shapes Indonesia’s economy. The investment between inward and outward most of the time is imbalance. The Indonesian economic bargain position has a way too powerless. Any policy to protect its own economic interest for the best of the society claimed as protectionism. However, the emergence of Asian economies should be considered a good sign for national needs. Outward FDI from Indonesia was undeniably small and limited. Most of FDI posed by Indonesian conglomerates, particularly Chinese descents. However, as the country became more democratic, the reform spirit still exists with the government. The narrative of policy reform also displays a more dynamic optimism for having a prosperous economy in the future.

3.2.1 EMMNC FDI Global Trends

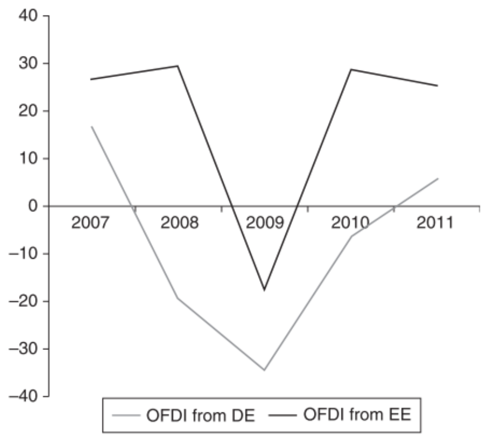

Figure 3.4: OFDI by Developing and Developed Countries from 2007–2011.

Source: Marinov et al. (2012).

Despite the effects of the GFC from 2007 to 2011, the OFDI from EMs compared to developed countries were higher, based on proportion (see Figure 3.4; Marinov et al. 2012). The percentages of EMs OFDI in general from 2000 to 2014 climbed gradually[14] (see Figure 3.5; UNCTAD 2019b). In 1999, developing-world companies only reported having 7 per cent of the world's total outward FDI. However, EMs continued to rise gradually, while the data on developed countries FDI showed slow growth, even a decline over a period (see Figure 3.6). As specified by UNCTAD (2019, p.6), the 2019 World Investment Report found that the China become the second largest investor of OFDI. In the previous period of 2013, UNCTAD outlined that EMMNCs bought significant foreign affiliates' assets to developing countries through mergers and acquisitions (UNCTAD 2014b, see Figure 3.7).

[14] Not until 2015, the data revealed a decline from 35 to 28 per cent (UNCTAD 2016).

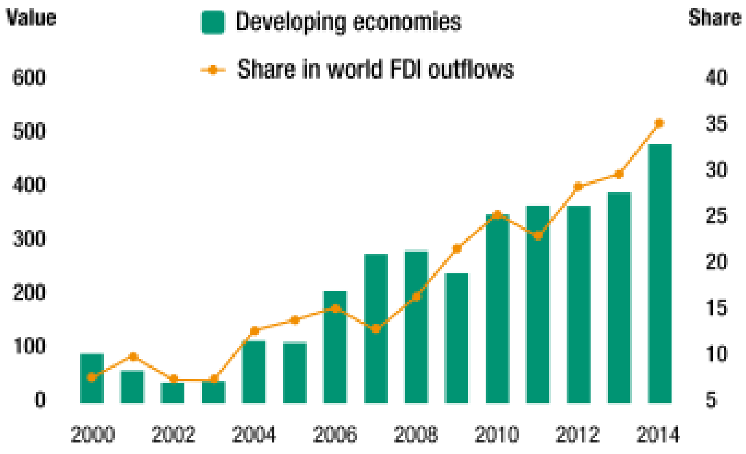

Figure 3.5: FDI Outflows and Share of Emerging and Transition Economies.

Source: UNCTAD (2015).

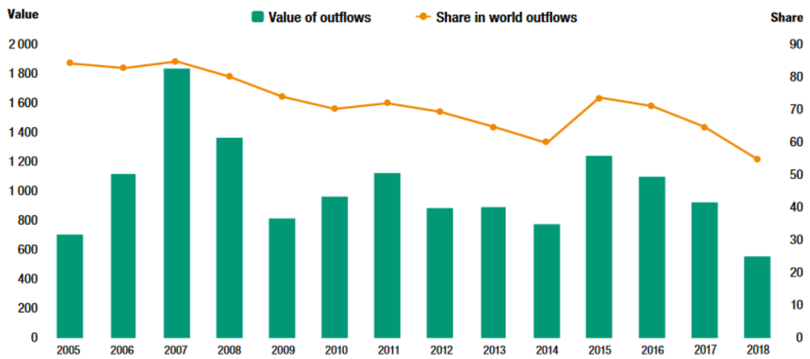

Figure 3.6: FDI Outflows and Share of Developed Countries from 2005-2018 in Billion Dollars and Percentage.

Source: UNCTAD (2019, p.6)

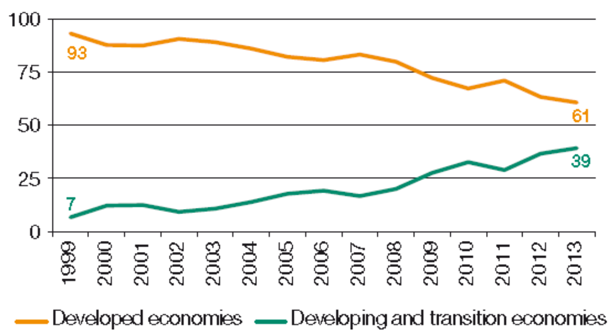

Figure 3.7: Percentage of FDI Outflows, Share from 1999–2013.

Source: UNCTAD (2014b).

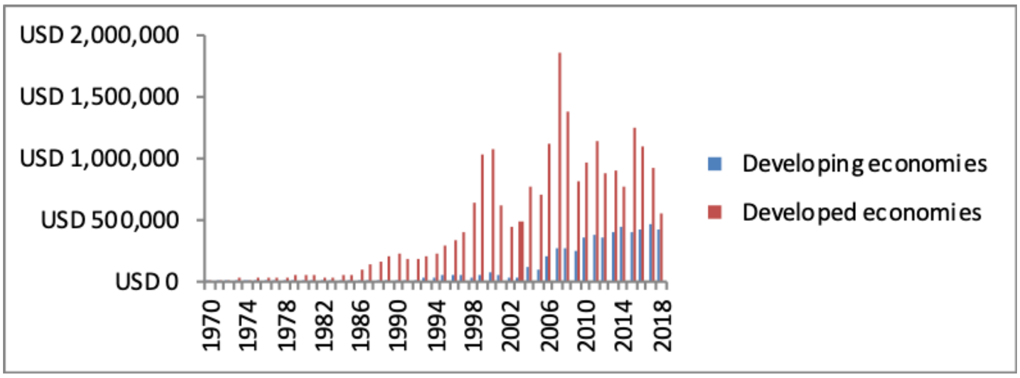

Figure 3.8: Comparison of OFDI Outflows Percentage Developed and Developing Countries since 1970-2018.

Source: UNCTAD (2019).

Worldwide, the contribution of EMMNCs to outward FDI is increasing in a more advanced and solid manner, especially after the global financial crisis in 2008 (OECD 2015c, see Figure 3.8). The 2015 World Investment Report noted that the OFDI from EMs had been recorded as the highest compared to prior years or—nearly one-third of the total outflows (UNCTAD 2015). It grew from under 15 per cent of the total share in 2000 to 35 per cent in 2014. However, the OFDI from Africa and Latin America countries dropped and Asia's outward investment climbed (see Figure 3.9; UNCTAD, 2015). Asia EMMNCs have been thrilled to undertake foreign investment. Earlier data showed that the Republic of Korea and Taiwan stand out in their OFDI quantities among other Asian economies. In 2015, Hong Kong ranked as the second-top investor after the US (UNCTAD 2015).

EMs have generated the highest amount of OFDI for investors and recipients at once compared to other regions, such as Africa or Latin America. Traditionally, developing countries were the largest recipients of FDI. As mentioned earlier, the 'south' has depended on the 'north' for consumer and capital goods for centuries. The latest data indicate that, compared to all developing regions, Asia always ranks as number one in terms of inward FDI (UNCTAD 2014b, 2015, 2016). Asian industrialisers like China, Malaysia and Indonesia have plentiful raw materials, abundant semi-skill labour and shortfalls of domestic capital that are relative to development opportunities, large markets and more open and stable political systems compared to the other developing countries in Africa—which are considered the reasons behind Asia's FDI inward flows. However, they can essentially catch up in the global economy (Amsden 1992; Hill & Gochoco-Bautista, (eds.) 2013; Oberman, et al. 2012; Wilson 2015).

After observing the phenomena, the current situation is much more complicated because of globalisation. First, the invention of the internet and other machinery goods brought so much more than just tools and multi-functional intentions. Since then any social and economic activities became efficient and effective in a greater scale (Steger, et al. 2014). Second, the multi-actors from local to global levels were involved and shared the same needs (Steger, et al. 2014, p.47). Third, the mode of transport started to connect people more in reality and facilitated international movement (Steger, et al. 2014, p. 104). Fourth, there has been change in the social, economic and cultural capacities of the society, including the habit of consumption. Society, distinctively those who lived from 10 or 20 years ago, spent extensively on health care, education and telecommunication rather than on goods (Economist 2014).

However, unlike the old model of MNCs, in terms of look, pattern, behaviour and motive, EMMNCs are in many ways unusual.[15] Their business attributes, motivations, trajectories and strategies have, even at minimum, something in common; however, they generally contradict the previous evolutionary trajectories of firms from North America, Europe and Japan (Yadong & Huaichuan 2009). There is no typical model for the operation of EMMNCs. Some have used alliances, acquisitions or joint ventures to build their market share. Some remain small and focused on product, while others take risks to diversify and operate on a larger scale (Guillen & Garcia-Canal 2009). This kind of process was not the typical mechanism for MNCs from developed countries, where most have concentrated on fully buyout investments.

[15] Many scholars who are interested in MNCs theoretically and practically agreed that there is a novelty of being an MNC from EMs.

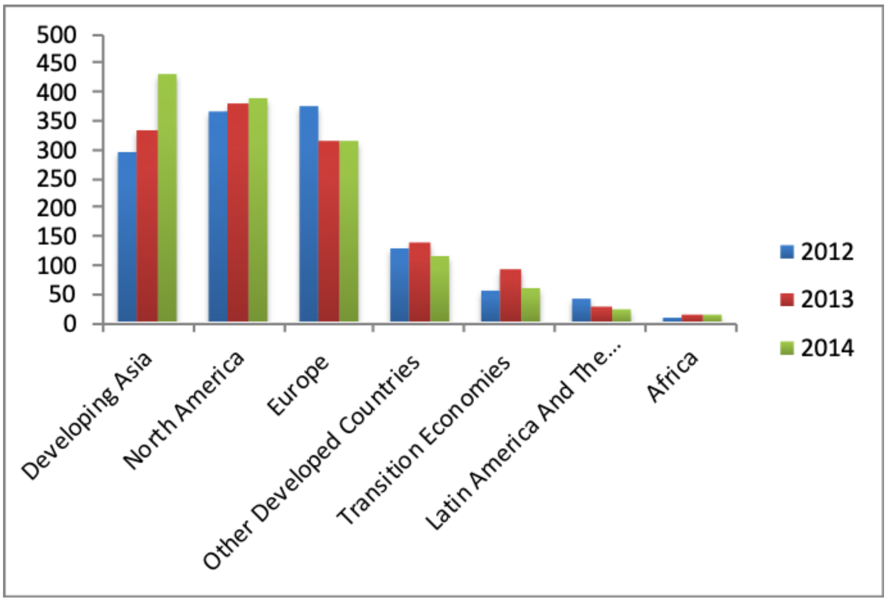

Figure 3.9: FDI Outflows 2012–2014 (Billions of Dollars).

Source: UNCTAD (2015).

3.3 Indonesian SOEs Governance Evolution from Directorate to Ministry

SOEs have general and specific meanings in nature. At large, they are relevant to any institution that provides services and goods to the public. Specifically, they describe anybody that has commercial function (Gillis 1980).[16] For the Indonesian context, in keeping with the principal philosophy and constitution of the SOE, they act in two roles: development agent

[16] Cited from Gillis (1980), SOE generates under three main conditions:

1) That the government is the principal stockholder in the enterprise, or otherwise has the exercise control over the broad followed by the enterprises, and to appoint and remove enterprise management. In most cases, the state is the only stockholder in the enterprise, so that the distinction between 'public' or 'state' and 'private' ownership is quite clear. But, in other cases, the government may have entered into a joint venture with private capitalists. As long as the government share 51 per cent or more, such a joint venture is clearly an example of a state enterprise. But majority ownership should not be viewed as essential. In some cases, the state may effectively control an enterprise with only a minority share of its equity, depending on the distribution of ownership of the other shares, and on any concordats established between private partner(s) at the time of the enterprise. (2) That the enterprise is engaged in production of goods and/or services for sale to the public, or to other private or public enterprises. (3) That, as a matter of policy, the revenues of the enterprises are supposed to bear some relations to its costs. For a state enterprise whose charter calls for maximization of profits (as with the nearly 100 *PERSERO* state or most government-owned hotels and airlines in several countries) this creation is clearly satisfied.

Among the three conditions lies conditionality. If a firm fails to meet the first standard, then it will be a private enterprise. When the second or the third criterion is unavailable, the firm will be just a public agency, not an SOE.

and business actor.[17] Conversely, which becomes the priority has been a long debate among government, scholars and society, including other business actors. As a developing country, Indonesia has greatly focused on its development plans and targets. The insufficiency of infrastructure, public goods and facilities, low-income people, population issues, other social problems and the lack of capital have been the cause of the state's critical capacity to provide people's needs (Acharya 2014; Warburton 2018; PwC 2017). As such, the foundation of SOEs in Indonesia found in the Article 33 of the *1945 Constitution*, states that 'sectors of production that are important for the country and affect the life of the people shall be controlled by the state'. Further, the next part read, 'The land, the waters, and the natural riches, contained therein shall be controlled by the State and exploited to the greatest benefit of the people' (Wicaksono, 2008).

The past experience of colonialism, which made the narrative of autonomy, may have never faded away from Indonesia, either in society or in the government. It began as mentioned earlier, when the founding fathers of Indonesia influenced many of the Dutch companies to be nationalised[18]. However, during Soekarno's term, the administration lacked feasible industrial development and export objectives (Indonesia, 2011). Indeed, it is justifiable that Indonesia's earlier stage after independence was not too advantageous. Managing a country with thousands of islands and hundreds of ethnicities was surely not an easy task to do.

Conversely, the mission of SOEs is to do business. In the light of this, it is naïve to neglect the nature of an SOE as a company. Making a profit is one of the key sources of funding for the country regarding SOEs, besides providing people's basic needs (Ramamurti 1987, p. 877). It has become a justification of many who insisted on privatising the SOEs. By being separated from the state power, SOEs intended to be more self-sufficient and effective in promoting the development process (OECD 2015c, p. 27-8; Wicaksono 2008, p. 146). Therefore, the two ideas manifested in the Indonesian political economy for about 71 years.

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[17] Indonesian Law No. 19/1960 clearly mentioned the nature of Indonesian SOEs. It said, 'State company is a unit of production are: a. provides services, b. organize public service, c. foster revenue'.

[18] After a dispute over West Papua with the Dutch, the Indonesian government issued Law No. 86 1958, about nationalisation (Domke 1960). The act's content included, '(Article 1) Dutch enterprises as "nationalized and full and free property of the State of the Republic of Indonesia." Article 2 provides for compensation to be determined "by a Committee whose members are appointed by the Government." The payment "will be further regulated in a separate Act…"'.

Unlike the Soekarno era, under Suharto's control, Indonesia adopted a market-oriented economic policy that included the privatisation of SOEs. There were two remarkable periods of Indonesian economy under Suharto, in which the privatisation of SOEs was conducted. The first stage was in the 1980s (1982 and 1986), when the government reformed the economy—specifically the state monopoly. The second stage was in the 1990s (1997 to 1999), when Indonesia faced the most destructive economic crisis ever experienced. This time, marketisation was more significant and extensive (Hadiz & Robinson 2005, p. 221). The ADB argued that the privatisation of SOEs would be beneficial for Indonesia's economic efficiency and productivity (Asian Development Bank, 2009). In the 1990s, some SOEs that were privatised included PT Semen Gresik (Persero), PT Telkom (Persero), PT Indosat (Persero), PT Tambang Timah (Persero), PT Aneka Tambang (Persero) and PT Bank Negara Indonesia (Persero) (Irianto 2004, p.7).

However, the concerted push for privatisation began after Suharto stepped down in 1998 (Irianto, 2004). Western economic advisors had no doubt that unproductive SOEs were one explanation for the economic crisis (Hadiz & Robison 2005). It was not only by IMF the privatisation was suggested, in December 1998, the ADB advisory team advised for the corporate and privatisation of SOEs by Indonesian government (Asian Development Bank 2009). As argued by Wicaksono (2008), SOEs at the time when Suharto still in the office were inefficient, mismanaged and cash cows for political groups and individuals.

Table 3-1 Privatised SOEs List 1999-2005

SEO	**% Sold**	**Method**	**Revenue (Rp trillion)**
PT Indosat	51.0	SS	4.3
PT Perusahaan Gas Negara	39.0	IPO	1.2
PT Indocement TP Tbk.	16.7	SS	1.2
PT Bank Mandiri Tbk.	30.0	IPO and P	5.4
PT Bank Rakyat Indonesia	45.0	IPO and ESOP	2.5
Bank Centra Asia	95.0	SS	6.6
Bank Danamon	100.0	SS	5.1
Bank Internasional Indonesia	94.5	SS	3.4
Bank Niaga	100.0	SS and P	2.9
Bank Lippo	60.8	SS	1.4
Bank Permata	71.0	SS	2.9
Total Privatization Proceeds in 2002-2004			37.0 ($3.6 billion)
Privatizations since 2005			
PT Jasa Marga	30.0	IPO	3.5
PT PGN	5.4	P	2.1

Bank Negara Indonesia (BNI)	12.2	P	8.1
Total Privatization Proceeds in 2005			13.7 ($1.5 billion)

ESOP = employee stock option plan, IPO = initial public offering, P = placement in the capital market, SOE = state-owned enterprise, SS = strategic sale.
Note: In addition to the above, the Government raised Rp 120 billion ($13.2 million) from the sale of PT Pembangunan Perumahan, PT Bukitbara Asam, and PT Adhi Karya.
Source: Asian Development Bank (2009, p.26)

Even after Suharto's stepped down, privatisation remained on the 'must do list' for the next government (see Table 3-1; Asian Development Bank 2009). Help from the IMF in debt packages had brought Indonesia with no choice other than privatisation policy. Even though the privatisation has been the most sensitive issue for society, parliament and obviously parts of the government (Friawan 2007). In the era of Megawati, the SOE privatisation gained much public attention. The Megawati presidency was criticised for the selling out of an Indonesian communication company—Indosat. Among hundreds of Indonesian SOEs, Indosat stock was listed as the first Indonesian company on the New York Stock Exchange. It was officially handed over to Singapore Technologies Telemedia Pte. Ltd, which had 41.94 per cent of the total assets. However, Jokowi stated earlier in his campaign that he will retake Indosat during his presidency (Ranggasari 2014).

Apparently, despite the two opposing views of the advantages and disadvantages of SOE privatisation, Indonesian SOEs play a crucial role in the country's development, even to the present time. In many years, SOEs control under a special ministry within the cabinet. After autonomous from the Ministry of Finance, in 1998 the Ministry of SOEs appointed. The ministry was responsible for the management of SOEs. Prior to that, the controlling task of SOEs had existed since 1973. From 1973 to 1993, the unit was a second echelon[19] division under the Ministry of Finance. From 1993 to 1998, the unit was upgraded to the General Directorate or First Echelon before it was then changed into Ministry (Enterprises, 2014).

[19] Echelon in Indonesia is the official's level within the state civil structure. World Bank (2018) stated:

> The official echelon classification system is used to measure career progression. The echelon indicates the level of hierarchy an individual has attained in the civil service. Echelon levels for civil servants with management responsibilities (known as structural employees) range from the lowest level of V to the highest levels of Ia and Ib (which include heads of national agencies, director generals, deputy ministers, inspector generals, and deputy cabinet secretaries).

Table 3-2 List of Ministers of SOEs Based on Periodic Serving.

Number	Name	Year	Presidency
1.	Tanri Abeng	1998–1999	Suharto (March-May 1998)
			B.J. Habibie (May 1998 – October 1999)
2.	Laksamana Sukardi	1998–2000	A. Wahid (October 1998 – April 2000)
		2001–2004	Megawati (July 2001 – October 2004)
3.	Rozy Munir	2000–2001	A. Wahid (April 2000 – July 2001)
	(returned to Ministry of Finance)	2000–2001	A. Wahid (23 August – 23 July 2001)
4.	Sugiharto	2004–2007	SBY 1st term (October 2004 – May 2007)
5.	Sofyan Djalil	2007–2009	SBY (May 2007 –October 2009)
6.	Mustafa Abubakar	2009–2011	SBY (October 2009 – October 2011)
7.	Dahlan Iskan	2011–2014	SBY 2nd term (October 2011 – October 2014)
	Rini M. Soemarno	2014–present	Jokowi (October 2014 – present)

Source: Wicaksono (2008, p. 150)

During the reformation, Indonesian SOEs had managed throughout some changes. It began by the issued of the *Government Regulation of State Fully Owned Company Law 1998* (PERSERO) and the *Government Regulation Number 13 1998* about The State Company with Limited Liabilities (PERUM). A few months later, the first minister, Tenri Abeng, was appointed. He acted as the state shareholder for SOEs. Five years after, the other regulation to reinforce SOEs was passed—*Law Number 19 2003* regarding SOEs and the *Government Regulation Number 41 2003* on the role granting from Minister of Finance to the Minister of SOEs (Astami et al., 2010). From the later regulation, the scope of ministerial function as regulators and supervisor of Indonesian SOEs was being highlighted (see the list of SOE ministers Table 3-2).

After being a separated ministry, the institution gained more trust in managing Indonesian SOEs, regardless of its cases and lawsuits[20]. It must be admitted that much progress had been observed within the institutions and SOEs themselves. The first SOE minister, Tenri Abeng,

[20] The latest scandals are the case of the ex-director of Garuda—the national airlines SOE on the purchase of aircraft engines and the foregoing accusation is Dahlan Iskan's corruption case for the unlawful sale of national assets.

was the first to initiate the ideas of controlling SOEs under holding management (Wicaksono 2008). However, at the same time, many SOEs were being sold for debt payment.

When the former Minister of SOEs, Sofyan Djalil, was in office, many were optimistic for his breakthrough strategy. As a pure technocrat, he was considered 'free' of political agenda compared to the three previous ministers. His controversial innovation was a one-year probationary leadership for any SOE directors. Instead of electing SOE directors for five-year terms, he decided to examine their performance in the first one year (Wicaksono 2008). He also as initiated before by Tenri Abeng, eager with the master plan to create 25 SOE holding in 2015. After he was dismissed from the cabinet, the late minister, Mustafa Abubakar, continued the ambitious plan. He started with the 15 plantations firms' re-structure into four holding companies. Abubakar claimed that it would be the biggest plantation company in the world (Jakarta Post 2010), even though the official holding creation was just executed under the Dahlan Iskan administration.

Further, Indonesian SOEs have, as explained above, a dynamic but crucial function. The term 'dynamic' refers to its progress and changes and 'crucial' means it is important in the Indonesian economic setting. In Indonesia's early days, as an example, SOEs formed to provide the basic necessity of people's life. Back then, the market barely produced kinds of products. The small businesses were run by Chinese descent, but some crucial sectors had with foreign companies, particularly Dutch made it was harder to gain national revenue and also to afford by Indonesians. Electricity, gas and urban transport were some areas that changed into SOEs. The first few foreign companies that were bought out by the Indonesian government were The Central Bank, national carrier (Garuda) and national shipping (PELNI) (Lindblad 2010).

In 2008, Fitrianingrum from the Ministry of SOEs suggested that there was 153 trillion dollars (2,040.26 trillion rupiah) of Indonesian SOEs assets. It produced more than 1 billion dollars and contributed to approximately 26 million dollars tax revenue (Fitriningrum, 2008). One of the SOEs contributions in the development phase of SBY's term was the investment in the master plan for acceleration and expansion of Indonesia economic development (MP3I) (see Table 3-3; Indonesia 2011).[21] Throughout the national MP3I project, SOEs participated

[21] The Sumatra Economic Corridor was just one of the MP3I's projects across Indonesia. MP3I itself is aimed to implement the 2005–2025 Long-term National Development Plan, which is stated in the Law

in the acceleration of Indonesian economic transformation and the creation of an independent, well developed, equitable, and prosperous society (Indonesia 2011; see Figure 3.10).

Table 3-3 SOEs MP3I Projects in Java Based on Capacity Investment

No	Type of Infrastucture	Project Name	Investment (IDR Tn)	Commencement	Competion	Location
1	Tollroad	Development of six Jakarta inner city toll road (Kemayoran-Kp. Melayu; Sunter-Rawa Biaya-Batu Ceper; Pasar Minggu-Casablanca; Sunter-Pulo Gebang-Tambelang; Ulujami-Tanah Abang; Duri Pulo- Kp. Melayu)	40,026	2011	2014	DKI Jakarta
2	Power & Energy	Development of new PLTU of Central Java 2,000 MW	26,000	2013	2019	Central Java
3	Port	Kali Baru Utara dock development (Phase 1)	22,000	2011	2019	DKI Jakarta
4	Tollroad	Probolinggo – Banyuwangi (215 Km)	13,960	2011	2019	East Java
5	Power & Energy	PLTU Pelabuhan Ratu 1,050 MW	13,650	2008	2011	West Java
6	Power & Energy	PLTU Indramayu Baru 1,000 MW FTP II	13,000	2011	2014	West Java
7	Power & Energy	PLTU Indramayu Baru 1,000 MW	13,000	2011	2016	West Java
8	Power & Energy	PLTU Jawa Barat Baru 1,000 MW	13,000	2015	2019	West Java
9	Power & Energy	PLTU Teluk Naga/Lontar 945 MW	12,285	2007	2011	Banten
10	Power & Energy	PLTU Bojonegara 1,500 MW	12,000	2012	2015	Banten
11	Power & Energy	PLTGU Tuban/Cepu 1,500 MW	12,000	2015	2018	East Java
12	Port	Tanjung Priok Port expansion through	11,700	2011	2014	DKI Jakarta

No.17 Year 2007. The vision of the acceleration and expansion of Indonesia’s economic development is to create a self-sufficient, advanced, just and prosperous Indonesia (Indonesia 2011).

		Kalibaru (warehouse development, loading dock development, strengthening and installation Luffing Rail Gantry Crane				
13	Road	Waru-Wonokromo-Tj.Perak (18.6 km)	11,110	2011	2015	East Java
14	Railway	Monorail development: Green Line (14.7 km) with 15 stations	9,100	2011	2014	DKI Jakarta
15	Power & Energy	PLTU Tj.Awar-awar 700 MW	9,100	2011	2013	East Java

Source: Republic of Indonesia (2011, p. 197)

During Dahlan Iskan's service, in 2013, the Indonesian state firms were parts of Southeast Asia largest economy; they had an estimated $155 billion dollars (1,500 trillion rupiahs), or a fifth of the country's GDP (Latul 2013).

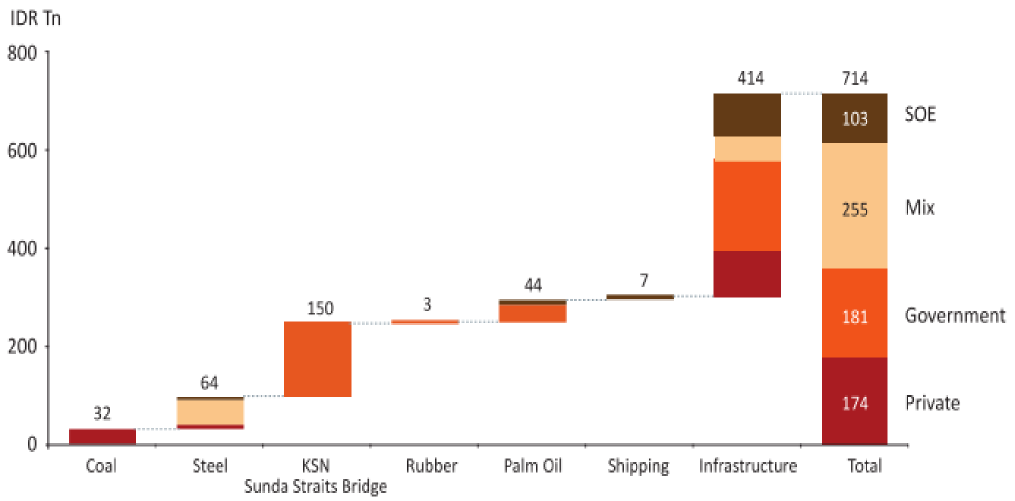

Figure 3.10: Investment in Sumatra Economic Corridor.

Source: reprinted from Republic of Indonesia (2011).

The performance of SOEs under Rini Soemarno also displayed a progressive outlook. The positive changes inside the SOEs could not be separated from the person behind it. The managerial capacity in managing SOEs like the national railway company, which were formerly led by Ignasius Jonan as CEO, who then chose as the ministry by Jokowi, had succeed to turn the inefficient into competitive and customer-focused company. By the end of 2014, Indonesian SOEs had hired 800,000 people and contributed to 18 per cent of gross domestic product (Bland 2014).

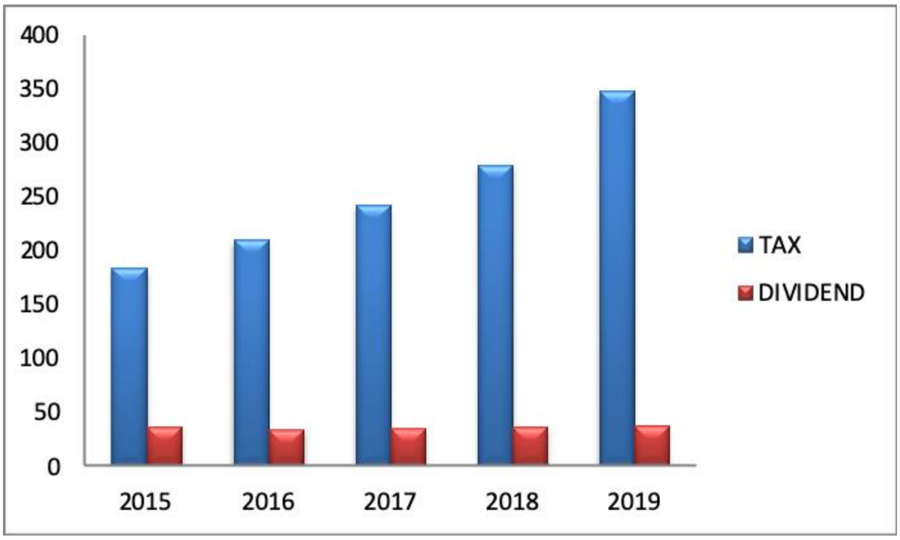

Figure 3.11: SOEs Contribution to Indonesia's Economy in Trillion Rupiah during 2015-2019.

Source: reprinted from Republic of Indonesia (2015b, p. 65).

In the first semester of 2015, the 119 Indonesian SOEs reported having $4.8 billion net income (64.2 trillion rupiah). It was expected to get the government target as it was already 49 per cent out of total in a year (Sutianto 2015). At the end of 2015, the aggregate of SOEs assets surpassed the target with 405 million dollars (5.395 trillion rupiah). One of the success of SOEs in 2016 was PT Angkasa Pura II (Persero), which gained an income of 18 per cent or equal to $423 billion dollars (5,64 trillion rupiahs)—more than in 2015 (Hardjono 2017). The official data released by the ministry of SOEs showed that in 2015, the contribution of SOEs was 183 trillion rupiahs for national tax and 37 for dividends. It was predicted to reach 347 trillion rupiahs in 2019 for tax revenue and 38 for dividends (see Figure 3.10, 3.11; Indonesia 2015b).

The expansion of SOEs from Indonesia has been slightly scaled up. The most visible scheme that Indonesia enact is making the holding design come into play. The intention of forming holding system has been initiated by the former minister of Tanri Abeng in the late 1990s. The master plan was created during Sofyan Djalil’s term and the most success of making it true was Dahlan Iskan. Currently, Rini Soemarno intensively takes action to continue the goals. She pushed the draft and enactment of the new law, in which holding strategy has now a legal base.

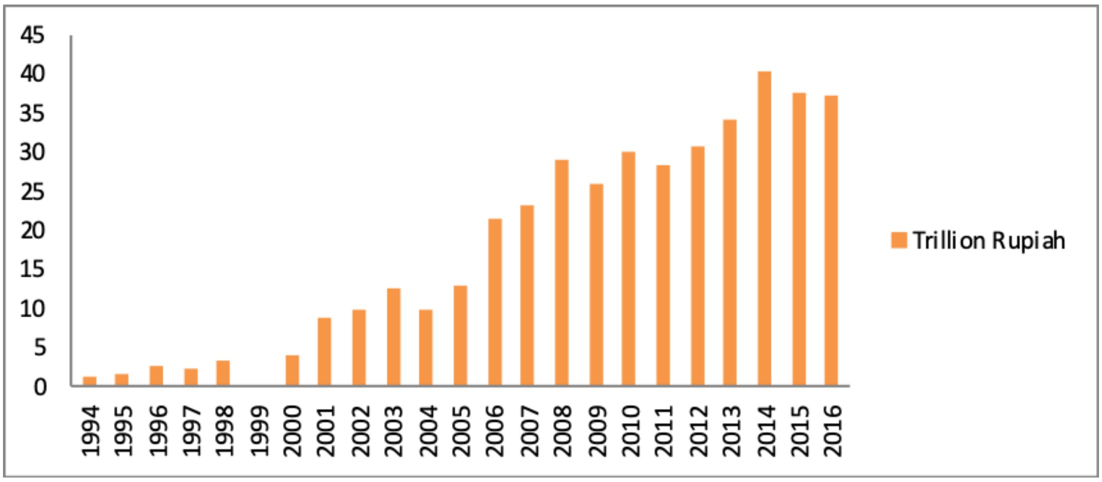

Figure 3.12: Dividend Pay Out from Indonesia's SOEs to the Government in 1994 to 2016.

Source: reprinted from Katadata (2018).

For Sofyan Djalil, the SOE holding was part of the privatisation of SOEs to become more profitable (Wicaksono 2008, p. 149). In Dahlan Iskan and Rini Soemarno's periods, the holding aimed to be profitable and less bureaucratic, but in a 'limited scale' that was apart from privatisation's long-term goal (Deny S 2017; Rahman 2016). A good sample and inspiration of holding companies in the region were Temasek from Singapore and Khazanah from Malaysia (Kim & Chung 2018). Even after reform as holdings, they are still at an arm's length for state-run companies. The trend of building holding firms out of SOEs has been a long-time achievement of Indonesia's neighbouring countries. The path of Indonesian SOEs unfortunately, was not run well. However, the opponents are strong in legislation and complicated bureaucracy; the pull and push interest inside and outside Indonesia makes the success difficult to follow. But it does not mean it is impossible.

Under Rini Soemarno's leadership, the ministry had a visible road map for SOE reformation and goals. Despite facing a strong opposition from many, Rini succeed to create more holdings. Before Rini assumed the office, Dahlan Iskan had created three holding corporations, which were for plantation, fertiliser and cement (Jakarta Post 2016). By the period of Jokowi's first presidency, Rini planned to create six main holding companies from mining, oil and gas, food, financial, toll roads, housing and construction. It was expected to raise SOE assets of $492 million dollars (65.6 trillion rupiah) to $20.83 billion dollars (270 trillion rupiah) (Winanti 2016). The holding's ambition aimed to simplify the corporate system among 118 SOEs, as well as to support them to be value-oriented instead of staying as exporters of raw materials.

Today, more Indonesian SOEs are seeking potential markets and partners overseas, in which PT Semen Indonesia is the first to take the risk of internationalisation through overseas investment. Even though Pertamina, Telkom and other state-run firms were early exporters, none engaged in extensive overseas expansion through more extensive acquisitions prior to PT Semen Indonesia.[22] PT Semen Indonesia's venture into the ASEAN investment market started in November 2012, when it acquired 70 per cent of Thang Long Cement Company TLCC's shares from Geleximco, with a total transaction value of $157 million (Lubis, 2014). Geleximco is the Ha Noi Export-Import Company, which run in many sectors from real estate to technology (Geleximco 2011). The investment of subsidiaries was taken as a part of the goals to become the leading cement company in the region (Global Cement 2014). Since it has been acquired, the TLCC is managed by PT Semen Indonesia in terms of financial capacity, management and trademark, making it one of PT Semen Indonesia Hanoi subsidiary-based (Thanglong Cement 2010). It produced 7.7 per cent of PT Semen Indonesia's total annual production (Lubis 2014).

By considering PT Semen Indonesia an EMMNC SOE that is headquartered in a country where the government still directly intervenes in market processes to guide economic development, PT Semen Indonesia demonstrated similar models of state-run companies with other EMs. As an emerging market, Indonesia has historically relied on the natural resources sector and on state ownership or control over key resource industries. Additionally, Indonesian SOEs have a significant scale of foreign affiliates and foreign assets that are likely other EMs (UNCTAD 2014a).

The significance of PT Semen Indonesia as a regional player reflects the persistence of the developmental state in Asia. This in turn suggests the idea of the 'Asian model' or 'Asian way', which, although internationally discredited in the wake of the AFC, lives on and still represents a viable alternative to the economic liberalism that is advocated by global institutions (e.g., the World Bank and the IMF) and global advisory bodies (e.g., the OECD and World Economic Forum). PT Semen Indonesia is a strategically significant state investment, as it is the country's largest building-material producer and exporter, especially

[22] Oatley (2012) highlighted the difference between firms that are heavily active in international trade and firm that are categorized as MNCs. Even more so, exporting and expanding through FDI are two different terms. Both refer to market entry models, but measured by Dunning's OLI model, exporting is not including location advantage, while FDI involves three advantages at once (Dunning 1988, 2001; Dunning & Lin 2007) .

within Southeast Asia. The available company performance indicators all point to a successfully managed firm that is rapidly expanding. Nationally, PT Semen Indonesia assets are accounted for the $4.3 billion expansion plan for the years 2015 to 2019 (Azizah 2015). Internationally, in line with the implementation of the ASEAN Economic Community (AEC), the company arranged expansion plans in Vietnam, Myanmar and Bangladesh to make those countries as its regional production-based (Rw & Putri 2014; Lubis 2014).

Therefore, this thesis argues that Indonesia is carving out an independent economic development path, one that demonstrates the benefits of state interventions in market processes. It challenges the orthodoxies of free-market liberalism by examining the mechanisms and motivations of growth and expansion of PT Semen Indonesia and the global context that supports this growth. It adds an important case study to the growing body of literature on MNCs and EMMNCs in the field of international and global political economy.

Chapter 4: PT Semen Indonesia as an Agent of Development—Continuity and Adaptation

Goldstein (2007) contended that the literature for Asia's EMMNCs has paid little attention to the role of state institutions in companies' competitiveness. However, scholars like Haggard (1986) contended that the political choices behind development in East Asia are crucial to explaining their rise. Concerning the importance of the role of state institutions, this chapter provides data, findings and discussions about the correlation between the context of Indonesia's development and the expansion of PT Semen Indonesia. The data and findings are gathered from semi-structured interviews and document archives. It will be expressed based on the topics of the research questions. The developmental state in the transformative model provides an explanation on how the indication of many countries, recently, including Indonesia, is becoming a new agent of economic power in the global system. In a more specific manner, this chapter questions if the management of Indonesian SOEs corresponds to the DSM or if SOEs are merely enterprises in which the state has a guiding interest. As will be discussed, instead of focusing on Indonesian private firms, this thesis concentrates on SOEs, specifically PT Semen Indonesia and its role as a developmental agent. Acknowledging the diversity of the DSM indicators and types, this thesis will examine the developmental state using criteria of national priorities, organisational arrangements or institutional hardware, institutional links with organised economic actors who have contributed to and implement state development policy, with reference to current thinking on these criteria by Thurbon and Weiss (2016).

4.1 Positioning PT Semen Indonesia as an Indonesian SOE

4.1.1 SOEs Governance Reform from Overlapping to Effective Bureaucracy?

Organisational arrangements in the DSM could be found in the institutional hardware with which developmental agents are directed by the state. Indonesia is one of only a few developing countries that have a dedicated ministry or directorate for managing SOEs. It is debatable why Indonesia has a ministry instead of a super holding, like Singapore, or a special commission like the SASAC in China. The Indonesian ministry plays a pivotal role in managing more than 118 SOEs (Enterprises 2016b, p. 22-8, see Figure 4.1). It functions to oversee the long-term strategies of Indonesian SOEs, ensures that government policy is implemented and seeks to ensure that companies are managed by competent and professional administrators and leaders.

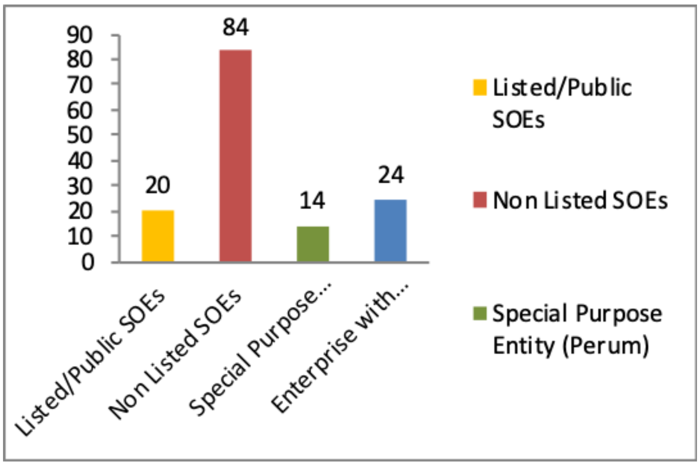

Figure 4.1: Indonesian SOEs, Quantity 2018.

Source: Ministry of SOEs (2017,p. 6).

The ministry itself was one of the newest ministries compared to other previous ministries, such as the Ministry of Finance and Bappenas. The beginning of the Ministry of SOEs started after its reformation following the 1998 AFC. It comprised a special organisational agreement[23] with seven deputy ministers, two expert staff units (strategy and communications), a secretariat and an inspectorate (see Appendix 8; Indonesia 2015a, 2015b; Indonesia 2003). However, at start of Ministry of SOEs left the interpretation of ministerial roles very limited and vague in a sense that to what extent the ministry must deal with the SOEs and how distinctive its responsibility with the Ministry of Finance as the 'controller' of the national fund and assets. It was not until 2015 that President Jokowi clarified the job of the minister by issuing *Presidential Regulation No. 41/2015* (Indonesia 2015a). This Regulation clarifies the duties of the minister and ministry and clearly emphasises the link between SOE direction and state policy: 'the Ministry of State-Owned Enterprises has the task of carrying the government affairs in the field of state-run firms to assist the President in performing statecraft activities' (Articles 2, Indonesia 2015a). As can be observed from the extract of this new regulation, the Ministry was explicitly tasked with using state industries to achieve national development priorities. Indeed, the scope of the Minister for SOE's responsibilities is broad:

[23] Special organisational arrangement here refers to the limited structure the ministry has, which is responsible for the national assets under SOEs and their subsidiaries across Indonesia.

> The Ministry of State-Owned Enterprises the following functions: a. formulation and establishment of policies in the field of preparation of the initiative strategic business, strengthening competitiveness and synergies, strengthening performance, the creation of sustainable growth, restructuring, business development, and the improvement of capacity building infrastructure business of state-owned enterprises; b. coordination and synchronization of policies in the field of preparation of strategic business initiatives, strengthening competitiveness and synergies, strengthening the performance, the creation of sustainable growth, restructuring, business development, and capacity building business infrastructure of state-owned enterprises; c. coordinating the implementation of tasks, coaching and administrative support in the Ministry of State-Owned Enterprises; d. management of state property are the responsibility The Ministry of State-Owned Enterprises; and e. Supervise the execution of duties in the Ministry State-owned enterprises. (Republic of Indonesia 2015a Article 3a–e, Position, Duties and Function).

With this 2015 presidential regulation, there are particular fields in which the minister has his or her personal authority and also his or her authority over SOEs. While political transactions sit behind most Indonesian cabinet appointments, the Post of Minister for SOEs many times has always been based on merit or appropriateness of corporate background, at a very least it is not appointed from party members. Although some still believe it is not purely professional considerations. This indicates the importance that is attached by Indonesia's political leaders to the competence of ministers and their deputies, and a clear intent to insulate such a strategically sensitive arm of government from corruption. For example, Tenri Abeng, Sofyan Djalil and Dahlan Iskan were professional figures with extensive experience in Indonesian business. Dahlan Iskan, as will be further detailed, succeeded in reforming PT Semen Indonesia and many other Indonesian SOEs (despite the lawsuit on what the state lost during his service as minister) (Sofyan 2012). He had a good business track record in transforming a bankrupt newspaper, *Jawa Pos*, into a major national news company. Historically, he was also one of the most innovative and independent president directors of PLN (an Indonesian state electricity company) (DetikFinance 2013).

At the time of writing, the current Minster for SOEs is also from a business background and is liked politically by President Jokowi. Rini Soemarno is a well-known, successful Indonesian businesswoman. She was a former CEO of Astra International and held the position of Minister of Trade and Industry in 2001–2004, during the tenure of president Megawati, in which she is noted for blocking sugar imports (Parlina and Halim 2016; Safaat

2016; Heriyanto 2016).[24] She has worked to professionalise SOE management, openly recruiting experts for the ministry and for SOEs. For example, Dwi Suciptjo was appointed as CEO of the state oil company, Pertamina, because of his effectiveness in leading PT Semen Indonesia through its structural reform. Yet, she also removed Dwi from the position in February 2017[25]. As reported by Antara, she stated, 'Replacement of both (President and Vice President Director) related to personal problems. In leading PERTAMINA, if there is a mismatch, it could endanger the company' (as cited in Sinaga 2017). Indeed, Rini has a reputation for firmness, as she replaced 12 CEOs of Indonesian SOEs during her time as SOE minister (Jatmiko 2017). She is also credited with pushing forward with the high-speed railway link between Jakarta and Bandung. Her choice to continue the project of rapid railways was brave, considering the strong opposition due to the land acquisition problem, (Dharma & Suryadinata 2018).[26] Recruitment has followed the specific standard that was legalised by ministerial decree, with echelon-level officials[27] who were elected based on open recruitment rather than direct appointment, thus reducing the scope for patronage (Idris 2016). The activism of successive SOE ministers' points to their position of power within the government, which is sufficient to remove well-connected people, and consolidate and reform ministry roles (Wahyuni 2013).

This power extends to her role as a bridge between the state and SOE board. Under Article 1 of the General Principles *Law No.19/2003*, the Minister is 'appointed and/or authorised to represent the state government as a shareholder in the company'.

> As representative of the state, the Minister represents that largest shareholder in SOEs like PT Semen Indonesia and, as such, exerts direct authority over company affairs, subject to the General Meeting of Shareholders (AGM), which holds the highest authority within the company (Republic of Indonesia 2003 Article No.13).

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[24] Rini Sumarno, as argued by Eve Warburton, is a 'royal enabler' of Jokowi. She is a Jokowi right-hand woman with whom Jokowi shared strategic thinking (Warburton 2016, p.304).

[25] The of removal of Dwi Suciptjo was due to the internal conflict of Pertamina, in which there was a disagreement with his vice-director.

[26] The fast railway project is part of a strategic national program. This project aims to build massive public transportation in Java, Sumatera and Sulawesi without government funding but by a business-to-business scheme through SOEs (Enterprises 2016b, p. 105).

[27] Echelon-level officials in Indonesia's context or a level or rank within the government's structure.

Law No.19/2003 further illustrates the technical legal base through which the Indonesian government regulates the SOE sector. The law provides a mechanism by which the CEO of SOEs is regulated, as stated in Republic of Indonesia (2005):

> (1) Prospective members of the Board of Directors were confirmed as members of candidates who passed selection through fit and proper test conducted by a team or institution professional appointed by the Minister. (2) The provisions referred to in paragraph (1) shall not apply for reappointment Board members are considered able to perform well during the period office. (3) Prospective members of the Board of Directors who have passed the fit and proper test as referred to in paragraph (1) and a member of the Board of Directors were reappointed as referred to in paragraph (2), shall sign a management contract before set appointment as member of the Board of Directors…(Republic of Indonesia 2005 Articles 16 Indonesia).

As can be observed in Figure 4.2 below, the Minister of Finance and Minister of SOEs share equal formal status with regard to SOEs. However, because of their control over internal SOE processes, the Minister of SOEs arguably holds a much more influential position in the implementation of economic development policy.

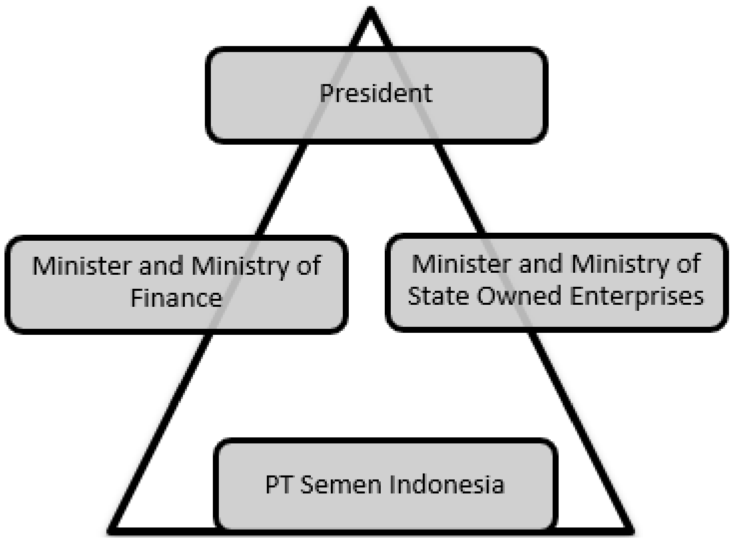

Figure 4.2: The Institutional Architecture of PT Semen Indonesia.

Source: summarized by the author

Formally, then, professionalism is at a premium due to the considerable sums of government money that are risked in SOEs. The qualification for boards of directors is also stringent, as highlighted by Republic of Indonesia (2005):

> (1) What is to be appointed as members of the Board of Directors is an individual who meets the criteria of skill, integrity, leadership, experience, honesty, good conduct, as well as has a high dedication to promote and develop the company. (2)

> In addition to meeting the criteria referred to in paragraph (1), which can be lifted a member of Board of Directors of Public Corporation is an individual who is able to carry out legal actions and have never been declared bankrupt or become a member of the Board of Directors or Commissioner or Board of Trustees declared guilty for causing a company or PERUM declared bankrupt or people who have never punished for doing criminal acts that harm state finances. (3) In addition to meeting the criteria referred to in paragraph (1), which can be lifted as a member of the Board of Directors Limited is an individual who meets the criteria as stipulated in the legislation in the field of company limited (Republic of Indonesia 2005 Article 17).

Dahlan Iskan, when he was the Minister of SOEs, also issued a ministerial regulation (PER-01/MBU/2012) about requirements and procedure for appointment and dismissal of directors of SOEs. The ministerial regulation adds further stringency to qualifications of directors, including their evaluation by a professional independent agency (Enterprises 2012). The findings above tell us that the institutional architecture governing Indonesian SOEs and PT Semen Indonesia manifests in the power hierarchy of the Ministry of SOEs, as illustrated in Figure 4.2. There are clear and decisive links between the state and key sectors of the Indonesian economy in which state power is exercised. These links were not created through direct patronage, but through rules that have been established to preserve state interests while simultaneously allowing state enterprises to achieve economic efficiencies necessary to competing in a globalising economy.

4.1.2 Managing the Developmental Mindset in a Complex Political Connectedness

As explained in the previous chapter, the DSM requires, first, the state that is run by elites with a developmental mindset of political elites and, second, the 'institutional hardware' of developmentalism that establishes economic connectedness between state and economic agents as well as the institutionalised 'software' of policy formulation, negotiation and implementation. The findings in this thesis strongly suggest that the Indonesian state sustains a developmental 'frame of mind'.

It is not exaggerating to say that SBY and now Jokowi pursued definitive goals for achieving industrial maturity. Though Indonesia transformed into a 'democratic country' with the end to the Suharto regime, the longstanding state-led developmental paradigm has become rooted in the economic life of Indonesians. Born as the biggest country in terms of size and populations, Indonesia was once geographically positioned as the 'big nation' (*negara besar)* in the region (Fealy & White 2016). Today, Indonesians strongly feel that the country still has leadership aspirations and a leading role in the region, as it had during the old and new order (Fealy & White 2016; Acharya 2014). Despite cases of corruption and abuse of power, religious intolerance and ethnic polarisation, it is acknowledged (e.g., by Sherlock) that Indonesia has the best-functioning democracy in the region (Roberts et al. 2015). [28]

Consequently, the government is trying to pursue what Acharya (2014) called an emerging power in Asia. However, although Acharya (2014, p. 19) claimed that Indonesians proud to their democratic country, most Indonesians articulate power from narrowed perspective, seeing emerging power is equal to economic power. Their expectation of the electoral process thus highly depends on the politicians' and elite's capacity to provide economic benefits which reflected through Prabowo's vision (CNN 2019) and mission which placing economy as the priority sector and Jokowi's economic programs (Warburton 2018). The medium and long-term plans (RPJM and RPJP) from the periods of SBY and Jokowi illustrate that, politically, the state maintains a strong developmental orientation. During SBY's term, Indonesia had managed to generate a coherent extended strategy that looked 20 years into the future (RPJP 2005–2025).[29] At his beginning of his term, SBY was focused on tackling the problem of the 2005 Asian Tsunami, which devastated west and south western Sumatra, then the GFC. Yet, in his eight years, SBY established a foundation for the country's economic revival and stabilisation that his successor, Jokowi, has not sought to change.

In the case of the industry in general and SOEs in particular, SBY's term marked a period of recovery after the political and economic crisis of 1997 (Indonesia, 2010a). This allowed the government time to concentrate on national development, as opposed to 'crisis management'. Poverty alleviation and unemployment were at the top of the agenda and, therefore, RPJMN 2004–2009 aimed to develop employment and implement pro-poor strategies (Indonesia 2010a). Starting in 2010 (SBY's second term), the government's attention turned to economic development in pursuit of SBY's national vision for 'just, prosperous and democratic Indonesia (Indonesia 2010b). In this vision, all economic resources were deemed national resources that should be developed for the benefit of society as a whole to maximise Indonesia's 'competitive advantage' (Indonesia 2010b). The key word emphasised here is

[28] Jokowi had attracted attention in his previous position as Mayor of Solo, Central Java, before he ran for president. By his local leadership, he succeeds in gaining a reputation for non-corrupt, effective government. He was also popular among the people of the city (Roberts, Habir & Sebastian 2015).

[29] The absence of GBHN, which was used as a fundamental national guidance before, was brought back in his era in a different model.

‘competitive’, which signals that the Indonesian state understood that to survive economically, Indonesia had to be better able to advance national economic interests in a globalised economy. As already stated, these concerns are also reflected in the economic development priorities of President Jokowi.

Jokowi has placed greater emphasis on infrastructural improvement, promoting the urgency of the Sea Toll Road, seaports, roads, bridges and other physical infrastructures, and explicitly connecting infrastructure with national economic development.[30] With this comes an emphasis on the significance of SOEs as agents of development. In Jokowi’s model, it is the role of SOEs to help feed, fuel and construct modern Indonesia. Part of this responsibility is to help keep the costs of development low, which entails the standardising of fuel prices across the country and, in relation to construction, keeping the price of cement within the bounds determined by the government rather than the market.[31] The secretary of PT Semen Indonesia, Agung Wiharto, as quoted in the *Jakarta Jakarta Post* , acknowledges that ‘we are owned by the government and we do believe the move is made for the greater good of the country’ (as cited in Lubis 2015). Jokowi has taken a direct role in promoting professional competence among SOE CEOs. In January 2017, for example, all CEOs were invited to attend an executive leadership program (ELP) held at the State Palace (*Istana Negara*) that was designed to build a ‘global mindset’ based on the sense of nationalism (Perwitasari 2017). Thus, the software of SOE governance remains tied to a national development agenda, which is tailored to suit the global challenge.

Developmental software also refers to values within the policy making, which equal to policy strategy or output. In a lower level of the economic power structure, the president’s thought process must also be followed through the building of shared understanding and values. This approach is less authoritarian, but no less deliberate than that of South Korea under Park Chung-He or of Taiwan under the Kuomintang’s Chiang Ching-Kuo. Dahlan Iskan was selected as the Minister of SOEs by SBY because they shared a common perspective on the challenges that the Indonesian economy faced (Purwadi 2012). Arguably, this common vision

[30] Interview with staff at Bappenas on 12 July 2016, in Jakarta.

[31] Jokowi said that he had instructed State Enterprises Minister Rini Soemarno and state-run energy firm Pertamina to immediately implement the one-price fuel policy, which was also aimed at boosting economic growth in Papua and West Papua (Widyanita 2017).

ensured Dahlan Iskan’s success in transforming PT Semen Indonesia into a holding company, despite strong opposition from within.

The new global mindset is manifested in changed official attitudes towards Indonesian foreign investment. The outward expansion of Indonesia’s economy was long hampered by the aspiration to create a large domestic market.[32] Foreign expansion became a priority due to the increasing competition with foreign players and the need to increase market share and asset holdings.[33] Dahlan declared, ‘the domestic cement market is still very large, but for the company of Semen Gresik [PT Semen Indonesia], regional expansion is necessary’ (Rh 2012). During his visit to Thang Long‘s plant in Vietnam, Dahlan stated:

> After Semen Gresik, other BUMNs (state-owned enterprises) will follow. PT Timah will acquire a tin mine in Myanmar, while PT Telkom plans to buy shares in one of Timor Leste’s telecommunication firms. (Harsaputra 2012)

In his mind, this was part of a national drive to export Indonesian investment to increase the scale of Indonesian enterprises.

Value coherence is also evident in thr relations between Jokowi and Rini Soemarno. Jokowi choose Rini due to their similar ideas about national economic development. When Dahlan Iskan was a minister, SBY did not really intervene in technicalities. Although Rini Soemarno is also clear and determined on her work as SOEs minister, Jokowi’s influence is also strong. Jokowi is stated to his cabinet:

> The first thing I want to say, especially to new ministers, there’s no such thing as a vision or mission of a minister, we only have the vision and mission of the President and Vice President. All ministers must follow the vision and mission that we outline, and all policies decided during either plenary or limited Cabinet meeting. (Parlina & Halim 2016)

Rini Soemarno is facing opposition from various parties for being a woman and too corporate oriented. Her ambition to build an Indonesian super holding company, like what Singapore and Malaysia had done previously, is considered too dangerous and it could result in the loss of crucial state assets. The biggest opposition comes from the parliament, despite the

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[32] This economic view had arisen in the era of Suharto, but, as time went by, Hill described this as ‘the pendulum has swung back and forth’ (Hill 2014).

[33] Based on interview with Indonesian echelon staff in the Ministry of SOEs on 26 October 2016, in Jakarta, and with the PT Semen Indonesia Board of Directors on 28 October 2016, in Jakarta.

controversy that she is being kept as an officeholder for the ministry position (Soares 2016). To carry her duties as minister who must deal with the parliament, Rini Soemarno must be replaced by The Minister of Finance, Sri Mulyani (Deny 2017). Conversely, Rini believes that only by becoming a holding company can Indonesian SOEs be made more professional, flexible and financially independent enough to compete with other foreign companies like Temasek and Khazanah, and thus it can be a lesser financial burden on the state (Supriyatna 2016; Rahman 2016).

The next step in considering the DSM of Indonesian SOEs is the relations between political and economic actors from the decision-making process to the policy implementation process. In the cement industry, the intervention of the state is not accidental. PT Semen Indonesia is also accountable to other ministries in the pre-production, production and Jakarta Post -production stages of its business (Industry 2009a). The Ministry of SOEs is the institution in charge of day-to-day management. The Ministry of Finance has authority over financing while the Ministry of Industry has oversight of production processes, such as the permit area of production plants, product innovation and logistics. Other ministries with a say over PT Semen operations include the Ministry of Energy and Mineral Resources, the Ministry of Environment and Forestry, the Ministry of Transportation and Ministry of Research, Technology and Higher Education. In the nature of marketing and business expansion, the Ministry of Trade, Ministry of Public Works and Housing, National Standardization Agency of Indonesia (BSN) and The Indonesian Investment Coordinating Board (BKPM) are in charge. It also required the SOEs to work with Indonesia Cement Association (ASI), Business Competition Supervisory Commission (KPPU), the Indonesian embassy and some related institutions and other economic actors or agencies, such as The Chambers of Commerce and Industry (KADIN).[34] Local government has authority over the granting of permits for mining activities and plant construction. The company was also required to comply with the national environmental standard of operation and forestry permit for mining activity that was issued by the Ministry of Environment, Mineral and Resources. PT Semen Indonesia enjoys the protection of the state. The Ministry of Trade plays a key role in regulating supply and demand in the cement market nationally, including the competition

[34] There are more institutions and agencies that relate to PT Semen Indonesia. For instance, PT Semen Indonesia is also a member of KADIN, which is an organisation that accommodates all economics entrepreneurs in Indonesia. The links between KADIN and PT Semen Indonesia lie on its capacity as a forum to synergise Indonesian entrepreneurs from various sectors (Kadin 2017).

between cement producers and the market shares, to ensure a stable price and that it is empowered to limit import competition when deemed necessary (Industry 2009a; Trade 2013).

With the number of government agencies relating to the production and Jakarta Post - production activities of PT Semen Indonesia, there is a clear and deep connection between PT Semen Indonesia and the Indonesian state. Though the company has not received special incentives in doing business[35], it has always been suspected for gaining an ‘unfair’ privilege. This state and corporate network is crucial to PT Semen’s business operations, but its existence is no guarantee of absolute compliance. The beneficial network between the PT Semen Indonesia Board of Directors facilitated communication between the government as the majority shareholder and PT Semen Indonesia internally. Despite the long process for the company’s consolidation as a strategic holding, it was finally made possible by the capability of former President Director, Dwi Soetjipto.[36]

The influence of government SOE networks, mediated through the Minister of SOEs and SOE boards, strongly suggests the persistence of an interventionist state in Indonesia. In the context of PT Semen Indonesia, the president director shared the vision of the minister (and president). During the early period of overseas expansion, Dwi Suciptjo and Dahlan Iskan had frequent consultation meetings. As Dahlan Iskan revealed:

> After the realization of corporate actions, I always ask for updates regarding conditions factory in Vietnam, concerning the existence of regulatory barriers, turmoil employees and product marketing. I get a picture, everything went well, even the corporate action also turned out to be direct give a good impact for the factory in Vietnam, given the prospect its development becomes more open, including in terms of restructuring obligations. If Semen Indonesia Management finally succeeds in doing it restructuring the obligations of Thang Long Cement, it will give tremendous impact of efficiency and will open greater opportunities for business development efforts in the future. So, I think The Corporation to Vietnam is very appropriate and very good for Semen Indonesia as well as for the Indonesian state in general. This step too, marked the increasing role of Indonesia in the Asian region, namely the role economics, in addition to the political role that has been

[35] Interview with echelon staff from the Indonesian Ministry of SOEs on 26 October 2016, in Jakarta.

[36] The interview findings on PT Semen Indonesia success led to the beneficial managerial skill of Dwi Soetjipto. Most interviewees agreed that the accomplishment of PT Semen Indonesia as a SOE depends on Dwi Soetjipto‘s performance in leading PT Semen Indonesia. While he controlled PT Semen Indonesia, much transformation had occurred. There was a protest and opposing attitudes inside the company, but he managed to solve the disagreement.

carried out well (as cited in, PT Semen Indonesia [Persero] SEMEN INDONESIA TBK2012, p. 57).

The Indonesian Embassy helped PT Semen Indonesia negotiate with the Vietnamese business and government in dealing with the national policy.[37] The engagement between embassy and PT Semen Indonesia demonstrates the economic connectedness to a more extended government and corporate network.

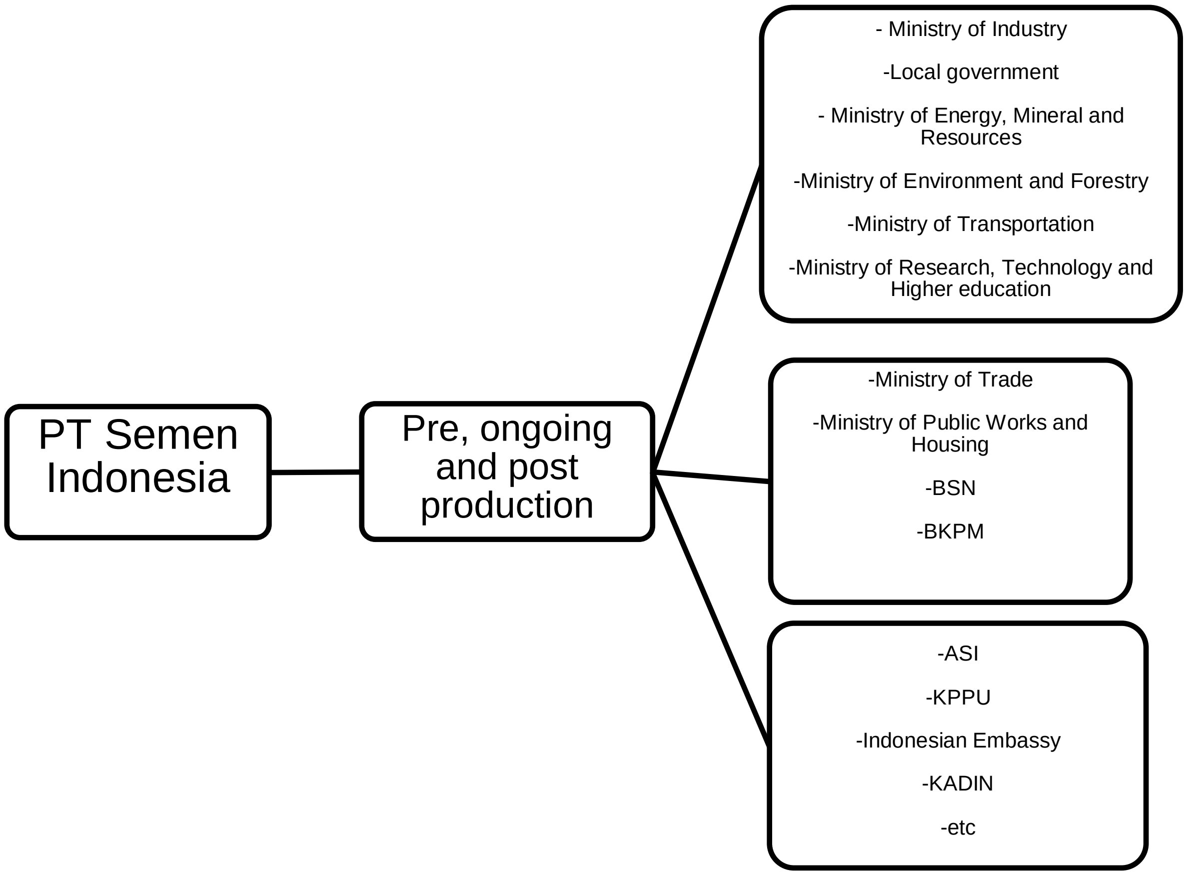

Figure 4.3: Government and Corporate Networks of PT Semen Indonesia.

Source: Interviews and Industry (2009a).

Thus, when the expansion proposal was taken before the company's board of directors, it was not difficult for Dahlan Iskan to agree as he represented the government as the majority shareholder. This level of communication between Dahlan Iskan and Dwi Suciptjo was not new. In practice, the state–business nexus was strong during Suharto's term. There were monthly meetings for officials from the Ministry of Industry and Trade, Ministry of

[37] This finding was taken from the interview with the PT Semen Indonesia Board of Directors on 28 October 2016, in Jakarta.

Transportation and ASI long before the sector was opened for private investment (Plunkett et al. 1997).

To further its interests and business operations, PT Semen Indonesia develops partnerships with other companies, with the same ownership structure (SOEs) from similar sectors or distinct sectors, such as PT KKA (Kertas Kraft, Aceh—an SOE in cement bag industry). The partnership was motivated by the government program to synergise the business activity between SOEs. PT KKA was considered important to maintaining business efficiency by providing the paper packaging of cement product (Enterprises 2015). The company also continued to engage with the ASI, which was established by the government. Even though PT Semen Indonesia is an SOE, positive connections with other business entities is important and best achieved through association membership. These complex institutionalised links between the state and PT Semen captures the dynamics of company and government strategy to diversify, strengthen and expand in the name of national economic development (see Figure 4.3).

4.1.3 National Priorities: Infrastructure Catch-Up Agenda

To meet Weiss' DSM 'requirements', PT Semen Indonesia's strategy and operations should reflect specific Indonesian state policies, rules and national priorities. State policy is an essential referent to assess the three core points of Weiss's model: 1) Why state-led industrialisation? Did the government select specific sectors? Is the cement industry an Indonesian state priority, and, if so, then why? 2) What is the strategic industrial policy regarding Indonesian cement SOEs? Has the government picked winners based on merit, because of export performance or product quality and potential, rather than at random or closeness? 3) In answering these questions, the policies concerning the development of Indonesian SOEs should be examined, with a focus in this thesis on PT Semen Indonesia.

Based on interview and document archives, national priorities are revealed through a mix of published government policies and strategies, legislation and the personal experiences of those involved in the restructuring of PT Semen. Consistent with the DSM, industrialisation in the developing world has been driven by state ambition to catch up and compete with developed countries. The industrial promotion strategies of developmental states offer an insight into their development blueprints. Indonesia, like the Republic of Korea, China and other countries in the world, follows a mid-term national development plan (medium term) and a long-term national development plan (long term), which, in the Indonesian case, is designed and controlled by the National Development Agency–Bappenas. This is similar to the Economic Planning Board in Korea, which is under the control of the president. Indonesia's long-term national development plan (RPJP) is accommodated within the Law No. 17/2007 and is set to run for 20 years (Republic of Indonesia 2007a). The government's aim in crafting this law is to foster long-term development planning that will be pursued in several stages.

The content of the document highlights the goals to create a 'just and prosperous society', as mandated by the 1945 Constitution of the Republic of Indonesia (Republic of Indonesia 1945). This blueprint of the long-term plan was introduced during the SBY's presidency (2004–2014). It acted as the 'substitute' for the former Broad Guidelines of State Policy (GBHN). By 'replacing' the function of GBHN, the RPJPN ensures policy continuity by making it difficult for an incoming president to terminate the previous national development goals and priorities. This has been intentionally generated to achieve its aims, which are stated within the RPJPN:

> (a) support coordination among development actors in the achievement of national objectives, (b) guarantee the creation of integration, synchronisation and synergy between regions, space, time, and function within the government and between central and regional governments, (c) ensure the relevance and consistency between planning, budgeting, implementation and supervision, (d) ensure the achievement of the use of resources in an efficient, effective, equitable and sustainable , and (e) to optimise participation (Republic of Indonesia 2007a, p. 9-10).

There is also the RPJM, which is gazetted in President Regulations No. 7/2005, No.5/2010 and No.2/2015. The goals written in this blueprint are the target that the current Jokowi government must attain during its term of office. The RPJM contains a broad policy direction for the government agenda during the five-year time line and its purpose is to be a guideline for sub-policies and regulations under any state institutions and agencies, including the SOEs.

During the SBY presidency, economic priorities focused on how to handle the effects of the 2004 tsunami and 2008 crisis. The export of Indonesian products was negative, but the domestic consumption became the reason behind the GDP's continuous growth. In SBY's second term, the industrial sector was highly supported. His second medium-term plan mentioned that efforts to improve industrial growth are made through policies that increase the number of businesses in the industrial sector, strengthen the industrial structure and that improve productivity (Republic of Indonesia 2010a, p. 1–82). Further, it also highlighted that:

> The competitiveness of the nation is increasing through strengthening the manufacturing industry in line with the strengthening of agricultural development and the increasing development of marine resources and other natural resources in accordance with the regional potentials in an integrated manner; the increased development of science and technology; the accelerated development of infrastructure by further enhancing cooperation between the government and the business community; the increased quality and relevance of education; and the reforming of economic institutions that induce private initiative in economic activities. (Republic of Indonesia 2010b, p. 1–25)

SBY's focal point of the industrial sector manifested through the President Regulation No. 28/2008 (which this thesis will discuss later).

Currently, under Jokowi's presidency, the principles of Pancasila are reflected in three cores of his presidency's goals, which are called *Trisakti* (Sukarno's former slogan). *Trisakti* means sovereignty in politics, independence in economy and self-expression in its own culture. The broad strategic policy in achieving the economic development objectives is reflected in the following quotation:

> Self-reliant in the economy manifested in the development of economic democracy that puts the people as sovereign in the management of state finances and the main actors in the establishment of production and national distribution. State policy has the character and authority of a strong leader and sovereign in taking people economic decisions through the use of national economic resources and the state budget to fulfil the basic rights of citizens. (Republic of Indonesia 2015b, p. 1-3).

Jokowi situated industrial sector development as his top priority by just highlighting infrastructure targets. Jokowi considered infrastructure to be a bottleneck and the first challenge to Indonesia attaining economic acceleration. His medium-term program document stated that:

> Strengthening the economic structure by strengthening the primary sectors (natural resource-based sector such as forestry, agriculture, fishery, and mining), secondary sectors (manufacturing and industry), and tertiary sector (services) in an integrated manner with the secondary sector as the main driver of economic development. The manufacturing industry is still developing at a slow pace, whereas to achieve progress in economic development, the manufacturing industry should remain the main driver of the progress (Republic of Indonesia 2015b, p. 2-09).

To understand how the government selects sectors, in this section, this thesis expands on the interview findings and analyses statistical data regarding the Indonesian industrial policy context. There were eight crucial policies that were linked to the case of PT Semen Indonesia as SOEs, which concluded in Table 4-1. According to RPJMP and RPJMN, the manufacturing industry is the driving force of Indonesian economy (Republic of Indonesia 2007a; 2010; 2015b). Yet, rather than becoming the manufacturing based on heavy industries, the Indonesian government believes that the competitive advantage of the country is based on natural resources and large market shares. Therefore, besides attempts to be a production based in the world supply chain industry, the Indonesian government also decided that the Indonesian manufacturing sector will heavily focus on natural resources, will be labour intensive and will have consumption and automotive economy (Antara 2016). The data from the *International Yearbook of Industrial Statistics 2016* noted that manufacturing contributes to a quarter of Indonesian gross domestic product (see Table 4-2; Unido 2016).

Table 4-1 Policies and Regulations Regarding the Holding of PT Semen Indonesia[38]

Policies/Regulations	Content
General	
Law No. 17/2007	RPJPN 2005-2025
President Regulation No.7/2005	RPJMN 2004-2009
President Regulation No.5/2010	RPJMN 2010-2014
President Regulation No.2/2015	RPJMN 2015-2019
Specific	
Law No. 19/2003	State Owned Enterprises
Law No. 40/2007	Limited Liability Company (PERSERO)
Government Regulation No.41 /2003	The authority of The Ministry of State-Owned Enterprises for PERSERO and PERUM
Government Regulation No. 44/2005	Procedures for Inclusion and Structuring State Capital
Government Regulation 72/2016 about Amendment of Government Regulation No. 44/2005	Procedures for Inclusion and Structuring State Capital
President Regulation No.28/2008	National Industrial Policy
President Regulation No.41/2015	Ministry of State-Owned Enterprises

[38] There are still various policies and documents regarding Indonesian strategic industryial policy. It should be noted, however, that to give more specific and focused investigation, this research will only take some crucial, associated policies with the case study. By the time the interviews were conducted, the Government Regulation No. 72/2016 had not been issued.

President Regulation No.71/2015	Determination and Saving of Principal and Essential Commodities
Ministerial Regulation No. 104/M-IND/PER/10/2009	Road Map of Cement Industrial Cluster Development

Source: compiled and collected by the author from Bappenas (2017) and Rights (2014)

To reach the national development goals, the Indonesian government included cement as the primary sector in the manufacturing industry. The primary motivation behind the cement business as the priority sector is its link to the national targets of infrastructure development and growth acceleration. Within the RPJPN and RPJMN, under both SBY and Jokowi, the greatest challenge to Indonesia's development has been the lack of infrastructure. As an emerging economy, Indonesia's development process requires physical infrastructure to boost the economic progress. This meant new roads, new port facilities, new buildings—government buildings, schools and hospitals. In RPJMN 2015–2019, the government highlighted:

> The availability of infrastructure to support economic development is limited and should be improved. The limited availability of infrastructure is the main obstacle in increasing investments and it is the cause of high logistics cost (Indonesia 2015b, p. 2-9).

For the past 70 years, the cement industry has been a national priority. It demonstrated from the nationalisation of Padang Portland Cement Maatschappij (PPCM). The company which already operated since 1910 in 1958 when Ir Vander as the representative of Dutch officially handed over the company to J Sadiman as Indonesia representative (Indonesia, 2016). The Indonesian government itself had built cement SOEs on 7 December 1957, which it named PT Semen Gresik (Semen Indonesia Tbk2016b). In 1968, the Indonesian government established its third cement SOE in South Sulawesi, called PT Semen Tonasa (Tonasa 2015). At present, Indonesia has three cement industry SOEs, which consists of one fully managed SOE (PT Semen Baturaja, built in 1974) (Baturaja 2017), one partly owned SOE (PT Semen Indonesia) and one SOE that is owned by the Indonesian government but managed by an asset management company called PT Sarana Agro Gemilang (PT Semen Kupang, established in 1983) (Merdeka.com 2012–2016). PT Sarana Agro Gemilang finally saved PT

Semen Kupang from bankruptcy through a joint operation scheme (Antara 2011).[39] Despite the slowing demand of national cement industry in 2015, in line with the physical infrastructural target, the industry's policy significance has not diminished. At present, the cement industry remains one of the leading sectors in national production (see Table 4-2; Unido 2016) and one of the 35 priority industrial clusters in development (Unido 2016).

Table 4-2 Indonesia Main Economic Indicators

BASIC KEY INDICATORS (none exhaustive list)	
Population as of 2014: 50% population is under 29 years, 60% population is under 39 years 52% population live in urban areas	252.8 million
GDP per Capita (US$), 2013	$3,500
Income group	MIC, lower
Economic growth in % first 3 month 2015 (BPS)	4.72%
Origin of GDP (%):	Agriculture: 14.4% Industry: 47% Services: 38.6%
Main natural resources	Mining, oil and gas Fisheries and agriculture
Main production	Petroleum and natural gas, textiles, apparel, footwear, mining cement, chemical fertilizer, hardware and software, plywood, rubber

Source: Unido (2016)

As will be discussed, the cement industry in Indonesia is on an upward growth trajectory. But this growth is driven less by competition and more by the fact that the sector is oligopolistic.[40] Despite the crisis, downturn of Indonesian economy and other problems cement SOEs faced, until today, the domestic industry has dominated the national market. To this accomplishment, the government has been taking part in advancing the development of the national cement industry, since the time of Dahlan Iskan, when the government amalgamated three cement SOEs and formed them into the strategic holding company, PT Semen Indonesia.

[39] Semen Kupang and the investor agreed that the KSO cooperation format was based on the annual sales volumes. The scheme was given about 7.5 per cent of the sales for Semen Kupang, while the remaining ones were intended for Sarana Agro and to pay its debt to Bank Mandiri.

[40] Interview with Staff of Bappenas on 12 July 2016, in Jakarta.

After the crisis of 1997, the IMF and other international agencies provided financial assistance to Indonesia. The core aim of the assistance was economic deregulation and the privatisation of SOEs, in line with the structural adjustment package priorities. Consequently, massive privatisation was undertaken in the late 1990s, when PT Semen Indonesia commenced its major restructuring. In keeping with the recommendation, the priority of the State-Owned Enterprises Law No. 19/2003 was privatisation, but with ‘Indonesian’ characteristics. As will be discussed, the state was not prepared to sacrifice its levers of control over the economy and instead found ways to preserve its position through new regulations that were issued to govern SOEs. The regulatory context for PT Semen Indonesia is illustrated by the following key articles:

- SOEs are business entities in which the state is the sole or majority shareholder through direct investments originating from state assets (Article 1, Republic of Indonesia, 2003).

Explanation:

In the Indonesian context, the stock owned by the government provides the state with a privilege to make a strategic decision regarding company affairs, both by majority shareholder or the golden share mechanism. This finding was confirmed by SOE echelon level staff who stressed that the Ministry of SOEs is the majority shareholder, so they determine the long-term strategy and company’s expansion[41]. In that respect, Widodo (2017) highlighted that Indonesia’s SOE corporate system adheres to two systems. The ‘golden share’ in the Indonesian context is called a *Dwiwarna,* or a series share. A *Dwiwarna* is a single share that gives the Indonesian government a privileged right regarding the agreement of increasing assets/capital, revising of corporate constitution, including incorporation, mergers and acquisitions, dissolution and liquidation and the appointment and dismissal of directors and commissioners (Hardiyan 2016; Praditya 2016). In the context of strategic plans, like expansion, an interviewee stressed that ‘we are the majority shareholders … so we decided the long-term strategy and policy for overseas expansion” (Assistant Deputy for Mining 2016).

[41] Interview with echelon staff from the Indonesian Ministry of SOEs on 26 October 2016, in Jakarta.

There are four types of Indonesian SOEs that are distinguished by forms of state ownership (see Table 4-3). Among Indonesian SOEs, PT Semen Indonesia is categorised as Persero Terbuka (a listed SOE). This means that its shares are divided between the government and the public. As indicated, and as will be discussed further, public ownership in no way diminishes the degree of the state's influence over company affairs due to the carefully crafted measures that ensure a continued state authority through the structure of shares issued. Restructuring ownership is guided by nationalistic principles and is adapted to accommodate new competitive realities.

Table 4-3 Indonesian Type and Numbers of SOEs

Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Listed/Public SOEs	12	12	12	14	14	15	17	18	18	20	20	20	20
Non-Listed SOEs	119	114	114	111	111	112	111	109	108	105	85	84	84
Special Purpose Entity (Perum)	13	13	13	14	14	14	14	14	14	14	14	14	14
Total Number of SOEs	158	139	139	139	139	141	142	141	140	139	119	118	118
Enterprises with minority govt ownership	21	21	21	21	21	19	15	15	13	12	24	24	24

Source: Fitriningrum (2008), Enterprises (2017, 2010, 2012)

- The restructuring effort made in the context of an SOE is a strategic step in improving the company's internal conditions to improve performance and increase the value of the company (Republic of Indonesia 2003).
- Privatisation is the sale of shares of PERSERO, either partially or wholly, to the other party to improve performance and corporate value, *increase benefits for the country and communities and expand share ownership by the community* [emphasis added] (Republic of Indonesia 2003).

Explanation:

PT Semen Indonesia started down the path of part privatisation in 1991, when it was officially listed through public offering on the Jakarta Stock Exchange (from 2007, the Indonesia Stock Exchange). As mentioned in Chapter 1, after being restructured and partly privatised by opening it publicly in 1991, ownership of the company is shared between the state and the private investors. It means that under Indonesian regulation, the company is managed by the government and public together. The reasoning was that part privatisation would lead to a better performance in operations and finance (PT Semen Indonesia [Persero] SEMEN INDONESIA TBK2012). The company has passed through several phases of management restructuring in 1995, during the period of 2003–2005 and again in 2012 (see Figure 4.4). Still, the Indonesian government retains a key strategic role in having 51 per cent of the company shares (see Figure 4.5). Therefore, even after 'going public', PT Semen Indonesia remained a state-run business entity.

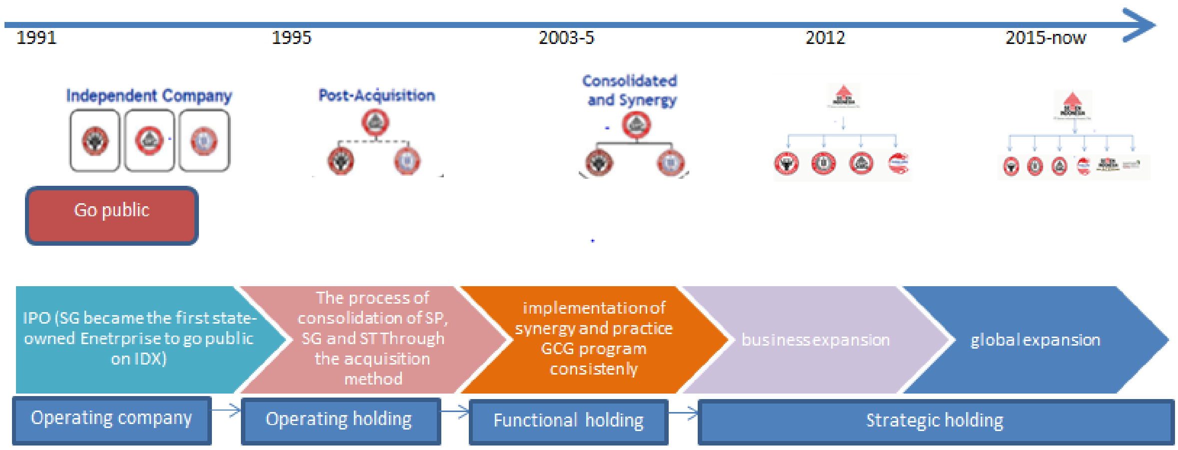

Figure 4.4: PT Semen Indonesia Holding Phases.

Source: modified from Semen Indonesia Tbk(2016d).

PT Semen Indonesia's main subsidiaries (PT Semen Gresik, PT Semen Padang, PT Semen Tonasa and Thang Long Cement VN) were independent national champions prior to their incorporation into the PT Semen Indonesia group (Semen Indonesia Tbk2012, p.6; Semen Indonesia Semen Indonesia Tbk2017, p. 142). Three had strong reputations among SOEs, because they dominated the national market.[42] The problem was that SOE independence encouraged intense mutual competition, with consequences for economic performance and financial returns to the state. The Indonesian government realised that all four could work

[42] Rightsising Indonesian SOEs through holding structure needs to fulfil some requirements that are similar: business activities, different market segment, competitive, good prospect and if they are wholly owned/majority shareholder. The holding company must change into a similar product company or area (Fitriningrum 2008, p. 7).

more effectively as one and, because the cement market was growing, the formation of a holding company was considered urgently needed.[43]

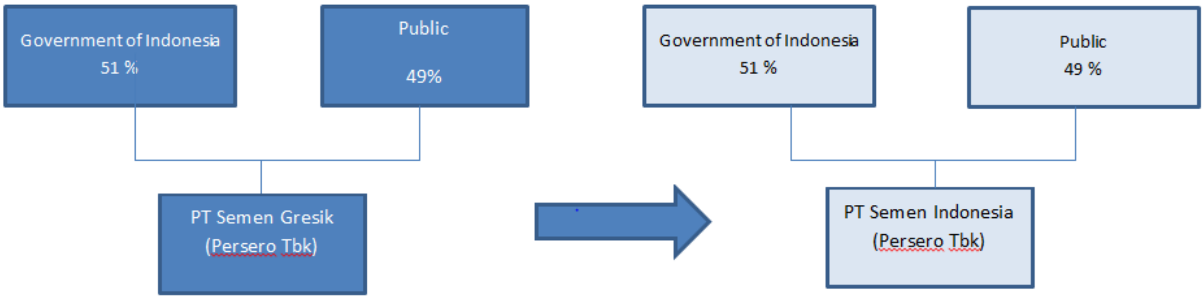

Figure 4.5: Ownership Structure of PT Semen Indonesia.

Source: reprinted from Semen Indonesia Tbk(2012).

As another form of state control, Indonesian SOEs have been given financial support through the granting of state assets. Although these assets are managed outside the state budget system and are noted as a split transaction[44], they are still owned by the state. As stated in Law 19/2003,

- State assets that are separated if the wealth of the country comes from the state budget (APBN) to use as the state capital equalization in the listed and / or special purpose entity company as well as other non-listed company (Republic of Indonesia 2003 Chapter 1 of Article 1 Paragraph 1).

Explanation:

This provision means that assets that are given to the SOEs to be managed legally belong to the state and to the Indonesian people. Reaffirming the national development focus of market-oriented reform, the law stated that:

> Motive and purpose of the establishment of state-owned enterprises are contributing to the national economic development in general and state incomes in particular; b. The pursuit of profit; c. Organize public service in the form of providing goods

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[43] Interpreting the findings based on interviews with echelon staff of the Ministry of SOEs, the board of directors of PT Semen Indonesia and staff of PT Semen Tonasa (the subsidiary).

[44] The split transaction in Indonesia budgeting system is the financial scheme that is categorized as separate transaction in the national budget balance of payment. It goes without going through state budget mechanism. Yet, it originally come from the State Revenue and Expenditure Budget in the form of: a. fresh funds; b. state property; c. state receivables in BUMN or Limited Liability Company; d. state-owned shares in BUMN or Limited Liability Company; and / or e. other state assets (Indonesia 2016).

and/or services that are high quality and adequate for fulfilment of livelihood of many people; d. A pioneer in business activities that cannot be implemented by the private sector and cooperatives; e. Participate actively in providing guidance and assistance to businessman in economically weak groups, cooperatives, and society (Republic of Indonesia 2003 Article 2, General Principle No.1).

Explanation:

The obligation and role of SOEs in Indonesia are twofold: as an agent of the state and as a business market actor. An SOE acts on the behalf of the state to gain protection from the state, but it is also expected to create profits. For instance, cement plants have been built by SOEs in areas where infrastructure is limited, in Papua and other Indonesian provinces, in South Sulawesi and East Nusa Tenggara. Despite the high cost and lack of means of transport, the government chose to direct SOEs to generate income-earning opportunities for Indonesian people who are disadvantaged by distance from Java, the centre of Indonesia's economic prosperity.

Since the fall of Suharto, Indonesia lacked a specific and detailed industrial master plan. During SBY's second term, Indonesia finally generated a visible road map for its industrial sector. Presidential Regulation No. 28/2008 reaffirms the role of the state in economic development and the direction of SOEs (Republic of Indonesia 2008, see Figure 4.6). Setting out a long-term strategic vision, the regulation stipulated:

1) In 2025, the Indonesian national industry is expected to have the following characteristics: a) world-class manufacturing sector, b) the potential for a strong growth and structure, as well as a prime mover (priority) of the economy, c) the balanced and uniform ability across the business scale, d) ta high role and contribution to the national economy and e) the various aspects of industrial structure to support sustainable development (Indonesia 2008, p. 8).
2) In the long-term development of the industry that is aimed at strengthening and deepening the cluster growth, the industry group priorities are a manufacturing industry base, which consists of industrial groups
    a) a material industry association, consisting of
        i) the iron and steel industry
        ii) the cement industry
        iii) the petrochemical industry
        iv) Industrial ceramics (Republic of Indonesia 2008, p. 14).

3) The merger or acquisition of an SOE is managed through incorporation with other existing SOEs. An SOE can take over different SOEs and/or other limited liability companies (Republic of Indonesia 2003 Article 63).
4) Further provisions on merger, consolidation, acquisition and the dissolution of state enterprises are regulated by government regulation and 2) in performing the acts referred to in paragraph (1), SOE interests, shareholders/owners of capital, third parties and SOE employees must still receive attention (Republic of Indonesia 2003 Article 65).

The next key regulation that was identified as the manifestation of a state strategic policy over SOEs was the Government Regulation No.41/2003 (Indonesia 2003). This rule has not been changed in the 14 years since it came into effect, and it remains significant in the context of SOE governance. Below are some fundamental articles that clarify the role and function of Indonesian Minister of SOEs.

- Position, duties and responsibilities of the Minister of Finance in the field of construction and SOE supervision is delegated to the Minister of State-Owned Enterprises (Republic of Indonesia 2003 Article 1).

Explanation:

According to its history, before 1998, the ministry of SOEs was under the directorate of Ministry of Finance. In 1998, after it became a separated ministry, the Ministry of SOEs had been transferred to a specific function, while still having a direct correlation to the state finance. It means that the minister of SOEs shared authority with the Ministry of finance in dealing with SOE equalisation of capital.

- Position, responsibilities and authority that are delegated from the minister of Finance to the minister of SOEs, as defined in Article 1, is to a) represent the government as a shareholder or AGM, as provided by the Government Regulation No. 12/1998 on limited liability company (public listed), as amended by Government Regulation No. 45/2001 and the limited liability company that is partly owned by the State Republic of Indonesia (Republic of Indonesia Article 2)**.**

Explanation:

This second part explained the main role of the Ministry of SOEs in accordance to their capacity over the minister of finance. As a consequence, the regulations identifies the representation of the minister in the highest level of the firm’s structure. In this sense, the power of the minister of SOEs inside the company is substantial and tangible. As such, the distinction between the scope of the minister of SOE and the minister of finance is clear. For financial matters, the authority is with the ministry of finance. If related to operation and management matters, authority is held by the Ministry of SOEs (Ministry of State_wones Enterprises 2015, p. 10).

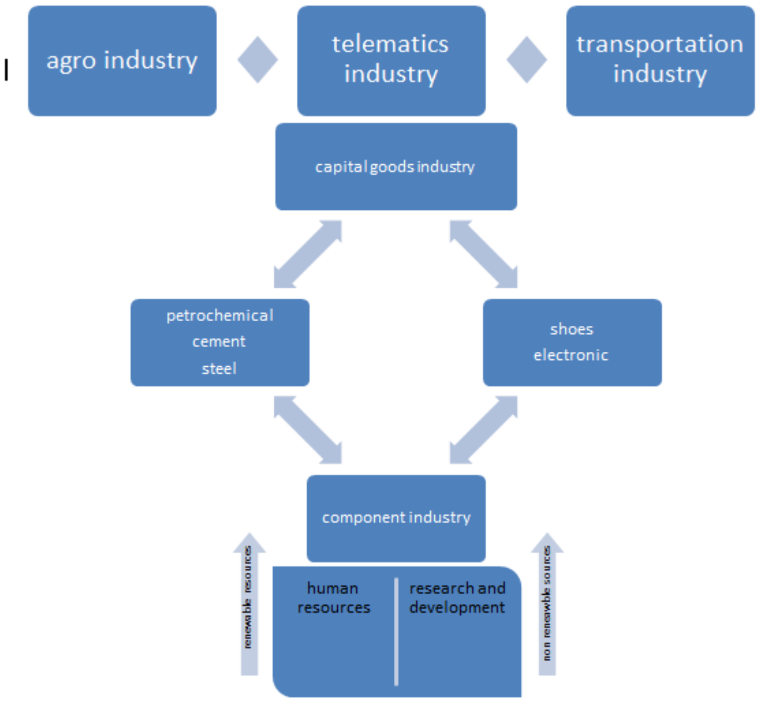


Figure 4.6: Configuration of National Industry in 2025.

Source: reprinted from Republic of Indonesia 2008, p. 7.

The next two laws that govern the activities of PT Semen Indonesia as a SOE are Government Regulations No. 44/2005 and No.72/2016. These two instruments were consistent with previous policies regarding the role of SOEs, types of SOEs, ministers’ authority and source of SOE capital. Overall, the law addresses the method of capital equalisation of SOEs. The crucial part of this regulation is identified through its newest legalisation in Government Regulations No.72/2016. Strategic policy is guided by Government Regulation No.72/2016, which is the most recent rule concerning the advancement of the holding model of SOE organisation and management. Before the expansion of PT Semen Indonesia, the Indonesian government had no legal base from which to create a holding company. While the restructuring of PT Semen Indonesia did not violate any legal code, the Indonesian government, led by the minister of SOEs—Rini Soemarno—initiated the new Regulation to avoid future legal challenges. The regulation clarifies the legal basis for the holding mechanism. The article below highlights the continuing role and ownership of state within holding company structures. As the Article stated:

> Subsidiaries of state-owned companies as referred to in paragraph (2) shall be treated equally with state-owned for the following: a. obtain assignment of the Government or the carrying out of public services; and / or b. obtain country-specific policies and / or the Government, including the management of natural resources with a particular treatment as applied to SOEs (Republic of Indonesia 2016 Article 2A paragraph 7).

As a new legal base, the Government Regulation No. 72/2016 not only demonstrated the government's strong commitment to developing good corporate governance, it also manifested the beginning of Indonesia's new phase of development, in which the developmental mission of SOEs is less hindered by factional political agendas.

There were changes in the ministerial structure inside the Ministry of SOEs by the addition of Jakarta Post s regarding deputies and expert units. The newest presidential regulation indeed signified the importance of cement product in the Indonesian economy. The current law categorised cement as an essential commodity. Because of that, the government has the authority to set a price range—particularly during the religious holiday, when the demand is low, and in times of price volatility. The price setting is significant in assuring that the supply of cement and its price is controllable. In setting the prices, the government is more responsive to market demand. In 2015, for example, Jokowi instructed PT Semen Indonesia to lower its cement prices, which the government had the power to do, claiming that they were uncompetitive (Gumelar 2015). Private companies had no choice but to follow the instruction or lose business.

In ministerial level- higher structure in policy making, there was also a road map concerning cement industry that was made by the ministry of industry during SBY's term. The road map aimed to guide the development of the cement industrial cluster. It contained targets, strategies and policies, as well as an action plan within five years of the period. The document clearly presented the goals of the medium term (2010–2014), which were the growth of production, realisation of national needs and the requirement of SNI. For the long term (2010–2025), the document intended to meet the national cement demand, the guarantee of coal in the long run, the availability if competent operator staffs, the chance to strengthen of competitiveness and the realisation of cement engineering and fabrication (Industry 2009b).

Meanwhile, the Ministry of SOEs specifically follows a special blueprint, defined and redefined since it was created as a separate ministry in 1998 (Table 4-4). However, there are only three recent iterations discussed here. In the first term of SBY's second administration, the master plan of 2010–2014 was a ministry proposal for managing Indonesian SOEs. The 2010–2014 master plan contained a specific design, scenario and aims of the restructuration program, which must be embodied the three cement SOEs altogether.[45]

Table 4-4 Key Findings of the Master Plan and/or Strategic Plans Regarding PT Semen Indonesia[46]

Master/Strategic Plan	Vision
State-owned Enterprises Master Plan 2010-2014	Actualising the SOEs as instruments of the state to increase welfare of the people by the corporate mechanism
State-owned Enterprises Strategic Plan 2012-2014	Being the supervisor of professional SOEs to increase the value of state-owned enterprises
State Owned Strategic Plan 2015-2019	Being the supervisor of professional SOEs to increase the value of state-owned enterprises

Source: Ministry of State Owned Enterprises (2010)

Table 4-5 The Rightsizing Program of SOEs 2014

No.	SOEs Sector	Quantity after	Restructuring Model					Quantity After
			SA	L	D	H	MK	
1.	DAMRI7 PPD, PT Jasa Marga	3	PT JM	-	-	-	Damri, & PPD	2
2.	PT Inti, PT Barata, PT LEN, PT INKA, PTKS, PT	8	PT KS, PT INTI	-	LEN, Barata, BBI		PT Pindad & PT Dahana INKA	3

[45] There were three cement SOEs listed: PT Semen Indonesia, PT Semen Baturaja and PT Semen Kupang. In 2013, PT Semen Kupang was taken by PT Agro Industri, but it still acts as an SOE.

[46] The prior master plan was for 2002–2009. However, the document will not be the focus of analysis.

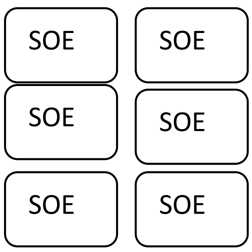
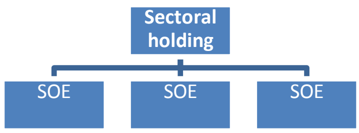
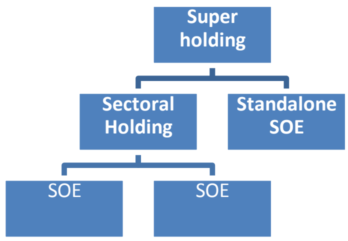
	Pindad, PT Dahana, PT BBI						diakuisisi oleh PT KAI	
3.	PT Semen Gresik Semen Indonesia Tbk, PT Semen Baturaja, PT Semen Kupang	3	PT Semen Gresik Semen Indonesia Tbk, PT Semen Baturaja	-	PT Semen Kupang	-	-	2
	Total	14						7

Source: enterprises (2010)

The reformation and progress within the Ministry of SOEs continued after Mustafa Abubakar was replaced, noting that the central objectives of the government are the transformation of Indonesian SOEs to be strong and active agents of development (Enterprises 2016a).

The latest strategic plan of the Ministry of SOEs has been clear in defining and conceptualising the mission of what to do in the next four years to come. Central to the master plan is the notion of synergistic work. Rini Soemarno, the current minister at the time of writing, viewed that consolidation process (integrating SOEs) became the most pivotal plan in restructuring Indonesian SOEs. The integration meant that the SOEs asset and stock should be under one management (Enterprises 2016a, p. 101).

Table 4-6 Holding Scheme Structure.

Currently	In the Process of Forming a Holding Company	Super Holding Company
Ministry of SOEs  	 Ongoing: • Cement holding • Fertiliser holding Improvement: • Plantation holding • Forestry holding Plan: • Construction • Pharmacy	

	• Mineral and mining • Banking • Energy • Infrastructure	

Source: Enterprises (2016a)

There are three model corporate forms that are planned by the Ministry of SOEs, but the holding model is the long-term target (see Tabel 4-6). The restructuring of the organisation essentially proceeds because it significantly affects the SOE corporate governance. As such, there are four challenges to having a productive SOE: large quantity of SOEs, time-consuming bureaucracy monitoring, duplication in the similar area and internal competition (Enterprises 2016a). When the holding form has been fully undertaken, it will eliminate those challenges. Indonesian SOEs would be more flexible, efficient and productive.

Despite the long exposure of findings relating to the national priorities on paper, the interview results showed inconsistencies with the explanation from the bureaucrats[47]. The official agreed that Indonesia has the development guideline, but he rejected the concept of prioritising the industry sector because he explicitly said that there has been a complex situation in the process of the RPJMN decision-making. On one side, the guideline was made due to a lack of resources and limited time, of which 60 per cent related to the president's political promise/contract during his campaign. In the other side, they also included too many sectors as priorities, making the policy formulation and decision-making far from ideal.

From the findings above, the national priorities part can be summarised in Figure 4.7.

[47] Interview with Staff of Bappenas on 12 July 2016 in Jakarta.

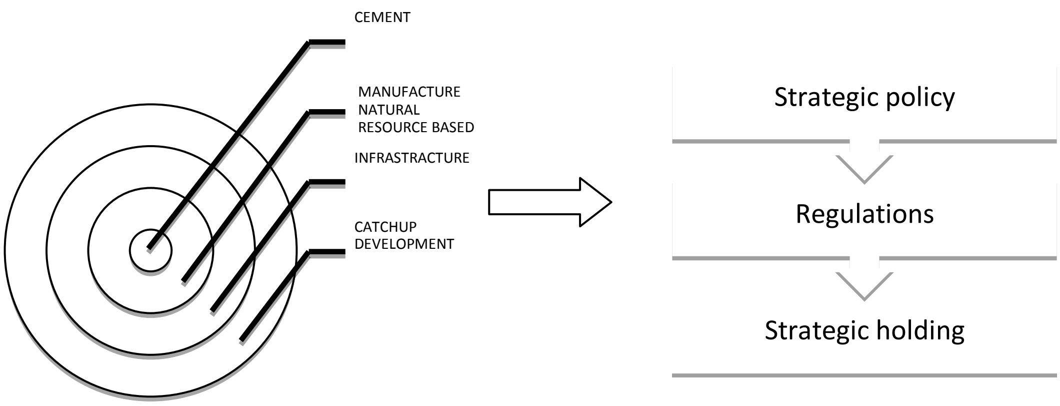


Figure 4.7: Indonesian National Priorities for the Cement Industry.

Source: summarised by the author.

4.2 The Persistence of the Neo-DSM through the Case of PT Semen Indonesia: What Remains and Is Missing

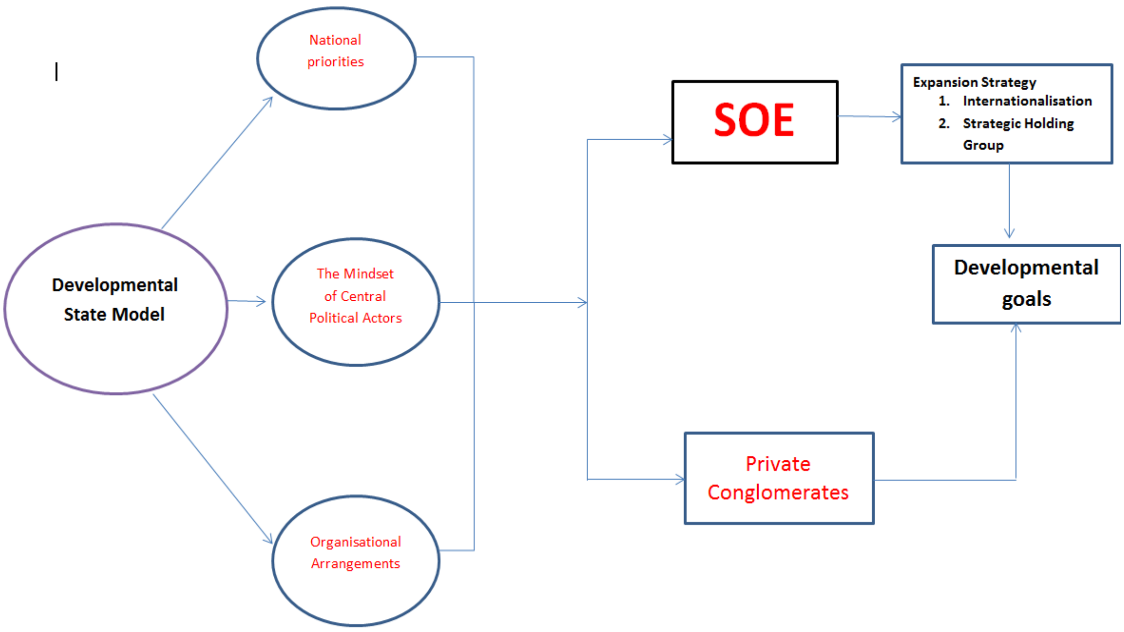


Figure 4.8: DSMs.

Source: Weiss (2000), Thurbon and Weiss (2016), Öniş (1991), Johnson (1999), Beeson and Pham (2012).

This chapter considers the relationship between PT Semen Indonesia and the DSM. These research findings confirm the proposition given in Chapter 1 that PT Semen Indonesia's expansion reflects the persistence of what this thesis named Neo-DSM. The findings suggest that the substance of DSM is only adapting and transforming—it never left East Asia, including Indonesia, even after the crisis in the region 20 years ago. That persistence, as this thesis has found, has demonstrated the correlation between PT Semen Indonesia and

Indonesia's ambition of developmental catch up. It becomes crucial to linking the two because it establishes how the elements of an Indonesian DSM persist in the globalised world and their implications for a successful SOE, like PT Semen Indonesia. The implication here refers to what element has survived and what element has been missing. However, the elements of DSM were placed on the state strong intervention. As such, this thesis offers a modification to the classic model that defines Neo-DSM.[48] The word 'neo' in the context of developmental state here refers to Indonesia adjustment in adapting the model which was influenced by the national condition, the structural adjustment program and global context after the AFC. Most importantly, an Indonesian Neo-DSM today is situated in the shift of developmental agent, from private conglomerates to SOEs (see Figure 4.8).

Through the lens of Neo-DSM, there are some crucial questions that were asked earlier in this chapter. The first substantial question that was asked: does the state still play a major role, or is it a part of the solution to Indonesia's economic development, just like Thurbon and Weiss (2016) identify from the earlier DSM version? The answer to this is clear when considering that the role of the government persists, yet in a more dynamic and flexible way than before, which is once again emphasised as Neo-DSM. The second question asked regarding the case study of PT Semen Indonesia is, is the cement sector that the government selected a priority? If yes, then why? The findings of this study suggest that it is more complicated, that the Indonesian government has been focused on many industries despite the national road map and development plan (Unido 2016), making it hard to claim that the cement industry has been the priority industry. It is true, however, that cement has benefited from the infrastructural projects. This infrastructural target has been pursued with broad support from the citizens, despite the push and pull of short-term interests—which is the core ingredient of the transformative capacity of any DSM (Thurbon & Weiss 2016). This is because the previous and current government understood from the studies conducted by Indonesian and international experts that infrastructure is the key to Indonesia's economic development. Therefore, cement product has been pivotal for Indonesia as an emerging economy because it

[48] During the time this thesis was written, the study of Indonesia's political economy has focused on the re-emergence of developmentalism. However, the studies are using the word 'new' like Warburton (2016), which referred to the development process in Latin America instead of Indonesia, or Aspinall (2016). Patunru and Rahardja (2015) and Robison and Hadiz (2017). Apart from those studies, there was an article by Wilson (2015b) that shared a close analysis to this thesis. Wilson's work confirmed that Indonesia resource nationalism has been driven by developmental strategies. His arguments were based on Indonesian economic policies on export and tax regime.

is the foundation for other sectors and the growth of Indonesian economy (Plunkett et al. 1997). Cement demand has a direct correlation with infrastructural development, in which the core elements of the developmental state are situated (Roberts et al. 2015).

Therefore, the Indonesian government had to lead and play an active role to close the gap. This is consistent with Aguiar's (2007) argument that the state played an important role in the development, including the infrastructure. This is because there has been lack of private participation in national economy, especially because the old conglomerates like Salim Group have relocated. Hill (2007) claimed that the Indonesian government failed to attract the private business to tackle the problem of Indonesia's economy. However, making private business to actively support the government's projects is not an easy task. The market mechanism is not working well in Indonesia. As Hill (2007) highlighted, the problem with pricing and land acquisition would create challenges for the private to take the infrastructural projects. The case of pricing and land acquisition is also influenced by other fundamental problem, in which the Indonesian government has no choice but to take an active role. The fundamental problem here applies to the sector for financial benefits, for example. In developed countries, the profit margin for any business activities is high; in Indonesia, it is not. Thus, it is no wonder that SOEs were unwilling to take non-commercial projects (World Bank 2017).

The next question to address is if the cement industry was categorised as a priority sector, then how has Indonesian government managed the sector (Thurbon & Weiss 2016)? There are two methods that the Indonesian government could have used, regarding the strategic industrial policy of the cement sector. First, the government directly intervened by establishing more cement SOEs. The government also kept them as state-run entities and created a cement holding to strengthen the business capacity of cement SOEs to build a monopolistic cement industry. Out of six Indonesian cement SOEs in the present day, five are owned by the national and local government (Semen Indonesia Tbk 2017d). Second, the government supports the industry through indirect control of regulations and a mix of policies, including the creation of a holding, giving away infrastructural projects and helped them go global. Wilson (2015a) described this as a resource nationalist policy. In an indirect way, the Indonesian government had already issued several regulations, such as distribution quotas (Plunkett et al. 1997), local market reference prices (*Harga Pedoman Semen*) (Plunkett et al. 1997) and a list of current policies and regulations, as explained in the above section. Although it is not identical, this has been in line with Wilson's (2015a) argument on resource nationalism; he recognised the government intervention to achieve a set of national benefits. However, the indirect and direct supports were not necessarily provided for free. After the 1997 crisis, state support was conditioned by performance requirements, and this is in line with Thurbon and Weiss's (2016) argument of incentives conditionality.

With respect to direct government intervention, in countries using the DSM, like Taiwan and Singapore, the SOEs play a bigger role in their economies (Amsden 1995). Although SOE was not a popular agent compared to the private conglomerates, such as Chaebol in Korea in the period of Asian Miracle, countries continue focus on their SOEs. Countries such as Singapore, Malaysia and China maintained to have their SOEs even after the AFC (Kim & Chung 2018). In the context of Indonesia, the role of the SOE is still highly significant, but not as strong as in the case of South Korea or Singapore. This is due to Indonesia's SOEs continually aiming to accelerate national strategic projects (World Bank 2017). Therefore, it is unsurprising that Indonesia has 118 SOEs in various sectors, including PT Semen Indonesia (SOEs 2017). Thurbon and Weiss (2016) have explained that there has been a policy mix in developmental states, which varied over time and place.

The latest findings on Indonesia's SOEs have been in accordance with a few of the current studies. Warburton (2017, p. 15), for example, stated that:

> The government continues to expand and empower its state-owned enterprises and appears committed to cultivating a domestically owned and value-added resources sector. This indicates that perhaps a permanent transition is underway.

One may ask, how could this happen in the country that has been patronised by the neoliberal international regime? The answer is obvious. Indonesia still depends on its state-run companies for its development agenda because the government knows that, in the Indonesian context, the invisible hand does not work as the theory argued. Many suggested that this is due to the bureaucracy's reluctance for change (Mallarangeng & Tuijl 2004; Friawan 2007; Latul 2013; Muhtadi 2015). This thesis, in contrast, suggests that the challenge for reform was due to the mindset of the elites, and that the bureaucracy was strongly shaped by its perception of the state's role. In Indonesia, the concept of state is fundamental. One must not forget that everything has been under state responsibility in Indonesia—from religion to family issues. Therefore, the duty to manage the strategic industries or sectors is given to the government.

Like telecommunication and electricity (Latiupulhayat 2010), cement became a strategic industry for Indonesia, in which the government was highly invested. Since the cement sector became the Indonesian government's priority, the sector has been subjected to special treatment. Consequently, the cement sector was one of the latest sectors to be deregulated (Plunkett et al. 1997). During the period of Suharto and Sukarno, the cement industry was highly protected. Though the protection is no longer as strong as it was then, the findings above demonstrated how the state still has power over its SOE. This situation is quite inconsistent with many scholars. For example, Amsden (1995) suggested that the presence of SOEs were caused by the weakness of key state assets that form the entrepreneur skills of indigenous people—or, in Indonesia context, *pribumi*. Even when the cement private businesses are growing, PT Semen Indonesia keeps expanding.

The inconsistency between Amsden (1995) and Indonesia's reality may have related to the fact that the company has been a part of the Indonesian strategic sector, thus the state continues to play key role in it. Cement sector become strategic because it links to other sectors and influences the economy (Iqbal & James 2002). This is apparent from the national policies and regulations, in which the cement sector was considered the base of the national industry. However, because Indonesia is a member of international organisations, it is bound by liberal rules. Therefore, the industry does not protect through direct instruments like subsidies or tariff barriers, as it had done in the period before crisis. However, the national interest of the cement sector is protected by the state's control over the SOEs, through exercising foreign policy and diplomacy goals and social and financial objectives (Cuervo-Cazurra et al. 2014). By this strategy, the Indonesian government exhibits dualism in its economy. It showed favour over liberal principles by removing direct interventions to PT Semen Indonesia, but it conversely demonstrated state-led economy through its industrial policy over SOEs and infrastructural sector.

The market's failure then became the justification for Indonesia to rely on its SOEs. The most important goal of any SOE, including PT Semen Indonesia, from the state's perspective as a shareholder is certainly not focusing on making profits (Ramamurti 1987). If it does, then there is no point to keeping PT Semen Indonesia as state-run entity. This thesis argues that maintaining cement SOEs and making them run collectively under one holding must be aimed beyond cost calculation. Indeed, holding—though it helps increase the company assets—strengthens the company's political power, in the sense that it can be isolated from the complex bureaucratical riddle (especially from the House of Representative's control). That conclusion may be an arguable point because the government (of Sri Mulyani and Rini Soemarno) has asserted that the proxy of the House of Representatives will continue to work (Ardhian 2017; Sawitri 2017), though the new law contradicted this. Kim (2018) has affirmed this conclusion by highlighting Indonesia (2016), which stated that the state capital transfer does not have to go through a state budget mechanism.

For the purpose of the state's power over the companies, within and beyond golden share status, the long lists of laws and regulations on Indonesian SOEs in general and on the cement industry—and on PT Semen Indonesia in particular—have been vague and unclear. Warburton (2017) had come to the same conclusion, yet she believed that it demonstrated the push and pull between policymakers and business elites. Therefore, this thesis objects that what happened with Indonesia's industry particularly in cement sector is solely controlled or shaped by oligarch. In contrast, this thesis argues that the government is the main actor in this context, both that of SBY and Jokowi. It is unsurprising that in the Indonesian context, despite the privatisation, the state still plays the role of owner, operator and regulator. In the cement sector, which has now been privatised, the government has all three roles, to the extent that it still effectual. However, the regulations regarding SOEs—especially those which were issued under Rini Soemarno—are in line with Latiupulhayat's (2010, p.68) explanation on how the government maintains its control in the privatisation through golden share mechanism. He argued that there are two main reasons behind this. First, golden share aims to protect the national interest. In cement context, the national interest relates to infrastructure and housing sector. Second, it appears to be reasonable for foreign investors in doing business in cement sector, given the fact that Indonesia still rely on foreign capital. By protecting the national interest and respecting the foreign investor share, the Indonesian government has a winning solution to the advantages and disadvantages regarding state ownership (Latiupulhayat's 2010, p.68).

In the market, PT Semen Indonesia is facing a difficult situation with intense competition and the existence of WTO as the international regulator. However, this does not imply that the state lost its method of controlling the situation. The interview revealed that, in practice, the Indonesian government has been going underground, covered by a complicated policy that was enacted to protect the national interest[49]. This thesis argues therefor that the holding formation was one of government methods to secure the national interest. The other strategy is by opening the moratorium of business licences in the cement sector—though the Ministry of Industry ultimately decided to cancel that plan. Although the cancelation of cement moratorium was not clear (Nurfadilah 2018). Afterwards, those findings clarify that the state role is not only present to as regulator to only comfort the market and let it alone works.

The second point to note to examine Neo-DSM through the case of PT Semen Indonesia is the institutional hardware or organisational arrangement of PT Semen Indonesia. This includes the bureaucratical nature of the company. Bureaucracy is a major problem in Indonesia (OECD 2009) and Indonesia's complex bureaucracy has been given political and business interests that protect the national economy from foreign competition (Robison & Hadiz 2017). However, the SOE has always been accused for being inefficient, poorly managed and unproductive (Cuervo-Cazurra & Ramamurti 2014; Kim & Chung 2018), particularly due to the presence of red tape and an oligarch interest. To that end, the reform of the Indonesian SOE's corporate governance was pushed, especially after Suharto's stepped down. Indonesia has transformed the SOEs management into one more accountable and cleanly governed. Nonetheless, it is still limited in the context, such as ownership and national policies. However, it was not accurate to accuse oligarchs as the only factor or even as the dominant factor of this structural change. This thesis's findings deny that the reform did not work at all, as Robison and Hadiz (2017) concluded. The problem is that the difference among DSM lies on their state capacity- a concept that depends on the institutions, rather than policies or economic structure (Thurbon & Weiss 2016). However, the concept of Neo-DSM emphasises the consequence of globalisation, which is impossible to dislodge, and as a result changing the nature of Neo-DSM policy strategies from a monolithic and unnegotiable to a flexible and dynamic policy making and output. Against the pessimism and distrust over Indonesia's economy, the country, or its SOEs, managed to grow rapidly and continue expanding—that is to say that the Neo-DSM is working. Khan and Jomo in Hill and Gochoco-Bautista (2013) had supported this view by saying that the existence of rents allows economic development to occur.

[49] Interview with Staff of Bappenas on 12 July 2016, in Jakarta.

Following the institutional hardware, the last element of DSM to be examined is the institutional software. The presence of national priorities and bureaucracy would not be maximised and effective if one country is missing a developmental mindset elites and bureaucrats. It also will not work effective without close relation between state and market (industry) meaning that political and economic actors have intense communication in the policy input, negotiation and the policy implementation. In the past, close relations between the state and market formed through regular consultation meetings between the Ministry of Industry and cement companies.

Regarding the state–market nexus, the intriguing question to ask is, how Semen Indonesia was able to expand when the situation is not so ideal for Indonesian SOE? The answer rests in the 'mutual interaction' of PT Semen Indonesia and the government. The company's ability to connect with elites and bureaucrats in a positive light has built a trust and reciprocal nexus between the state and market. This in the DSM is known as public–private cooperation (Weiss 2000). Just like other private companies, PT Semen Indonesia must keep the business running. To do so, it depends on government support. Additionally, the government relies on this sector to run for the purpose of national development. The mutuality thus allows both sides to coexist. Given this fact, it is clearly possible for the two contrary actors work well together, while the political intervention remains.

However, in the context of giving a social mandate to PT Semen Indonesia, it is necessary for the government to 'repay' the company. This is in line with Ramamurti's (1987) research, which indicated that when the government 'directives' towards SOEs for instance in price control, then it must compensate the SOE financial losses. That is to say that, to be fair, the Indonesian government may need to give the company additional support. However, the support does not have to be preferential access to finance; it could be supportive policies, such as easier access to forest utility permits.

Given the three indicators for examining the case of PT Semen Indonesia and the cement industry, the national priorities and the institutional software and hardware, the findings suggest that Neo-DSM maintains a new legitimate strategy to sidestep the 21st century political and economic challenges that are exported by hegemonic powers from the developed world. Putting it differently, the case of PT Semen Indonesia demonstrates that it is inaccurate to judge Indonesia either as a liberal state or a predatory state. The findings above reveal that the Indonesian government exercises the overlooking analysis of Indonesia's Neo-

DSM by reviving private economic interest. As Robinson argued, this was even until today not intended to weaken the ‘hegemony of the politico-bureaucrats’ in Indonesia (Leftwich 1995). A review by Aspinall (2013) also found that it would also be wrong to exaggerate the decline of the state. Indonesia, under Suharto as well as SBY and Jokowi, has demonstrated similar characteristics.

It can be thus be assumed that the argument by Stubbs (2009) on the evolution of Neo-DSM, even before the AFC, was matched with this thesis’s results. Stubbs (2009, p.9-10) stated:

> However, against these forces for change can be arrayed a number of factors which tended to promote the continuity of the DS. Most importantly, ideas and institutions have a ‘stickiness’ or resilience, usually referred to as ‘path dependency’, that ensures that they continue to be influential in terms of policy making even after the circumstances that elevated them to prominence have changed. The ideas and institutions that were associated with the period of the emergence of the DS became highly entrenched because they were associated with the transformation of the economy from poverty and social dislocation to a measure of prosperity few had dreamed could be attained.

In the future, the trajectory of Indonesia’s development path cannot be simply comprehended as in or out of the global capitalistic system, either by being a weak or strong state. It is a way of balancing its position in the competing world or be mentioned by Thurbon and Weiss (2016, p. 641) as ‘security imperative’.

Chapter 5: PT Semen Indonesia's Global Expansion—Build the State's Power

The previous chapter has explained the connection between Indonesia's development context and the expansion of PT Semen Indonesia in general. This was included in the infrastructure and cement industry as a part of the national priorities, which are discussed in Chapter 5. The chapter sets out how the Indonesian bureaucracy (organisational architecture and mindset) of SOEs worked and how the institutional links between the SOEs and the state (ministries and government institutions) should be managed. Therefore, to appreciate the background to this expansion process, this chapter will address the findings of research into the growth phase of PT Semen Indonesia and examine the implications of its strategic direction.

The Company's expansion exemplifies the interrelationship between objectives, phases and supporting factors in the expansion activities of an EMMNC. This interrelationship is crucial to understanding PT Semen's internal capacity, its role in Indonesian national economy specifically and its role in the global economy in general. There are strong correlations between company growth and state–business relations during the Suharto term. The success Indonesia company for decades must therefore be an integral part of the Indonesian economic growth story as a whole.

This chapter argues that the expansion of PT Semen Indonesia is reflected in at least three major changes: in share ownership, management structure and performance. The transformation began when the company decided to become an independent publicly listed company in 1991. Autonomy has influenced the company's ability to adapt and innovate. Past experience with private and foreign companies' partners also affects how the company was run; this was reflected by the change of the company's ownership to now be a public company. Privatisation fell short of creating a wholly market-oriented corporation. However. there was a huge opposition from those on the inside to extensive reform, especially foreign share ownership by Cemex[50]. On this issue, economic nationalists succeed in preventing the state company from being sold to foreign shareholders. PT Semen remained mainly owned by the Indonesian government, which regards it as a strategic asset.

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[50] The Mexican cement company which was previously described in Chapter 3.

On the management side, the issue of holding the company together and facilitating internal and external cooperation was a challenge. It takes gradual transformation in decades to build a strategic holding, as PT Semen Indonesia has today. The achievement is attributable to ex-director Dwi Suciptjo's capacity to handle the internal conflict between subsidiaries and to create the conditions for production and market share to increase. PT Semen Indonesia is one of the most successful Indonesian SOEs due to its innovation and growth in terms of its production capacity and its ability to adjust to dynamic markets at the national and global levels. This is evident from the company's competence to survive as a key player in the national cement industry, its acquisition in Vietnam and its growing market in the region.

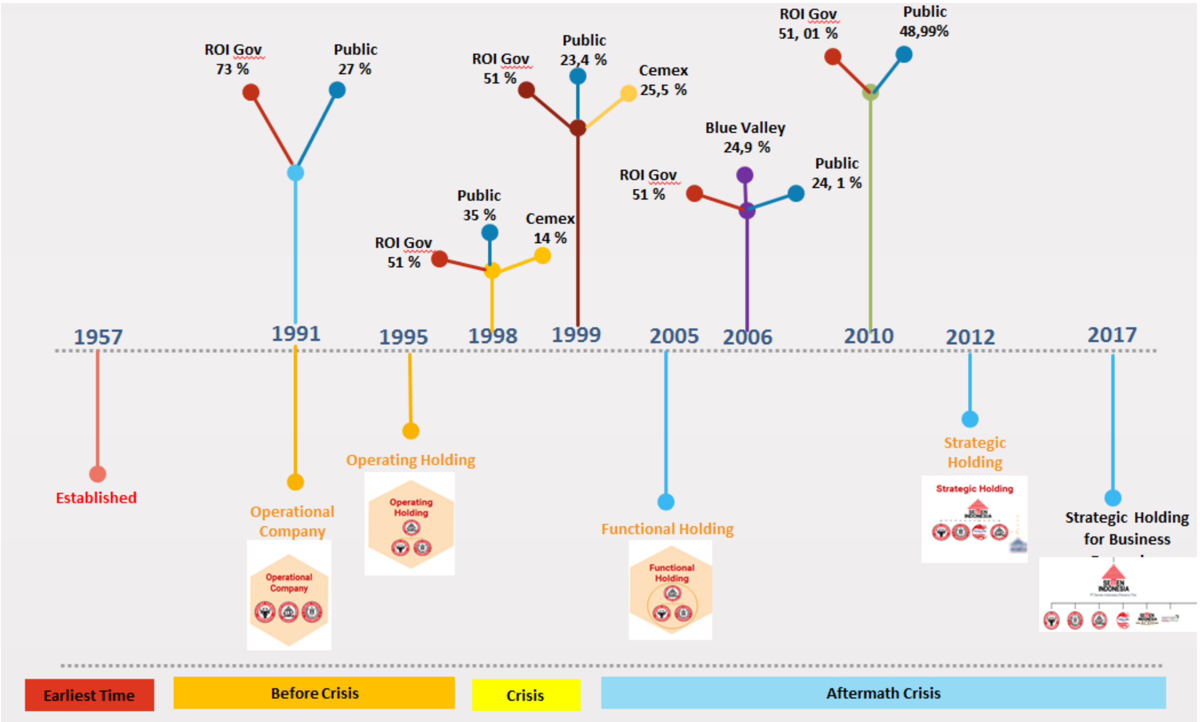

Figure 5.1: PT Semen Indonesia Evolution from Independent Company to Strategic Holding Company.

Source: Semen Indonesia Tbk(2011, 2016a, 2016d, 2018)

5.1 PT Semen Indonesia: An Indonesian Successful, State-Owned Holding Company

Today, PT Semen Indonesia is the biggest cement holding group (Young 2016, p. 7) in Indonesia and one of the top five in Southeast Asia, after Siam Group and Holcim (Soetjipto 2014), especially after its recent acquisition process of Holcim Indonesia (Jakarta Post 2018). At its establishment as a strategic holding group in 2012, PT Semen Indonesia only consisted of four subsidiaries: PT Semen Gresik, PT Semen Padang, PT Semen Tonasa and Thang Long Cement (TLCC). Today, with the addition of PT Semen Kupang and PT Semen Indonesia Aceh, there are six affiliates of the group (Semen Indonesia Tbk2016d, see Figure 5.1). Among cement companies in the country, PT Semen Indonesia is considered the most successful based on its productivity, market share[51] and management structure. In recent years, its production capacity has risen along with its market share, making it one of the top cement producers in the Southeast Asian region (HN Chandra, Ambari 2018). The management is likewise more synergised, internal conflict like spin off has been minimised. Meanwhile, the company is likely to continue growing as Indonesia's cement consumption still one of the lowest in the region. Therefore, this subsection will compare and contrast the condition of the company before and after the expansion to understand the nature, context and process of its transformation.

5.1.1 Indonesia's Top Cement Producer

To understand the business capacity of PT Semen Indonesia as a cement producer, there must be a comparison between its production and market share before and after expansion to note the company's competitive advantage and assets. Before expansion refers to the period when PT Semen Indonesia was still an independent company (from 1957 to 1991), whereas the period after commenced from the time when it became an operating holding (since 1995). From Figure 5.2, it is clear that there was a significant rise on the period of pre and post consolidation subsidiaries.

PT Semen Gresik's production size alone was once the highest in Indonesia in the decades before its incorporation into PT Semen Gresik Group in 1995 (Soetjipto 2014; Plunkett et al. 1997). Gresik's capacity production was 500 thousand tonnes from 1957 to 1974, which is five times larger than another cement SOE, PT Semen Tonasa. However, the privately-owned company, Indocement[52], surpassed PT Semen Gresik to win 42 per cent of the total domestic market in the early 1990s (Soetjipto 2014) and 40 per cent in 1994 (see Figure 5-7).

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[51] Market share is the percentage of total sales (volume or revenue) that is claimed by a supplier in a particular market (Times 2018).

[52] PT Indocement Tunggal Prakarsa (a Salim company) was a private company established in 1985 (TBKP 2019) and owned by Liem Sioe Liong. It enjoyed privileges from Suharto before he stepped down in the late 1990s. There were at least two controversial government policies over the cement company. The first was when the government decided to rescue the bankrupt company by taking 35% of the shares for

Gresik's relative decline was influenced by at least two main factors. The first related to what has been explained in the Chapter 1, that PT Semen Gresik lacked capital to expand while the government could not provide sufficient financial assistance. Second, while PT Semen Gresik suffered financially, the private company Indocement enjoyed a privileged position by virtue of being owned by members of President Suharto's family (Plunkett et al. 1997). Thus, it had much financial and political support from Suharto, including being given a prominent role in the national construction project. PT Semen Gresik sometimes had to face intense 'favouritism' competition with Indocement.

Table 5-1 Cement Companies in Indonesia 1994.

Producer	**Ownership**	**No.of Kilns**	**Location**	**Capacity**	
				Million tonnes (pa)	**percentage**
PT Semen Andalas Ind	Private	1	Belawan, Aceh	1.10	5
PT Semen Padang	Govt	5	Padang, West Sumatera	3.00	13
PT Semen Baturaja	Govt	1	Baturaja, South Sumatera	0.50	2
PT Indocement	Private/Public/Govt	9	Citereup, West Java	9.50	40
PT Semen Cibinong	Private/public	3	Narogong , West Java	3.00	13
PT Semen Nusantara	Private	1	Cilacap, Central Java	1.10	5
PT Semen Gresik	Govt/Oublic	4	Gresik, East Java	4.10	17
PT Semen Tonasa	Govt	2	Tonasa, South Sulawesi	1.18	5
PT Semen Kupang	Govt	1	Kupang, NTT	0.12	1
	Total	27		23.60	100

Source: Plunkett, Morgan and Pomeroy (1997, p. 82).

US$325 million in 1985 (Dieleman 2007). The next one was when the government issued a ministerial decree to let the company sell its share in the Jakarta Stock Exchange in 1989 (Dieleman 2007).

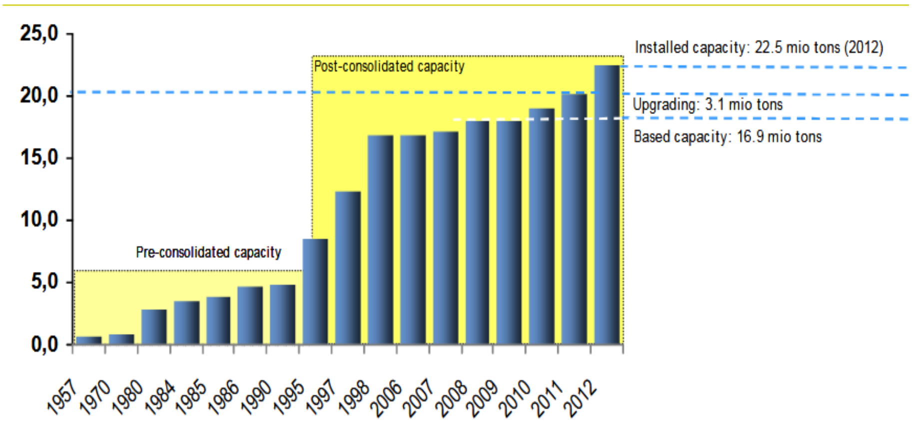

Figure 5.2 PT Semen Indonesia Before and After Consolidation with Subsidiaries.

Source: Semen Indonesia Semen Indonesia Tbk(2012, p. 10).

Following the initiation of the operating holding process in 1995, which was approved by Suharto himself, the production capacity of the expanded PT Semen Gresik Group (PT Semen Gresik, PT Semen Padang and PT Semen Tonasa) made the group the largest producer in Indonesia (see Figure 5.3, Semen Indonesia Tbk2010, p. 3). This marks a significant reorientation of state power since the end of the Suharto era, away from private patronage to regulated state direction. The latest data indicates that PT Semen Indonesia was still the top cement producer in Indonesia, with 40.8 per cent of Indonesia's market share (Semen Indonesia Tbk2018, p. 29). Technically, since the principle of 'ready to change' was a part of the gradual transformation process, in 2007, the group started implementing an integrated scheme in five aspects: production report, total productive maintenance, security parts, best practices and safety health and environment (Semen Gresik Tbk 2008). The five aspects became the baseline of the group formation and management consolidation, ensuring that production by each member company was regulated and consistent with the strategy (see Table 5-1). Each company in the group remained responsible for its own management. Each had its own board of directors and commissioners who worked by following the rules and standards set by PT Semen Indonesia, including the kind of product it produced and the quality of products, the quantity, what raw materials it used and what kind of technology and human resources it needed.

Table 5-2 PT Semen Indonesia Cement Production 2016-2017

Million tonnes	**Jan-17**	**Jan-16**	***Change (%)***
Indonesia			
Semen Indonesia	1.23	1.20	*2.7%*
Semen Padang	0.44	0.52	*-16.0%*

Semen Tonasa	0.45	0.43	*3.3%*
Total domestic	**2.12**	**2.16**	***-1.7%***
Exports	0.07	0.03	*91.7%*
Total volume from Indonesia	2.18	2.19	*-0.3%*
Vietnam			
Domestic Vietnam	0.11	0.11	*-4.2%*
Exports	0.12	0.03	*258.6%*
Total volume from Vietnam	**0.22**	**0.14**	***56.3%***
Total volume	**2.41**	**2.33**	***3.2%***

Source: Semen Indonesia Semen Indonesia Tbk(2017)

Figure 5.3: PT Semen Indonesia Subsidiaries (Functional Holding).

Source: Semen Indonesia Semen Indonesia Tbk(2010, p. 3).

Like the production strategy that integrated and improved after the holding group was established, the distribution was also transformed significantly. Every sub-company's distribution and market structure became controlled by the parent—PT Semen Gresik Group—and each was restricted to servicing the market within distinct territorial zones. The west part of Indonesia was covered by PT Semen Padang, the central part by PT Semen Gresik and PT Semen Tonasa in Eastern Indonesia (see Figure 5.4, Semen Indonesia Semen Indonesia Tbk2010, p. 3). This meant that the market share was divided based on its proximity. The closest market will be served by the closest subsidiaries. The quality of management system was improved, the coordination between elites in each company were intensified and there was a more conducive and reliable company group. This was considered a positive change because it managed an internal competition between subsidiaries (OpCo). This is explained by Dwi Suciptjo as a strategic business management, which successfully managed internal conflict and maximised efficiency. It also helped the government control the domestic market. In that respect, we can observe the guiding interest of the Indonesian state in this gradual evolution of PT Semen Indonesia.

PT Semen Indonesia and the Indonesian government believed that the national cement capacity must be upgraded. The company's blueprint thus required the group to raise its production capacity to meet the market demand and stabilise the market share, especially in the domestic area (Semen Indonesia Tbk2009, p. 36). Specifically, PT Semen Indonesia's business expansion was designed based on certain considerations, as follows (Persero 2013, p. 62):

1) the huge demand for cement product that was driven by Indonesia's population growth
2) government spending on infrastructure projects through the MP3I
3) the opportunity for increasing cement consumption, which has been \low in Indonesia compared to countries in the region
4) Indonesia's stable economy, even during the GFC downturn of global economy, which fed optimism on domestic cement growth
5) Indonesia's attractiveness as an investment destination, which creates further economic development opportunities and leads to an increased demand for cement
6) Identification of many new potential markets, especially in Southeast Asia.

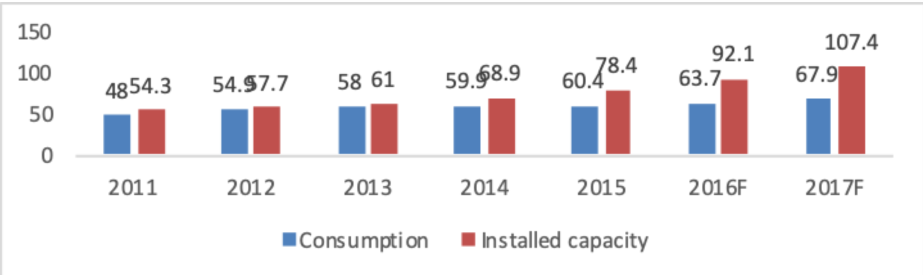

Figure 5.4: Indonesia's Domestic Cement Consumption and Installed Capacity.

Source: Ernest and Young (2016, p. 6).

Table 5-3 PT Semen Indonesia Domestic Total Sales 2015-2017.

No	Area	Year			Growth 2016 in %	Growth 2017 in %
		2017	2016	2015		
1	Sumatera	6.006.918	5.753.818	5.699.370	0.96	4,4
2	Java	14.041.432	12.721.644	13.035.935	-2,48	10,5
3	Kalimantan	1.720.449	1.748.593	2.145.828	-18,51	-1,6
4	Sulawesi	3.397.508	3.374.169	3.031.851	11,29	0,7
5	Bali Nusa Tenggara	1.175.822	1.228.192	1.295.451	-5,19	-4,3
6	East Indonesia	749.600	864.727	760.355	13,73	-13,3
	Total	27.091.728	25.682.143	25.968.789	-1,1	5,5

Source: Semen Indonesia (2017a, p. 103)

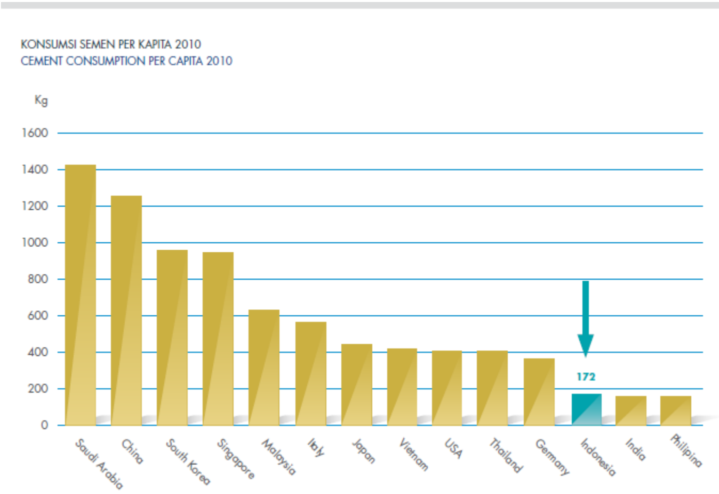

Figure 5.5: Global Cement Consumption in Kilograms Per Capita.

Source: reprinted from Semen Indonesia (2010, p. 9).

For these reasons, cement production has continued to grow in Indonesia (see Figure 5.5). Meanwhile consumption has increased steadily year after year since 2011 and, although capacity now far outstrips demand, demand is variable by region (see Table 5.2). If the Indonesian state continues to support infrastructure growth and the economy expands as anticipated, then demand can be expected to catch up. Indonesia's cement consumption is the lowest in Southeast Asia (see Figure 5.6 above). The data from Table 5.2 also indicated how cement sales fluctuate in other parts of Indonesia outside Java (see Figure 5.7), especially since 2017. However, the low growth in cement consumption has been related to the global downturn economy after the 2008 crisis affected the property sector and the infrastructure bottleneck. There has been an imbalance in Indonesia's development between its needs for physical infrastructure and the data in reality. When the domestic consumption was lower than predicted, oversupply threatened the national industry. The government has predicted this oversupply condition as a problem before, when it noted massive Chinese exports to Indonesia. Unfortunately, instead of reducing the domestic production, the government kept offering new foreign companies business trade licences and permits due to multilateral and bilateral deals that would open Indonesia's cement industry. However, this unfortunate condition raised internal concern. According to ASI, the establishment of foreign companies was not fair to the existing companies and the government must thus conduct a cement moratorium (Indonesia 2018). At present, there has been 15 cement producers in Indonesia's domestic market. In the early 2000s, there were only nine, including the three that were folded into PT Semen Indonesia (see Table 5-3 Semen Indonesia 2017, p.2; Ministry of Public Works 2012). This indicated two causes: first, it can be viewed as over-confidence by the Indonesian state or, second, a determined push by the government to drive down the cost of cement to encourage infrastructure development and thereby stimulate national economic growth. Whichever the truth may be, the oversupply has been unfavourable for Indonesia's cement industry, at least in the past couple years.

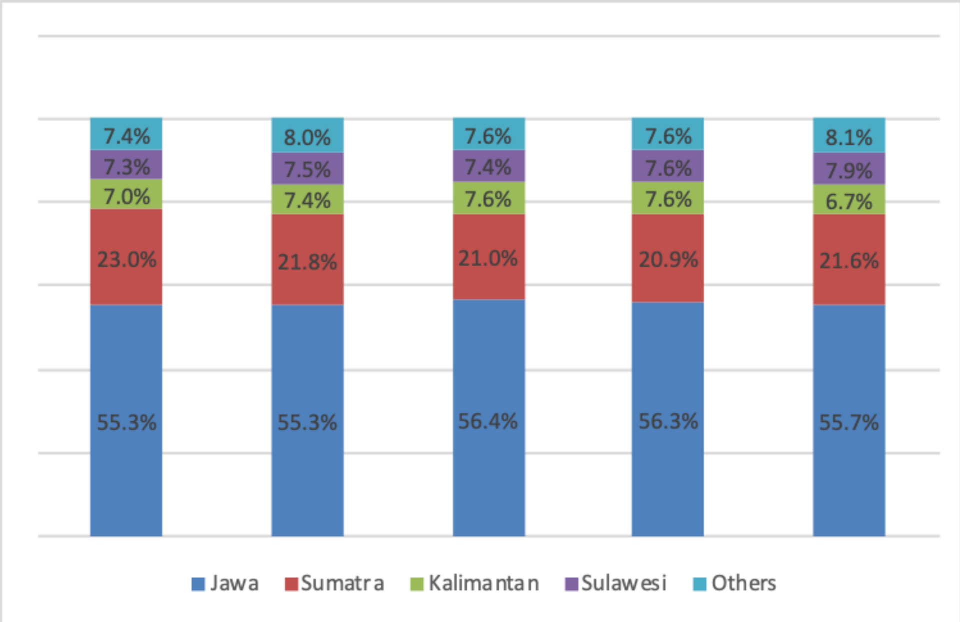

Figure 5.6: Indonesia's Cement Consumption, 2011–2015.

Source: Ernst & Young (2016, p. 11).

Table 5-4 Cement Companies in Indonesia.

Cement Companies in 2017	Cement Companies in 2008
Semen Indonesia	Semen Gresik
Indocement TP	Indocement TP
Lafarge Holcim Indonesia	Lafarge Holcim Indonesia
Semen Merah Putih	Semen Padang
Semen Bosowa	Semen Bosowa
Semen Anhui Conch	Semen Tonasa
Semen Baturaja	Semen Baturaja
Semen Pan Asia	Semen Kupang
Siam Cement Group	Semen Andalas Indonesia
Semen Jui Shin	
Semen Serang (Haohan)	
Semen Jakarta	
Semen Hippo (Sun Fook)	
Semen Kupang	

Semen Puger

Source: Semen Indonesia (Persero) (2017, p. 2); Umum (2012)

For PT Semen Indonesia, this increasingly competitive market environment has been a main concern. Market share has come under intense pressure and there has consequently been renewed focus on the rationalisation of management functions and better coordination of distribution to not only remains competitive, but to increase market shares overseas (Semen Indonesia Tbk2016a, p. 1; Persero 2017, p. 109). The effectiveness of PT Semen Indonesia's response can be measured by its record of consistent market share both in domestic and international. Despite the presence of new competitors, PT Semen Indonesia successfully increased its assets since 2015 (see Table 5-4 Semen Indonesia Tbk2018, p. 27). PT Semen Indonesia also used an inorganic strategy to manage the fierce competition, even before it happened. The group had secured its traditional market by acquiring cement plant in North and South Vietnam in the period of AEC launching. Early this year, the company also surprisingly decided to take over of Holcim Indonesia as a part of its national expansion program (Semen Indonesia Tbk2012, 2019). Both of those two strategic decisions helped the company be closer to the market and find new potential business areas across the region, while also broadening its area to its southern neighbour, Australia. This can be observed in the flow of PT Semen Indonesia's cement products to several countries that were previously not recorded (see Table 5-5).

Table 5-5 PT Semen Indonesia's Assets.

Description	**Unit**	**Reporting Period**		
		2017	**2016**	**2015**
Number of Employee	People	5,356	5,902	6,196
Total Revenue	Million IDR	27,813,664	26,134,306	26,984,005
Total Capitalization Debt Equity	Million IDR	 18,524,451 30,439,052	 13,652,504 30,574,391	 10,712,320 27,440,798
Quantity of Product Sold	Million Metric Ton	29.60	27.60	27.68
Total Assets	Million IDR	**48,963,503**	**44,226,895**	**38,153,118**

Source: Semen Indonesia Tbk(2018, p. 27)

Table 5-6 PT Semen Indonesia's Overseas Total Sales 2015-17.

Negara Tujuan	2017	2016	2015	Growth 2017 (%)
Australia	20.067	-	-	0.0
Maldives	81.656	61.386	-	33.0
Myanmar	8.005	-	-	0.0
Philippines	45.500	35.613	-	27.8
Srilanka	696.557	299.207	397.446	132.8
Taiwan	25.000	-		0.0
Timor Leste	155.601	94.781	-	64.2
Yaman	-	19.000	84.497	-100.0
Total Ekspor	**1.032.386**	**509.987**	**481.984**	**102.4**

Source: not including clinker sale reprinted from Persero (2017, p. 104)

5.1.2 International Standards: We Are Ready

Some scholars suggest that the organisation of a company tends to be influenced by cultural factors, including the cultural identity of employees and their values (Burton, Cross & Chapman 1999, p. 100). It is argued that there is a stronger community orientation among people from Asian countries and that extensive evidence exists of a different form of corporate culture in Asian EMMNCs, which are family-owned businesses. Dicken (2011) highlighted the economic virtues of Asia, including strong work ethics and social contracts, national teamwork for the good of the nation and family, and a strong government, rather than strong individuals. Confucian values in Japan, Korea, China and other East Asian countries were popular as instruments of developmental success, including self-discipline, hierarchy and pragmatic ends (Kim, AE & Park 2003, p. 38). Economic nationalism, which was identified in the context of ownership and control for developmental legitimacy, was also regarded as the inspiration of NICs (Amsden 2001, p. 191; Weiss 2003, p. 307; Wilson 2015b, p. 404).

Developing countries' business in general is conventionally regarded as hierarchical and bureaucratic—or inefficient and dependent on interpersonal business networks instead of skills and professionalism. Therefore, political scientists like Aspinall (2013), Athukorala (2010), Hadiz, VR and Robison (2013, p. 14) and Quah (2017), or economists like Hill (2014), regard the 'Asian way' as prone to corruption, nepotism and collusion. Unsurprisingly, the 1997 AFC marked the beginning of corporate governance transformation in Indonesia, which was influenced by a Western liberalisation agenda. However, this process of 'Westernisation' by international regimes such as the IMF and the World Bank has been slow to progress in Indonesia and, as discussed in Chapter 3, privatisation was not uniformly pursued by successive governments Jakarta Post -AFC.

As previously explained, this slow progress of implementation was deliberate because Indonesian governments sought to retain a direct influence over strategic sectors of the economy. The semi-privatisation of PT Semen Indonesia has prompted reforms to the company's management, but only over a long period of time. Simply put, it took almost 10 years after the privatisation for PT Semen Indonesia to establish its own model of corporate governance. PT Semen Indonesia did not have any corporate governance guidelines until 2006, although this does not mean that the company lacked accountability before then. The company has a more rigorous and explicit corporate governance mechanism today, and its reforms have been much more progressive compared to other SOEs.

Even so, the problem with successfully establishing reform is connected to the notion that the mechanism of business best practice in emerging economies like Indonesia is not standardised. Put differently, company or government agency policies often do not have a well-defined and clear legal base. When PT Semen Indonesia adapted a basic corporate governance system, Indonesia still lacked a specific regulation on corporate governance. However, by being semi-private, the company was forced to gradually transform to be more accountable to its shareholders.[53] These market pressures have been supplemented by recent good corporate governance (GCG) regulations, with which PT Semen Indonesia must comply (BUMN 2016). These regulations include:

1) Ministerial Regulation of Minister of SOE No.PER 01/MBU/2011—about the Implementation of Good Corporate Governance in SOE
2) Ministerial Regulation of Minister of SOE No. PER 21/MBU/2012—about the Guideline of SOE Financial Accountability Implementation
3) Circular Letter No.SE-07/MBU/09/2014—about SOE Obligation to Announce Summary of Financial Statement
4) Ministerial Regulation of Minister of SOE No.PER-02/MBU/2013—about Guidelines for SOE's Development of Technology and Information Management

[53] Interview with Staff from the Indonesian Ministry of Finance, 25 October 2016, Jakarta.

5) Decision of Secretary Ministry of SOE No.SK-16/S.MBU/2012—about Assessment and Evaluation Indicators/Parameters for SOE Good Corporate Governance Implementation.

The process of forming a strategic holding company over the past five years was also the key factor that impelled the adoption of GCG. The company believed that to accelerate the integration within the group, it was crucial to have a corporate culture that encouraged greater intra-group cooperation (Persero 2017, p. 262). For PT Semen Indonesia itself, GCG is more than just rules and practices because the company's competitiveness depends on efficient and effective management processes throughout the production cycle (Persero 2017, p. 43). While many could build a cement plant if they had the capital, the intangible competitive advantage of corporate culture is harder to acquire because it must be built over time. Even if aspects of the so-called 'Asian way' live on in Indonesian corporate life, the statistical evidence of PT Semen Indonesia's growth and competitiveness suggests that espoused principles have been implemented. The company's code of conduct and GCG rules in the areas of openness, independence, accountability and fairness communicate a different kind of corporate culture and indicate a company that is undergoing cultural change. Exemplars of performance initiatives include:

1) *CHAMPS*—PT Semen Indonesia aims to strengthen its human resources through the application of two methods: a regulated corporate culture and the company's remuneration system. The corporate culture of PT Semen Indonesia—known as CHAMPS—is an acronym for 'compete with a clear synergised vision'; 'have a high spirit for continuous learning'; 'act with high accountability'; 'meet customer expectation'; 'perform ethically with high integrity'; and 'strengthening teamwork'. The CHAMPS culture for PT Semen Indonesia includes values that build and reflect an employee's identity (Persero 2013), while the remuneration is implemented based on the key performance indicator (KPI) and employee performance management system (EPMS) (Persero 2013).
2) *Whistle Blowing*—Whistle blowing is an important mechanism for corporate reform. The company's reporting system works for three categories of GCG violations: corruption and economic crime, general crimes and violation of the company's policy. The process of this whistle blowing system consists of several steps. The whist blower may report the misconduct that she or he witnessed with proof by email or by letter to

the report team called *Tim Pelaporan Pelanggaran Perseroan*. If the report is proved true, then the whistle blower will be protected and granted a reward. Otherwise, the person will be punished through dismissal or demotion (SEMEN INDONESIA TBK2016a). However, the decision will be made by the board of commissioners or directors, depending on the category (Persero 2017, p. 262). In 2016, there were seven cases reported, two of which through letter and five through emails (SEMEN INDONESIA TBK2016a).

3) *Code of Ethics/Conduct*—This code of ethics became a guideline and code of conduct for all parts of the company, its employees, subsidiaries and affiliates, as well as other stakeholders. To assure that the code of ethics is applied, the company requires a statement letter that must be signed each year by all staff, including managers and executives. The statement affirms that the signatory is free from receiving or giving anything that may raise conflict of interest and/or descent public trust in the company's integrity (Persero 2017, p. 261) In 2014, the company reported 16 gratification cases to Indonesian Commission for Corruption. There were 11 cases executed by the gratification unit, one of which was returned to the receiver and four were taken by the state (Semen Indonesia Tbk 2014).

How have the values of the company been reshaped? The answer is that Western and Indonesian values have become hybridised through a gradual process of negotiation. PT Semen Indonesia has adopted a performance-based culture as part of its identity and as part of its internal disciplinary regime of governance. The internalisation of GCG involved a significant culture change. The catalyst was the 1995 crisis, when Cemex became a part of the company. From Dwi Suciptjo's perspective, a lack of clear principles in the company's rules had created an opportunity for certain parties to take advantage of the company. The demonstration and protest of PT Semen Indonesia's employees, due to the ensuing conflict discussed in the previous chapter, was harmful for the company. The company's stock went down, as did production. With divisions between subsidiaries and between employees and management, there were fears that the company could be going bankrupt. PT Semen Padang did not send its financial report to parent company, PT Semen Gresik, as a part of its protest against Cemex's presence. As a consequence of PT Semen Padang's disobedience, the parent company—PT Semen Gresik—had to replace the management boards to keep the company under its control. Dwi Suciptjo mentioned in his book that Mr Satriyo, PT Semen Gresik group president director at that time, stated:

> From the beginning we actually did not expect a change of board of directors. Hope that the company is managed well and professionally. Good management, in the sense of not neglecting the element of society who lived around it. (Soetjipto 2014, p. 41)

He responded with his new management approach, believing that by having a defined code of conduct within the company, any future conflict could be minimised. He understood that it is crucial for PT Semen Indonesia to have procedures of transparency and accountability, especially to its investors, to survive. The performance-based culture was adapted and became the basis for human capital assessment. After years of GCG implementation, PT Semen Indonesia has hundreds of awards, such as the company's achievement on GCG practice, the most trusted company in 2012 by SWA magazine and for GCG from the Indonesian institute for corporate directorship (Persero 2017, p. 74).

PT Semen Indonesia's implementation of GCG has been driven by the motivation to build public trust and increase business performance. Those good intentions were observed by the staff as a better method for adjusting to the globalised business environment. This is because with GCG, the workers are provided with incentives, promotions, transfers to foreign or better positions and other interests if they have a high performance based on KPIs (PT Semen Indonesia [Persero]; Semen Indonesia Tbk 2012). The Western-adopted paradigm was then respected, if not approved, by the company's entire element. This was because Dwi Suciptjo openly communicated and recognised everyone's opinions. Still, the performance approach is impossible to distance from the social context in Indonesia. To some extent, PT Semen Indonesia was 'born' and 'lives' in the community. Employees are attached to their Indonesian identity and social norms. Collectivism is important for them and they are not just co-workers to each other. Internally, cooperation is more valued than competition. The value of respect to authority and elders, loyalty and solidarity is entrenched, but not to the extent that employees are subservient. Soetjipto (2014, p. 232) acknowledged that these values would remain as PT Semen Indonesia's identity and that this method was the key to ending the internal conflict of the company that is discussed in Chapter 6. By building a culture of mutual trust and by building personal relations between workers through music and sport, he forged an identity for the company that was founded on principles of harmony and kinship (Semen Indonesia Semen Indonesia Tbk2016, p. 29). This was at once traditionalist but also resonant with modern culture management techniques that are advocated by business progressives and leading management thinkers.

The above exemplifies how PT Semen Indonesia modernised its internal management processes to conform to contemporary global business management techniques, while also remaining within the political and economic governance structure of the Indonesian neo-developmental state. The foundation laid by Suciptjo has been instrumental in the company's success; the company has been able to increase the value of its stock. The early beginning of GCG implementation has contributed to the company's durability and helped it avoid any corruption scandals. However, the new president director, Rini Soemarno, has sought to further modernise PT Semen Indonesia. In an open letter about the new management style, Soemarno has indicated that the sociocultural approach of Dwi Suciptjo is less important. This is indicative of an even less-personalised mode of management that is more akin to the ideal of a company as a collection of detached contractual obligations on the part of its employees, which is akin to the contractual model of the firm in Western business literature. This should not, however, detract from the observation that SOEs remain integral to economic developmentalism in Indonesia and that state-run firms are amenable to efficiency reform in the long term.

Many have suggested that SOEs can be improved with programs to reform corporate governance (Musacchio & Lazzarini 2012, p. 44). Even though a company must have sound legal infrastructure, as Hoskisson et al. (2000) claimed, to have effective corporate governance, as the legal supports for good governance only evolved slowly in the Indonesian context. Nevertheless, the company proved to be highly adaptive to its changing, competitive environment. The success of PT Semen Indonesia in dominating the market share was also due to its capacity to catch up to the newest technology. Unlike high technology products that have a dynamic market and short life circle, cement product used high technology, but the dynamic is more moderate because it uses more complex and heavy appliances. PT Semen Indonesia has been innovative compared to its competitors in terms of technology. However, the company still relied on Europe for its main machinery[54]. Nevertheless, that disadvantage contrarily became an advantage because it suited their FDI host countries' condition better (Cuervo-Cazurra & Ramamurti 2014).

EMMNCs are too often searching for cost efficiency but lack research and development quality. However, this is not the case for PT Semen Indonesia, even before it expanded

[54] Interview with Echelon Staff, Indonesian Ministry of SOEs, 26 October 2016, Jakarta.

abroad. The company ensured that it has updated technology to have efficient and eco-friendly production activities (Semen Indonesia Semen Indonesia Tbk2015, p. 49). This was accomplished by placing research and development as one of the company's priorities. By using sophisticated equipment and building advanced clinkers, PT Semen Indonesia produced the best quality for cement products. It also supported the company to save material and energy resources. There have been many achievements based on its capacity to harness new technologies. By way of illustration, in 2015, the company built a partnership with Japan and constructed a waste heat recovery power generation in some of its subsidiaries to change from being energy based to being a sustainable power plant (Semen Indonesia Semen Indonesia Tbk2015, p. 149). Since then, PT Semen Indonesia has been one of the most efficient SOEs in Indonesia because it could reduce its dependency on energy from PLN.

The company's capacity to innovate was evident even before the plan to expand internationally and it has been advantageous for growth in the long run. Practically, cement plants need fuel and coal to operate and most of the production costs were spent on this variable cost. For this reason, the company had switched to alternative fuel. Succeeding in minimising the risk of relying on oil and coal in production, the company succeeded in raising its profits. As the company stated:

> The growth in profitability is a result of the company's accomplishment in controlling the trend of production cost increase, through cost management strategy implemented through a range of efficiency programs. Even though encountering fuel price escalation in the middle of the year, the cost control management had kept the cost of revenue and operating expenses. (PT Semen Gresik [Persero] Tbk 2008, p. 32)

The innovation became one of the key sources of competitiveness for the company, especially from Dwi Suciptjo's time in office. As highlighted in the company's 2012 annual report (PT Semen Indonesia [Persero] Tbk, p. 43):

> The company used innovation as intellectual capital to enhance competitiveness and achieve sustainable growth. In order to foster the spirit of innovation, the company continuously explores creative ideas which are in line with the company's strategy and provides awards for the best innovations.

Suciptjo was a moderniser, and his leadership had brought many positive changes to the company, especially the adoption of new technology and the encouragement of innovation. He pushed for PT Semen Indonesia to be a centre of excellence, an Indonesian SOE ‘powerhouse’, and facilitated the Semen Indonesia Center of The Champs (SICC) to promote managerial change in the wider Indonesian economy. In line with the establishment of SICC, Suciptjo also fostered an internal innovation competition in OpCo and employees’ levels called Semen Indonesia Award on Innovation (SIAI) with five categories: raw materials and products, technology and production process, management, subsidiaries and company affiliates. As a result, the competition has boosted the company’s innovation because the best idea in the competition was then learned and applied as part of the company’s strategy (PT Semen Indonesia [Persero] Semen Indonesia Tbk 2012, p. 43). Suciptjo has been influential to the company’s innovation culture, even until today. However, some of the corporate culture which he has created has been diminished by the new management. For instance, Hendi Jakarta Post poned the overseas expansion in Bangladesh and other targeted countries, focuses on the national projects instead, changed the management structure of PT Semen Tonasa and PT Semen Padang and made some controversial decisions, such as hiring experts outside the company (Jakarta Post 2018; Wahyudianto 2018; Nasional 2018).

5.1.3 Indonesian Share Ownership

This chapter explained the special status of the Minister for SOEs in the architecture of SOE governance. The Indonesian government has more than a 50 per cent of the total share if PT Semen Indonesia, which entitles the Indonesian government to control the crucial decision-making in the company. However, Indonesian corporate law (Law No. 40/2007—about Limited Liability Company), until 2017 did not explicitly distinguish types of shareholders based on the quantity of shares owned (either majority or minority). According to Indonesian Law No 40/2007, in Listed Company under article 53 paragraph 4, shareholders are categorised based on their rights instead of the amount of the share (Pramono 2012, p. 7). [55] This also clarifies the difference between Indonesia’s stock regulation and that of other countries (La Porta et al. 1997, p. 1). The existing business law (including the Law No. 40/2007—about Limited Liability Company) only acknowledged stock based on five categorisations, which are:

1) shares with voting rights or without

[55] In Indonesian Corporate Law, the ownership does not define by the amount of stock. This is in line with the fact that there are differences of corporate law across the world, based on four broad ‘families’ of law: English, or common, law, French civil law, German civil law and Scandinavian civil law. In accordance with this, Indonesia has been refereed to French Civil Law, which was adopted from the Dutch (La Porta et al. 1997, p. 2).

2) shares with a special right to nominate members of the Board of Directors and/or members Board of Commissioners
3) shares that, after certain time, are withdrawn or exchanged with classification of other shares
4) shares giving the holder the right to receive more dividends formerly of other classification holders of cumulative dividend distributions or noncumulative
5) shares giving the holder the right to receive first of the other classification of shareholders in the distribution of the company's remaining assets and liquidation.

The running of Indonesian SOEs was instead based on a majority or controlling share mechanism, known as Series A *Dwiwarna* Share. However, the term was not directly used or explicitly stated in the law, including in Law No. 19/2003 (as explained in the previous chapter). The law only revealed the government rights related to the share it owned. The absence of specific legal mention of a majority or controlling shareholders left important gaps, and questions thus had to be answered, in the Articles of Association of Indonesian Listed SOEs, particularly on the issue of shareholder's rights. In the formation of PT Semen Indonesia as a strategic holding company, it was decided that a clarification of shareholder rights was necessary. The Ministry of SOEs sent recommendation letters to state-owned companies in which the definition of Series A *Dwiwarna* Share was clearly explained.[56] Overall, the letter pointed out that Series A *Dwiwarna* Share is a share that was exclusively owned by Indonesia, which grants its holders the privileges of being a shareholder.

In reference to the letters, listed SOEs then proposed the agenda to revise their articles of an association were to follow the new standard. The Article of Association of PT Bank Rakyat Indonesia might become an example. It confirmed on the website that the Series A shareholder has the privilege, as explained below (PT Bank Rakyat Indonesia [Persero] Tbk. 2017):

- to nominate members of the Bank's Board of Directors or Board of Commissioners
- to approve the appointment and dismissal of members of the Board of Directors or Board of Commissioners

[56] The accessible data found applies only to the Banking sector; however, the staff of the Ministry of SOEs confirmed that such a recommendation was given to all SOEs (Letter of the Ministry of SOEs No. 116/MBU/03/2017; Letter of the Ministry of SOEs No. 163/MBU/03/2017) Due the letters not being available to the researcher, information about their content was gleaned from the internet.

- to approve the amendments of the Articles of Association, including capital amendment
- to approve merger, consolidation, acquisition and divestment of the Bank; file for bankruptcy; and liquidation of the Bank
- to request and/or receive reports from the board of commissioners
- to request reports and elaboration on certain matters from the Board of Directors and/or Board of commissioners by taking into account the prevailing laws and regulations.

Further, it is essential to note that a Series A *Dwiwarna* share is also a powerful category of financial instrument because it is not transferable, but held by the owner in perpetuity:

> The regulations of the Stock Exchange in Indonesia where the Company's share are listed and the prevailing laws and regulations including the regulations on Capital Market shall apply to the transfer of shares listed in the Stock Exchange, except for the transfer of Series A *Dwiwarna* share which may not be transferred to anybody whomsoever (PT Bank Mandiri [Persero] Tbk 2018, p.34).

The relationship between a Series A *Dwiwarna* shares and ownership is strong because it draws a line between what is possible in terms of share transfer. The Series A *Dwiwarna* share effectively cements state control because the share is non-transferrable, thereby placing a limit on privatisation. At stake in this is the power of the Indonesian parliament to exercise oversight over companies that were once wholly owned SOEs and in which the state still holds a major financial stake. This highly technical legal–commercial mechanism is a key to understanding the nature of state power in Jakarta Post -Suharto Indonesia and the strength of the desire among parliamentarians to preserve the nationalist orientation of Indonesian economic policy.

Rising political concern over privatisation is also related to the fear that a holding company could theoretically allow the transfer of state shares without a need for approval from the House of Representatives, as stated by the newest law on Government Regulation No 72/2016—about the Procedures on State Capital Administration and Equalisation of SOE and Limited Liability Companies.[57] Opponents of the strategy to create strategic holding

[57] Before the law was issued, it had been mentioned during the interviews of staff from the Ministry of SOEs. The staff argued that the regulation was made to facilitate and provide a legal base for the holding creation. The interview with echelon staff, Indonesian Ministry of SOEs, 18 October 2016, in Jakarta.

companies for Indonesia's SOEs argued that the legal process could automatically weaken the Indonesian government's position (*Jakarta Jakarta Post* 2017). To the proponents of the holding company, policy argued that Series A shares guaranteed a role of the state in the governance of all SOEs. Moreover, it is argued that the government retains a strategic role in the management of an SOE, even where the state is not the majority shareholder anymore (e.g., PT Indosat).[58]

To address these concerns, PT Semen Indonesia's Articles of Association were amended to define the rights of the majority shareholder. In the case of PT Semen Indonesia, in which the state is the majority shareholder, the same rules of state ownership should be applied, especially in terms of the rights and responsibilities of the majority shareholders. Unfortunately, the previous Articles of Association in 2015 and the latest document of 2017[59] did not mention the Series A *Dwiwarna* share. Approval of the amended Articles was on the agenda at the shareholders' meeting on 31 March 2017 (Semen Indonesia Semen Indonesia Tbk2017). There were 11 privileges of the Series A *Dwiwarna* share proposed, as follows:

1) an approval of amendments to the Articles of Association
2) an approval of changes in capitalisation
3) an approval of appointment and dismissal of the Board of Directors and Board of Commissioners
4) an agreement regarding mergers, consolidations, acquisitions, segregation and dissolution
5) a request and access of company data and documents
6) an approval of remuneration of the Board of Directors and Board of Commissioners
7) an approval of transfer of assets based on the Articles of Association, which shall be subject to the approval of the GMS
8) an approval on the participation and reduction of the percentage of equity, participation in other companies based on the Articles of Association shall be subject to the approval of the GMS
9) an approval of profit use

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[58] Today, the Indonesian government has 14.3 per cent of PT Indosat's shares (Gosta 2015).

[59] However, until this thesis is finalised, none of PT Semen Indonesia (the old and the new articles of association—Akta Anggaran Dasar PT Semen Indonesia (Persero), which explicitly mentioned Series A shareholder's right. This may due to PT Semen Indonesia's position as a public company.

10) an approval on long-term investments and financing based on the Articles of Association, which shall be subject to the approval of the GMS

11) proposing the GMS agenda.

PT Semen Indonesia's Articles of Association had not been clear on the rights and responsibilities of Series A shares. However, at the extraordinary general meeting of shareholders in September 2017, there was discussion on the majority shareholder's position. The upshot was that changes would be made in PT Semen Indonesia's Article of Association (see Appendix 9):

> To grant power and authority to the State Shareholders of the Republic of Indonesia to amend and/or to amend the provisions of the Articles of Association of the company. (PT Semen Indonesia [Persero] Semen Indonesia Tbk 2017).

Although the latest article of association (*akta anggaran dasar PT Semen Indonesia Nomor 69, 26 April 2017)* has been approved by the Ministry of Law and Human Rights, it cannot be accessed, even on the company's website.

Despite the difficulty of accessing the data of PT Semen Indonesia, it is possible to observe how powerful the majority shareholder is in the Indonesian corporate context, including within PT Semen Indonesia. Importantly, this has parallels with business laws in other countries, some of which are European Union members, such as Belgium and Germany, that specify the rules of majority ownership (Laprade 2012). It means that for strategic decisions within the company, including the amendment of an article of association, required an approval from a majority of shareholders. Though this content regarding articles of association might be different in other countries and companies, in which the control of a majority shareholders is limited to the general meeting of shareholders, it still illustrates the capacity of the shareholders outside the matter of dividends or profits. This has been implemented in continental European countries, who based their economy on ownership (Gelter 2009, p. 130).

However, throughout its growth as a company, PT Semen Gresik/Indonesia has experienced changes in the terms of their share ownership. Taking this into account, the shift is significant in explaining the complexities of market and industrial reform in emerging economies like Indonesia, in which the debate over nationalism and liberalism remains unresolved. The first major shift occurred in 1991, when the company decided to publicly list its shares on the

Jakarta Stock Exchange. This was the first privatisation of an SOE by the Indonesian government. The company was determined to sell 27 per cent of its shares, equivalent to US$140 million, which were acquired by foreign institutions (Broadman 1995, p. 53). Most privatisations in Indonesia have been a response to economic crisis. The privatisation of PT Semen Indonesia was a consequence of declining oil prices in the 1980s, which severely affected state revenues. In March 1987, the Coordinating Minister for Economic, Financial, and Industrial Affairs found that PT Semen Gresik (the prior name of PT Semen Indonesia) was the only SOE considered fit, in terms of economic performance, and financially ready to enter the capital market (Badan Pembinaan Hukum Nasional Departemen Hukum dan HAM RI 2005, pp. 16-7).

The public offering was claimed to have been positive. For example, it prevented the SOE from rigid government supervision and monitoring and helped the company receive more funding in a flexible way. It also improved the company's performance due to the new mechanism of public and private shareholder review. The company also called for frequent public reporting and audits by international audit companies (Broadman 1995, p. 53). These changes, argued by the proponents of privatisation, had contributed to transparency and efficiency and had helped to control rent-seeking behaviour. These changes also reflected the incorporation of the logic of privatisation into Indonesian economic policy. Profit, as much as public benefit, became enshrined in law as the purpose of state-directed businesses.

The challenge for the state was to maintain control over the strategic sectors of the economy while allowing market and corporate governance processes to direct corporate decision-making. It needs to be remembered that the cement industry is a national strategic sector in terms of natural resources and infrastructural development (Industry 2009b, p. 39). This is in line with the statement from Indonesia's Minister of Industry:

> Investment assurance of strategic industrial development such as cement plant to be maintained because it brings multiple effects to the regional and national economy, such as the absorption of labour and the growth of cement-based small industries that can be develop for the people of Rembang and surrounding areas. (Industry 2016)

Further, the Director General of Chemical, Textile and Various Industries of the Ministry of Industry stated that 'about 80 percent of cement consumption is used by the society'. By keeping the cement producers state run, or state directed, the Indonesian government is able to control the price and the supply demand of cement products. Hence, as this thesis asserts, Jakarta Post -Suharto Indonesia retains the nationalistic orientations of the developmental state, but with important changes, including the complex matter of state shareholding that was discussed above. The technicalities of state regulation through various ministries, the legal ambiguities created by under-developed corporations' laws and the amendments to articles of association to accommodate majority shareholder rights highlight the importance of institutional links between the state and economy through the medium of SOEs.

For the neo-developmental state, then, economic governance is not a matter of patronage, but of finely nuanced administrative and legal manoeuvres to ensure that national and state interests remain paramount in the operations of semi-privatised companies. Regardless of the first public offering explained above, the most challenging ownership change occurred during the late Suharto to Megawati period and took the form of a seven-year dispute between the Indonesian government and Cementos Mexicanos (Cemex). The dispute started in 1998, under the Habibie government, which invited Cemex after it won the negotiation to be PT Semen Gresik Group's strategic partner over Heidelberger and Holderbank. However, the political turmoil in consequence had limited Cemex to purchase 14 per cent of the shares for US$122.1 million of PT Semen Gresik (see Figure 5.8), although it was entitled to 25 per cent (Prasetyawan 2006, p. 55). Ultimately, Cemex succeeded in obtaining a 25 per cent stake, with the possibility to gain more shares of PT Semen Gresik in the future. The long-term target for the government was to let Cemex become a majority shareholder by having 51 per cent of the shares in 2001 (Ewing-Chow & Losari 2015, p. 7). The other privilege the Cemex could enjoy based on the contract was that it also had the right to appoint one vice-director and one vice-commissioner (Detikcom 2006). This deal was considered disadvantageous for Indonesia because it weakened the government's status within the company.

Figure 5.7: Privatisation Process in 1995.

Source: Professur für BWL (2007, p. 30).

The Indonesian state was, at the time, highly vulnerable to pressure from outside economic interests. The driver of part-privatisation in the case of PT Semen Gresik (see the time line) and other SOEs, was the 1998 AFC and an ensuing agreement between the Indonesian government and the IMF, based on the Letter of Intent in 1998[60] (Irianto 2004 2004, p. 1) to introduce further market reforms. This agreement was not only about the part-privatisation of PT Semen Gresik (Indonesia) (see Table 5-6), but also about the broader structural adjustment on almost every part of Indonesian economy, including the abolishment of the cement price system and the privatisation of many SOEs (see Figure 5.9) (Professur für BWL 2007, p. 7). It was all started when Habibie tried to find funding to overcome the state's deficit (fiscal problem) (Prasetyawan 2006). The purpose of the privatisation was to obtain funding as quickly as possible for paying the foreign debt. IMF also suggested privatising the state asset because it believed that state intervention was the cause of Indonesia's economic crisis.

The actions of Cemex and the Indonesian government over PT Semen Group provoked public outrage, which was part of a general nationalistic reaction against the perceived unfair foreign interventions since the Mexican company took over the company in 1998. First was the dissatisfaction of workers regarding the massive termination of employment, which led to a protest of 3,000 workers (Professur für BWL 2007, p. 33). Second was the conflict of interest between the government and Cemex, because the international merchant bank, Goldman Sachs, also worked for both sides in the negotiation process (Professur für BWL 2007, p. 32). Third were the suspicions among the workers and some Indonesian stakeholders of insider trading in the light of unusual trading volumes in PT Semen Gresik shares towards the end of the negotiation phase. The other explanation for this dispute was about the public objection. This was related to the larger implication to many interest groups like the local and national elites, the local and national society, and the workers who directly became a part of any reform inside the company. From the national elite, there was Azwar Anas,[61] who was an influential figure in West Sumatera (where the PT Semen Padang is located).

[60] A part of the SOE's privatisation was included in part 3b of the document, 'Memorandum of Economic and Financial Policies', which stated, 'The review will be completed in six months and will result in a comprehensive program to improve fiscal efficiency and restructure state-owned enterprises and strategic industries. It will be the basis for an accelerated program of privatization' (IMF 1997).

[61] Azwar Anas was a strong supporter of Ikhdan Nizar, who was the director of PT Semen Padang and Titik Nazif Lubuk, a local Golkar politician. At that time, Golkar was the most powerful political party in

Table 5-7 Indonesian Enterprises Slated for Privatisation

State-Owned Company		Industry	Financial Adviser
1.	Telekomunikasi Indonesia	Telecommunications	Merrill Lynch, Lehman Brothers
2.	Indonesia Satellite (Indosat)	Telecommunications	Goldman Sachs
3.	Semen Gresik	Cement	Goldman Sachs
4.	Tambang Timah	Tin mining	Morgan Stanley, Banque Paribas
5.	Aneka Tambang	Gold mining	Morgan Stanley, Banque Paribas
6.	Tambang Batubara Bukit Asam	Gold mining	Morgan Stanley, Banque Paribas
7.	Jasa Marga	Toll road operator	Lehman Brothers
8.	Pelabuhan II (Pelindo II)	Port operator	Goldman Sachs
9.	Pelabuhan III (Pelindo III)	Port operator	Credit Suisse First Boston
10.	Angkasa Para II	Airport manager	UBS/SBC Warbug Dillon Read
11.	Perkebunan Nuisantara IV	Plantation	Jardine Fleming
12.	Krakatoa Steel	Steel	Salomon Smith Barney

Source: Professur für BWL (2007, p. 26).

The strongest resistance to foreign ownership came from local elites and communities. The most serious objection to Cemex's involvement came from Semen Padang. Since PT Semen Padang was part of the PT Semen Gresik Group[62], the sale of shares to foreign interests directly affected local shareholders and employees. Local interests thus asserted the nationalistic view that the raw materials of PT Semen Padang were owned by the provincial government and that the company was also a part of their local identity (Prasetyawan 2006, p. 52).

Political tensions made it impossible to reach a consensus and Cemex's involvement thus ended in 2007. The minister responsible for SOEs at that time, Laksamana Sukardi, felt that he had no choice but to nullify the contract, even though the Indonesian government knew that cancellation would have consequences (Prasetyawan 2006, p. 54). Cemex objected to the Indonesian government's stance and submitted their case to international arbitration at the International Centre for Settlement of Investment Disputes. They insisted that the Indonesian government broke the Conditional Sale and Purchase Agreement, dated 17 September 1998. They also argued that the Indonesian government had violated the 1987 ASEAN Agreement for the Promotion and Protection of Investment in 2003 (Ewing-Chow & Losari 2015, p. 7). However, Cemex finally came to a settlement after the company decided to sell its 25 per

the country. The three people were the defenders for keeping PT Semen Padang a state-run company and they thus insisted to separate the subsidiary with PT Semen Gresik if the privatisation plans continue to proceed (Prasetyawan 2006).

[62] Suharto ordered the Ministry of Finance to unify the three biggest cement companies under one parent company, PT Semen Gresik. Thus, the Ministry of Finance Decision No. S-326/MK.016/1995 was issued. This will be explained later (Prasetyawan 2006, p. 54).

cent share to an Indonesian private company, the Rajawali Group or Blue Valley, for US$337 million (Donnan 2006). The Indonesian government actually opposed the sale because the price of the shares was considered low compared to the actual previous sale price, which was US$500 million, and because Cemex did not notify the Ministry of SOE before entering into negotiations with Rajawali Group (Detikcom 2006). Despite that, the conflict officially came to end after the team created by the Indonesian government under SBY had an intense negotiation with Cemex to discuss Cemex's share. The case closed before it proceeded further due to the settlement agreement on February 2007, based on Arbitration Rule 43 part 2 (UNCTAD 2013).

In the case of Cemex versus the Indonesian government, the ownership shift did not substantially turn the position of PT Semen Gresik Group from being state owned to being foreign owned. This is because those who stood against the privatisation process were influential (from the company's insider to the elites and parliament members in both local and national level). Therefore, their resistance received substantial public support. The Indonesian public rejected the selling of state assets to foreign investors and underscored the popular suspicion of privatisation. The government had underestimated the nationalistic dynamic within Indonesia's political economy, and this lesson influenced how the state subsequently pursued the marketisation of SOEs. Importantly, the saga helps explain why the state has moved to retain strategic control over strategically significant companies and resources.

5.2 Indonesia's Cement Conglomerate

There are four stages of PT Semen Indonesia's emergence as a holding company. The time line of the process showed that there has been a gradual transformation taken by this Indonesian cement SOE (see Figure 5.9).

PT Semen Gresik came into existence in the early years of Indonesian independence. It was established on 7 August 1957 by President Sukarno as the first national cement company, and its role in the establishment of other cement SOEs was crucial. This is because most cement SOEs were at first managed under the control of PT Semen Gresik. Sukarno, an economic nationalist, aimed to meet Indonesia's infrastructure needs, following the departure of Dutch and Japanese companies. The aspiration to build a cement factory in Java had begun when a Dutch geologist discovered limestone in Gresik in 1935. Plans to build a factory were put on hold at the outbreak of war in the Pacific in December 1941. With credit from a US bank, PT Gresik was officially launched in 1957 and survived the major changes to Indonesia's political order to become a limited liability company in 1969 (Soetjipto 2014, p. 13-14).

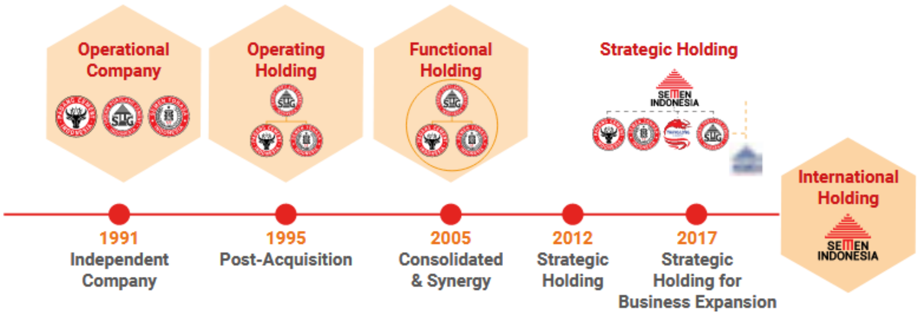

Figure 5.8: PT Semen Gresik/Indonesia Holding Company Formation.

Source: Persero (2017).

However, PT Semen Gresik was not the cement producer. The first was PT Semen Padang in Sumatra. It was established in March 1910 by the Dutch under *NV Nederlandsch Indische Portland Cement Maatschappij* (NV NIPCM) (Persero 2017). Ownership changed with the end to the Dutch colonial rule. During the Japanese occupation, it was named The Asano Japan Cement and was controlled by the Japanese government. The company was destroyed during the war and it was then rebuilt, after which Sukarno placed the company in Indonesian state hands. The nationalisation of NV NIPCM was accomplished based on Presidential Decree No. 10/1958 on 5 July 1958. In 1996, the company was officially recognised as an

Table 5-8 Typology of Indonesian SOE.

Description	PERJAN	PERUM	PERSERO
Rules	6/1969 replace by 6/2000	19/1960 replace by 13/1998	12/1998 replaced by 45/2001
Ownership structure	Part of ministry as bureau enterprises	Wholly owned by government	Government ownership through share ownership
States Finances	Not separated	Separated	Separated
Duties/Objectives	Vital and strategic sector focus on community service	-Provide public utilities -profit oriented	-acquiring selected business activities -profit oriented
Board Appointment	Ministry	Ministry	General shareholders meeting

Source: Fitriningrum (2008, p. 3).

The expansion of cement production in Indonesia after independence illustrates the importance attached to the Indonesian state's development of national capacity. With support from the Czech government, Indonesia built the third cement company in South Sulawesi, called PT Semen Tonasa, on 2 November 1968. In 1971, the company was appointed as Perum (Limited Liabilities, owned by the state) and then became PERSERO (Limited Liabilities Company) in 1975 (see Table 5-7). The change from Perum to PERSERO has changed the company's management from fully owned by the government to government ownership through share ownership. This company was the third-largest state-run enterprise after PT Semen Gresik and PT Semen Padang, with the capacity for 110,000 tonnes per year. The company was intentionally established to cover the cement demand in the eastern part of Indonesia. Economic growth and the national development plan of Suharto were also the reason behind the establishment of PT Semen Tonasa Indonesia (Soetjipto 2014, p. 15-7).

In East Timor, Suharto launched PT Semen Kupang in April 1984. This cement company was made as a joint venture between PT Semen Gresik, Bank Pembangunan Daerah and local government investment (Umum 2012, p. 141). The establishment of PT Semen Kupang aimed to expand the investment in the East Part of Indonesia. Having PT Semen Tonasa was not adequate to cover the market share in the eastern region. However, unlike the other fully owned cement company that had good performance, PT Semen Kupang in East Nusa Tenggara (NTT) suffered from bankruptcy (Antaranews 2010). One of the reasons was the unproductivity of the cement company. In 2005, the company had a high debt that reached 12.5 billion Rupiah from PT Sumberdaya Sewatama to 364 million Rupiah from PT Jamsostek. Thus, the company was out of operation in 2008 (Detikcom 2005).

Until the end of 1980s, full control over cement companies was held by the Indonesian government until budget pressures caused by declining oil prices forced a change of policy. However, the SOEs operated separately as operating companies under individual management, which meant that they operated as competitors (Persero 2013). The situation on ownership then changed in 1991, as previously discussed, when PT Semen Gresik turned from fully owned by the Indonesian government into an independent company. However, from the 52 SOEs that were planned to be privatised, only PT Semen Gresik became a public company (partly privatised), even though the *Pusat Data Bisnis Indonesia* (Indonesian Business Data Center) categorised the three cement SOEs as financially ready (Badan Pembinaan Hukum Nasional Departemen Hukum dan HAM RI 2005, p. 18).

This ownership restructuring had two important consequences. First, as a public company, PT Semen Gresik (Indonesia) did not receive government funding as in the past. Second, because the company could not rely on the state, it was forced to seek alternative funding through the issuance of more stock or bank credit. This in turn increased the regulatory and market pressures to which it was subject. As a publicly listed holding company, PT Semen Gresik (Indonesia) was required by commercial law to open its organisation structure, marketing, financial reports and management to scrutiny (Irianto 2004, p. 54). Day-to-day operations needed to meet the expectations of professionalism and the accountability on which depended the share value of the company that is now partly owned by public. This meant that the interests of private shareholders were now of much greater importance.

5.2.1 The PT Semen Gresik (Indonesia) Group

In 1995, Suharto ordered PT Semen Gresik (Indonesia) to acquire PT Semen Padang together with PT Semen Tonasa. Based on the Ministry of Finance Decree No.S-326/MK.016/1995 (Irianto 2004, p. 54), PT Semen Gresik (Indonesia) turned to be the parent company for the other two cement SOEs. Suharto claim to merge companies into one was motivated by his plan to make an efficient cement group. According to Dwi Suciptjo, as its former president director, this operating holding was a part of 'financial engineering'. Technically, this merger was a positive step because, during the 1990s, private cement companies grew larger and expanded rapidly (Soetjipto 2014, p. 21). They even dominated the national production by producing 64.4 per cent of the national total production (see Figure 5.9). Therefore, the cement SOEs had to catch up through a rights issue (public offering). That was the most visible plan to follow because the government did not have funding to support the expansion program. However, the state ownership of PT Semen Gresik (Indonesia) made the process more complicated. To avoid diminishing state power within the cement industry, the capital equity that was gained by incorporating PT Semen Padang and PT Semen Tonasa into PT Semen Gresik expanded the Indonesian government's market share and ownership control.

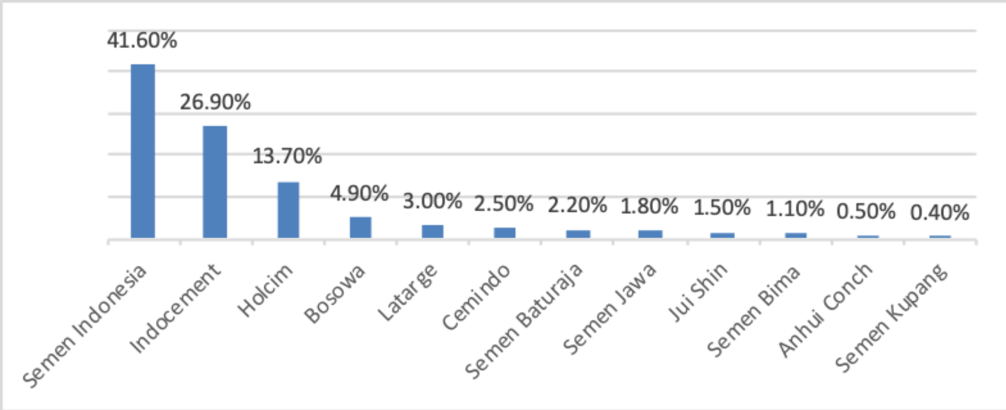

Figure 5.9 Market Share of Cement Players.

Source: Young (2016, p.7).

Conversely, some viewed this acquisition as Suharto's 'order' to create a family cement monopoly (Irianto 2004, p. 54-55). A Suharto family business—Indocement—in which his children were shareholders, stood to benefit from the government's increased capacity to influence cement supply and price by reducing the number of market players. However, the acquisition process undeniably made the production capacity of the new holding company larger than its private competitors. For those who supported the acquisition process, this merger strengthened the business power of Indonesia's cement SOEs (Persero 2013, p. 68).

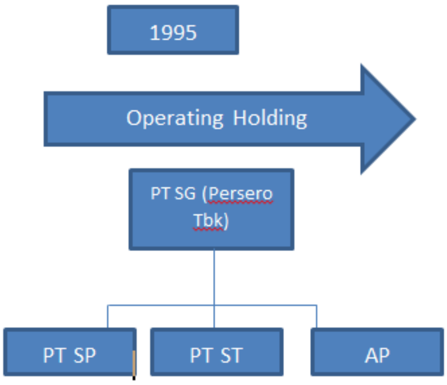

Figure 5.10: Operating Holding Structure.

Source: Semen Indonesia Tbk(2012b).

Nevertheless, the incorporation of PT Semen Tonasa and Semen Padang as part of the PT Semen Gresik Group created friction on both sides due to the change of business structure. The two subsidiaries became structurally equal under PT Semen Gresik's management (see Figure 5.10). PT Semen Tonasa and PT Semen Padang considered this unfair (Soetjipto 2014,

p. xxii) because they had not been involved in the decision-making (Soetjipto 2014, p. 2). In general, this sudden acquisition changed the position of the three cement SOEs from equal relations to be one leader and subordinate subsidiaries, with a diminution of decision-making power for the management of Tonasa and Padang.

Apart from the dissatisfaction with the process of incorporation, Tonasa and Padang management felt that they were better than other competitors, such as PT Semen Bosowa or PT Semen Baturaja, as they were the ‘giant’ businesses in their respective regions. There was a strong sense of localism or local pride within each company that fuelled a reluctance to share management of local resources under their control. Additionally, employment conditions were different, including salaries and other staff privileges. Employees of PT Semen Gresik enjoyed greater privileges than their counterparts at Tonasa and Padang. Gresik staffs were afraid that rights and benefits would diminish after the merger. These key factors made the management transition fraught (Soetjipto 2014, p. xxx).

Internal discord within the PT Semen Gresik Group was the consequence. There was a lack of trust, a spin-off obsession, localism issues, rivalry in the marketplace and equality issues among all. They were worried that each of them would ruin the other companies. All made synergy within the business group difficult to achieve. For example, the data and information access was hard to obtain and thus made the process of business collaboration obstructed. PT Semen Gresik’s financial report then qualified as adverse due to the missing financial report from its subsidiaries (Soetjipto 2014, p. 39). There was also a memo sent by the House of Representative of West Sumatra to Gresik to cancel the merger of PT Semen Padang into PT Semen Gresik Group (Soetjipto 2014, p. 24). As a result of this internal conflict, the company’s performance after the acquisition declined and it was categorised as poor (Soetjipto 2014, pp. xxxii–xxxiii).

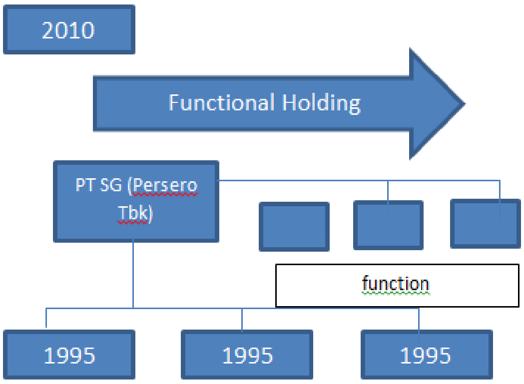

Figure 5.11: PT Semen Indonesia Functional Holding Structure.

Source: Semen Indonesia Tbk(2012b, p. 6).

This conflict persisted and became even larger after Cemex became a significant shareholder in 1998, with Tonasa and Padang seeking to break away. The dominance of Cemex was viewed as a threat by the group's board of directors. Cemex played the role of majority shareholder by intervening in PT Semen Gresik's management. The most remarkable change after the foreign company joined was the presence of two people from Cemex in the top management level (Irianto 2004, p. 59). However, as explained above, Cemex ceased to be a shareholder in 2006, which heralded a new era for the Gresik/Indonesia holding group.

5.2.2 Functional holding, 2003–2005 (PT Semen Gresik Holding Group)

It took almost a decade for PT Semen Gresik Group to end the conflict, both internally (among subsidiaries or Opco-operating holdings) and externally (with Cemex). The key person in relation to the success of internal consolidation was Dwi Suciptjo. He first reached his high career when he was appointed President Director of PT Semen Gresik Group by former SOE Minister Sugiharto. He was chosen because of his prior track record as President Director of PT Semen Padang. Despite strong opposition from the internal workers and boards of PT Semen Padang at first, Suciptjo struggled to build cohesion and enable Gresik Group to survive because he was judged as a traitor due to his decision to support the government's decision. This decision placed him to lead the subsidiary company—PT Semen Padang. However, he was eventually able to establish equilibrium. Sugiharto stated:

> Mas Dwi is able to defuse every conflict even on a small level. And during his leadership, Semen Gresik was able to improve the company's performance significantly, as we see now (Soetjipto 2014, p. xxii).

PT Semen Gresik Group embarked on a new era even before Suciptjo took the lead in 2003. The parent group, PT Semen Gresik, finally introduced a new system called functional holding (see Figure 5.11), a new management system in which ‘synergy’ was much emphasised. There were three main aspects to this synergy or integration: procurement, marketing and project development. Suciptjo believed, as he argued to Sugiharto even before he was appointed, that the biggest concern for the group was making a good synergy among subsidiaries. With synergy, the subsidiaries with different capacities and advantages that were harnessed in a planned and integrated way would boost productivity and efficiency. He believed that this was crucial for the future competition and group’s business development (Semen Indonesia Tbk2008, p. 36).

Energy and time were spent more on internal growth. The group also encouraged each company to use their superior capacity to have better operational and marketing performances. In terms of operational activity, maintenance, spare parts, fuel supply and supporting production materials were managed by a joint procurement system (Persero 2013, p. 69). The marketing consolidation was done by optimising each company’s geographical advantage to make the distribution and transportation run efficiently.

When Suciptjo undertook his job, the synergy process was also the biggest challenge. The same outcome like what Suciptjo had experienced in PT Semen Padang occurred—the resistance. However, he had a willingness to make the consolidation work. For that reason, he started from employees’ interest, including their carrier, emotional bonds and external pressure. He believed that to transform, the company should have a readiness to change. Therefore, he assured that there must be a clear vision of what benefits would be attained if the functional holding was implemented. He thus created two points to prove. First, the synergy could work. Second, the synergy process gave value, which was beyond expectation and created more benefits. These two goals being applied to the company’s operation was based on four principles: revenue management, cost management, capacity management and competitiveness advantage (Semen Indonesia Tbk 2008, p. 31).

The group’s synergy finally worked. Under Suciptjo’s leadership, there were gradual but fundamental changes. There had been some group strategic initiatives created by the board of directors and commissioners, such as restructured financial structure, business unit and subsidiaries, that developed the human capital master plan and implemented the information, communication and technology master plan (Semen Indonesia Tbk 2008, p. 27).

In regard to the company’s structure, the group released a long-term plan for 2010–2030 terms. This blueprint related to corporation restructuring and management structure, as well as to the implementation plan for GCG to achieve the long-term goal of being the leading cement company in Southeast Asia (Semen Indonesia Tbk 2010, p. 34). By this document, the company had a clear vision for its future (Semen Indonesia Tbk 2009, p. 28). Overall, there were six main targets for the group:

12) continuing to increase production capacity to meet the market demand and stabilise the domestic market share of the group holding
13) expanding its operation activities in the domestic and regional market
14) ensuring the availability of sufficient energy for operational continuity
15) proactively increasing commitment to the environment and society
16) creating jobs and opportunities for human capital development
17) increasing the market capitalisation of the company.

To achieve them all, the initiative that was implemented is directed to critical areas: capacity growth, energy security, corporate image, consumer needs, supporting factors and risk control (Semen Indonesia Tbk 2009, p. 36).

In addition, the six targets implementation will be accomplished based on all three companies’ potentials.

From the management side, Suciptjo created a ‘sense of crisis’ among the employees or desire to fell challenged. Suciptjo also made a strong effort to integrate the group not only through what he called ‘applied science’, but also ‘art’ (Soetjipto 2014, p. xxxxvi). He developed a synergy of the company through a benchmarking program, built trust and better communication with his employees and applied GCG (Soetjipto 2014, pp. xxxxv–xxxvi). Through the benchmarking program, there was a visiting program from one subsidiary to another subsidiary. Suciptjo also made an effort to meet the staff from highest to the lowest level. He also applied a bonus mechanism to improve the group synergy based on group performance rather than individual achievement. If the holding target was reached, then the bonus will be given. As a result, employees prioritised the group target over the individual company’s target (Soetjipto 2014, p. 89).

Additionally, human capital slowly became the focus of Suciptjo and the management. To stay innovative and competitive, the group also needed excellent human capital.

Consequently, the group drafted the human capital master plan to have a standard, integrated and applicable set of human development goals. This scheme encouraged the employees in any level of the group to have globally-orientated minds, to be reliable in strategic ways, to be enthusiastic to innovate, to accord in harmony, to have good business ethics and to become a ‘concrete’ leader (Semen Indonesia Tbk2010, p. 45). In the field, there has been the implementation of performance-based management system throughout the operating company (Opco), either to assess the employees’ achievement or to provide managerial and leadership training (Semen Indonesia Tbk 2010, p. 47).

After PT Semen Gresik applied the functional holding from 2008 to 2011, a review was undertaken to observe the result of functional holding implementation (Semen Indonesia Tbk 2008, p. 26). The outcome of the review showed that the functional holding had positively affected the group. The business integration then succeeded to raise the group’s competitiveness and made the cement SOE the national key player. The group’s income increased 261 per cent, from 5.45 trillion to 19.6 trillion Rupiah, as did its net profit from 930 million to 6.181 billion Rupiah from the period 2003 to 2012 (Soetjipto 2014, p. 92). The company also earned 27. 9 per cent of return on equity and 18.2 per cent of return on assets, which showed its substantial contribution to the state’s income compared to other SOEs.[63] However, there were still some parts of the group that did not perform well (Persero 2013, p. 69).

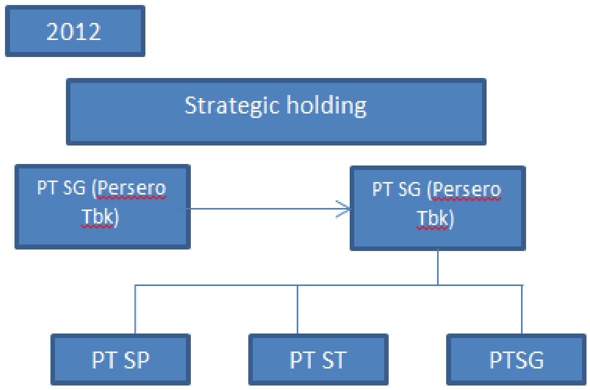

Figure 5.12: PT Semen Indonesia’s Strategic Holding.

Source: Semen Indonesia Tbk(2012a, p. 6).

[63] Return on equity (ROE) and return on assets (ROA) (Times 2018a, 2018b)

5.2.3 Strategic Holding 2012 (Establishing PT Semen Indonesia)

The review made Dwi Suciptjo, as President Director, realise that the key point to cooperate was assuring that everyone's interests were included. But it was impossible as he believed to remodel the group by putting PT Semen Gresik position lower than before. Still, it was crucial to accommodate the two other subsidiaries' demands. Therefore, Dwi resolved to create new holding company concept in which unlike before PT Semen Gresik, PT Semen Padang, and PT Semen Tonasa this time would be equals and subordinate to a new entity, PT Semen Indonesia (see Figure 5.12). By this new formation, the interests who pursued were no longer the interests of each region but the interests of the nation. Dwi argued that the group employees should see this strategic holding as the national pride rather than business with benefits for particular group or individuals.

In 2012 the strategic holding company officially launched (see Figure 5.12) after several years of preparation. As making a holding company was one of the hardest parts that Dwi Suciptjo tried to achieve. As a public company, PT Semen Gresik Group supposed to be careful to make the decision due to the source and financial support needed for the holding to launch. In 2011 general meeting based on public accounting review, finally recommended to the Board of Director to (Semen Indonesia Tbk 2011):

1) Review the stipulations of the Company's Article of Association related to the limitation of material transaction in order to improve the Company's management more effective in accordance to the rules and regulations, and report the results of study in the next General Meeting of Shareholders.
2) Maintain, optimize, and improve the Company's performance and value, including its subsidiaries, and give more priority and attention in the implementation of investment and synergy amongst State Owned Enterprises/other companies, its subsidiaries as well as inter-subsidiaries, in order to provide optimum results for the benefits of the shareholders.
3) Maximise the profit earned, especially from the Company's core business through optimization of well-planned resources and cost efficiency in order to minimize deviation that may affect the achievement of Company's performance.
4) Give attention in the development of organization system based on competency, including the making of integrated and comprehensive corporate strategy between holding and its subsidiaries from upstream to downstream industry, thus all resources

can be optimized in order to improve a consistent and sustained productivity and efficiency.

5) Give priority and more attention, both in the implementation of investment, synergies between subsidiaries and its holding, as well as improve the competence of its human capital in order to the construction of cement plants, packing plants and power plants in several locations.

The recommendation of general shareholders meeting above later being executed and the strategic holding officially came into being on 7 January 2013 (Persero 2013, p. 9). Further, the reorganisation made the crucial change in creating a separate strategic holding group leader. Common corporation law in Indonesia stipulates that a parent company within a holding group cannot be itself also be part of a subsidiary company. Therefore, the old PT Semen Gresik was transformed into PT Semen Indonesia (hereafter PT SI) and a new executive leadership established for PT Semen Gresik which became a subsidiary. Henceforth, the new lead entity would focus only on managing and controlling subsidiaries policies and management as well as business development. There were 12 departments which ran in the parent holding including (Semen Indonesia Tbk2012a, p. 15):

1) Production
2) Marketing
3) Business development and investment (Capex)
4) Human capital management
5) Procurement
6) Finance and accounting
7) Information technology
8) Internal control
9) Communications
10) Legal and risk management
11) Research and development
12) Social environment of society.

The new strategic group positively supported by the minister of SOEs – Dahlan Iskan. Dahlan, who was very open to any SOE innovation, also a former businessman, knew very well that the cement holding was a crucial state asset. In the future, cement demand would continue to increase especially in Indonesia where the economy keeps growing (Rh 2012). He also was very optimistic to see the company’s achievement in terms of size, source and innovation made the holding group was able not only to be a national but also a regional key player. But as Dwi, Dahlan Iskan also understood that in order to be a strong competitor, all cement SOEs should work together under one-roof (Purwanto 2013).

The ambition of holding creation then not only became solely Dwi Suciptjo’s plan but also a part of Dahlan Iskan’s ministerial target for Indonesian SOE’s management. Dahlan was very enthusiastic with the concept of strategic holding by Dwi Suciptjo (Soetjipto 2014, pp. 168, 72). Therefore, Dwi and Dahlan had mutual goal. Then they could have easily worked together to make the holding possible. Dwi in fact had few meetings with Dahlan to discuss about the holding plan. The two finally found their shared- interest on making PT Semen Indonesia-a holding SOE which never existed before.

In a further development, significant also in the context of Indonesia’s political economy, prior to its launch as PT SI, the group acquired a 70 per cent share in the Vietnam based-cement company, Thang Long Cement. This was a part of a business internationalisation strategy to lift the company’s competitiveness by ‘moving closer to customer’, in this instance moving closer to foreign customers. In so doing, PT SI evolved into Indonesia’s first EMMNC (Persero 2013, p. 12). Dwi Suciptjo sent some of the group’s best human capital to lead in Vietnam. The majority share made the group was able to control the company including to place the top-level managers from Indonesia to manage the newest subsidiary. Thereby the company’s structure likes the President Director, Production Director, Marketing, Strategic Plan and Procurement, along with the Director of Finance occupied by Indonesian employees. In the Jakarta Post –acquisition, PT Semen Indonesia sent its staffs to assisted local employees in Vietnam to accelerate the process. However, this structure still adjusted with the local condition (Soetjipto 2014, pp. 213–214).

Finally, the strategic holding was not only an ambition of Dwi Suciptjo and Dahlan Iskan, but also the general shareholders, after careful review done by internal and external team. The decision to form strategic holding was taken based on three main principles, as follows (Soetjipto 2014, p. 176):

1) By forming the strategic holding, the company will be able to improve its synergy or collaboration.
2) The implementation of making PT Semen Indonesia holding group is applicable

3) It is beneficial for company's marketing and growth

Besides the reasons behind its formation, the strategic holding had also given significant benefits which are (Persero 2013, p. 10):

> There is a clear separation between Holding Company (Holdco) and Operating Company (Opco) affirms roles, responsibilities and functions respectively, so that the Holding Company is better able to determine the strategic direction of the Company; it increases the synergy to be more solid and strengthens cooperation between Operating Company; It maximizes the group potency and competence in various operational areas, including: production, marketing, procurement, R & D and engineering to drive operational improvements and optimized the company's performance.

In line with the target of becoming a "world class engineering company" based on its 2030 long term plan, PT SI has a plan to expand nationally and internationally through merger or acquisition. If the global expansion had started through the acquisition of TLCC, nationally the group also undertook similar or even massive projects. On that account, Dahlan Iskan had briefly suggested it buy PT Semen Kupang's share in 2013 (Agustiyanti 2013). This particular cement SOE was bankrupt, though at the same time it was considered too a strategic a national asset to be allowed to fold. In the beginning, PT SI objected the idea especially because the debt issue. But finally, the holding took over PT Semen Kupang and made a new expansion project in Eastern Part of Indonesia as well as to facilitate the export market in Timor Leste (Newswires 2016). This was also consistent with Dahlan Iskan's wish.

In 2016, the group officially expanded its business to Sumatra's market by establishing PT SI Aceh in Pidie, in a joint venture with PT Samana Citra Agung. This western expansion was actually planned earlier than the Vietnam venture but had been blocked by the regulations (Supriadi 21st March 2016). The distribution problem became the main reason to build this new subsidiary in Aceh. It also helped to connect PT Semen Indonesia inside and outside the country. The location of Aceh which is closed to Southeast Asia including the prior foreign subsidiary in Vietnam would be advantageous for cement distribution. But the subsidiary has not been operated and still under construction.

Today, there are six official subsidiaries under PT Semen Indonesia and eleven portfolios (see Figure 5.13). The group is growing and even bigger than what Dahlan and Dwi were once wished.

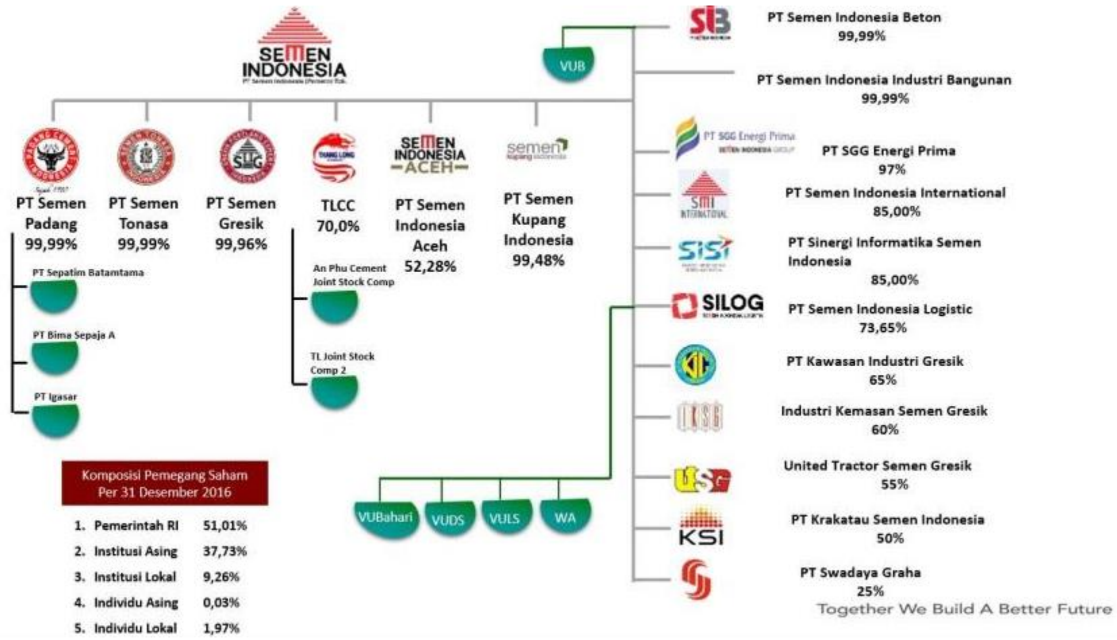

Figure 5.13: PT Semen Indonesia Holding Structure.

Source: PT Semen Indonesia (2017).

Chapter 6: PT Semen Indonesia (Gresik) Transformed into EMMNC

As previously acknowledged, PT Semen Indonesia (Gresik)[64] is the biggest cement producer in Indonesia and its rise is a direct consequence of its transformation into a holding company and its shift from complete state ownership to being a publicly listed company with the Indonesian state as majority shareholder. This chapter examines connections between the empirical data on PT Semen Indonesia and the conceptualisation of EMMNCs. The key question is whether theories about the expansion of EMMNCs is reflected the case of PT Semen Indonesia's expansion into Vietnam. In so doing, it seeks to highlight instances where the company's evolution can offer fresh insights into the dynamics of EMMNC development. The chapter explores and assesses PT Semen Indonesia from four determinants; motivation, types of FDI, country specific advantage (CSA) and firm specific advantage (FSA). It is

[64] This name recognizes the 'rebadging' of PT Semen Gresik as the strategic holding company, PT Semen Indonesia, in 2012. While not the official title, it is felt to be useful in helping to emphasize continuity in this grouping of SOEs since the 1990s.

evident that a combination of those four drivers is responsible for the company's growth and expansion.

Before understanding the key factors of expansion from PT Semen Indonesia's motivation and the structure of the FDI, it is important to draw attention on how the ownership advantages (CSA and FSA) have given long term effects to the company's growth. The findings on this chapter suggest that even when there have been challenges and imperfect factors within the home country's such as high of corruption, lack of legal framework, infrastructure deficiency, and cultural collectivism, PT Semen Indonesia has been able to become a national champion in Indonesia's cement industry. The company was willing to find its way to use them as opportunities instead of setbacks. The same thing applied in terms of FSA. Regardless of it being part-owned by the government as the majority shareholder, PT Semen Indonesia has followed a dualistic mode of operation. As a state-owned company, it is influenced by political actors and policy change. But, in its commercial activities, the company out of necessity had to respond to market pressures. The production and market share of SOEs have been growing fast along with Indonesia's economy, and, in the case of PT Semen Indonesia, this has been aided by government policy to build it into a large strategic holding company through the incorporation of smaller competitors. PT Semen Indonesia's emphasis on technology modernisation, product innovation and corporate governance have however together helped elevate the company to a position of dominance where it can compete internationally.

Country and firm specific advantages do not alone predict that a company will internationalise. There must also be the motivation to invest offshore. In that regard, this chapter will discuss PT Semen Indonesia's goals to widen their market in Asia. For the purpose of expanding, the best way to invest was through horizontal acquisition, given the fact that PT Semen Indonesia has limited capital to build green-field investment projects and the nature of cement product as heavy industry which has higher trade cost and inflexible were the reasons for the company to take over existed TLCC in Vietnam.

Following the findings and analysis of PT Semen Indonesia individually in part one, second part of this chapter assesses the distinction between PT Semen Indonesia and its counterpart – Cemex- the Mexican private cement company and the diversified Singaporean super holding company – Temasek. The comparison between PT Semen Indonesia and Temasek, as later explained, first, illuminates SOE governance in neighbouring countries. Second, it is useful to explain the motivation of Indonesian government to replicate the same corporate management of Temasek by drawing from the comparison between them two, as the success of the super holding mostly inspired countries in the region. Whilst, the PT Semen Indonesia - Cemex comparison can illuminates similarities between dominant market players in two world regions, and although Cemex is private owned company, such comparison has explanatory value especially due to its past partnership as shareholders.

In the last section, the analyses of this chapter will not going to end on explaining what has been happening with PT Semen Indonesia and now it can be theoretically valuable. In fact, the puzzle on how the expansion of PT Semen Indonesia in Vietnam will be managed after the expansion and how it may inspire other SOEs to take the same path will be crucial to ask. Among other things, the answer for how that achievement of going global may continue or in contrast stops by the regime change and economic slowdown underlines the importance of non-market mechanism in the case of EMMNCs.

6.1 Explaining the Transformation of PT Semen Indonesia

In this first part of Chapter Seven, there will four subsections which going to assess the transformation of PT Semen Indonesia as EMMNC, starting with the analysis of CSA and finishing with perspective on horizontal acquisition.

6.1.1 Country Specific Advantage

Country specific advantage such as natural resources, market size, government policies, legal and regulatory, as well as infrastructure and social-cultural, have been pointed by many studies of Gammeltoft, Filatotchev and Hobdari (2008, p. 5); Rugman, Nguyen and Wei (2014, p. 207); Marinov et al. (2012, p. 138); Todd and Javalgi (2007, p. 171) as the macroeconomic factor of MNC to invest overseas. This theoretical base allows us to see the exogenous factors within the home country which have uncontrollable impacts to the company (Todd & Javalgi 2007, p. 171) and help us to understand the bigger picture of the expansion (Marinov et al. 2012, p. 315). As discussed in Chapter Four, PT Semen Indonesia's placed in a complex circumstance is hardly separated from the fact that the company is owned by the EMs government. This basically tells that the company has strong links with the political and regulatory environment as well as economy of its home country-Indonesia, which has common thing in the study of EMMNCs.

To start with, as explained in Chapter Three, Indonesia's specific advantages in political and legal aspect need to be acknowledged. Like most studies argued about EMMNC, having weak government institutions is not usually a disadvantage for the latecomer countries (Marinov & Marinova, 2013), because the term 'weak' is truly come from Western standard of corporate governance value which they understand with different context. By contrast, the benefit of political and legal condition in country like Indonesia, basically comes from the strong government or state. In most EMMNC cases both private like Salim Group or public such as Temasek, the non-market variables like state intervention outweigh the lack of institution capacity in driving companies to invest overseas. It means that the lack of institution capacity which perceived hinders business best practice like rising monopolistic and created crowding out economy are indeed positive for SOE like PT Semen Indonesia.

At the same time, the market failure in Indonesia cement industry as a result of incapable institution system was being compensated by the presence of state in supporting or even just promoting the company internationalisation. In short, that state intervention and guidance outweigh the institutional weakness by facilitating the internationalisation through close connection and financial support. But that is not to say that the process of rent seeking is not happening in Indonesia particularly SOE context, although in this cement case study there is no indication of such illegal activities.

Based on that premise, we need to draw some backgrounds to clearly understand PT Semen Indonesia's expansion based on country specific advantage. Firstly, Indonesia, just like other Emerging Economies, is criticised for having an inefficient bureaucracy (Robison & Hadiz 2017, p. 896). Transparency International reported that perceptions of Indonesia's corruption among foreign executives placed the country 100th out of 182 countries on its annual Corruption Perceptions Index for 2011 (International 2011). However, Indonesia's ranking has been improved to 37th from 180 countries as of 2018 (International 2018). Indonesia's global competitiveness ranking is also improving with the country placed 37th out of 137 countries by the World Economic Forum (Klaus Schwab 2017, p. xi). In 2011, Indonesia was ranked 46th from 142 countries (World Economic Forum 2011, p. 15). Though there have been positive changes within Indonesia's democracy and legal system compared to the Suharto Era, state institutions remain a drag on economic development, especially business growth. This thesis finds that the policy environment remains one of the biggest challenges for PT Semen Indonesia (Gresik) to deal with. For example, it took years for the company to secure permits, likes Forest Area Permit (IPPKH-Izin Usaha Pinjam Pakai Kawasan Hutan), to open new subsidiaries.[65] Because Indonesia relied heavily on inward FDI, outward FDI was either ignored or viewed negatively as capital flight. Thus, investment-related bodies like the Investment Coordinating Board of the Republic of Indonesia (BKPM) was not aware of PT Semen Indonesia (Gresik) plans for internationalisation[66]. However, based on BKPM‘s document, it was found that there has been a regulation on OFDI -the Presidential Regulation No. 90/ 2007 Article 21[67]. Otherwise speaking, there has been a legal base to any Indonesian company to be facilitated by the state to do internationalisation. Nevertheless, public and other stakeholders have not been fully aware of this kind of specific regulation as the legal base for overseas expansion. Yet, this finding could be crucial for another Indonesian company to go global.

PT Semen Indonesia (Gresik) remains a state-controlled agent of development. Under the neoliberal model of economic governance however, greatest efficiency is gained from conformity with market processes and minimal state-direction (Hobdari et al. 2017, p. 3), In Indonesia, the opposite can be said to be the case. Notwithstanding the Asian Crisis of the late 1990s, what this thesis terms ‘neo-developmentalism’ does not lead to debilitating corruption but instead creates the conditions in which strategic business entities can thrive. Emerging economies like Indonesia illustrate that market and the interventionist state can co-exist, successfully. Although PT Semen Indonesia (Gresik) has encountered bureaucratic obstacles, this regulatory disadvantage did not stop its internationalisation. As an SOE, the company benefitted from government intervention to increase its domestic market share and enjoyed government diplomatic support to operate overseas. The limitations of politically compromised and inefficient bureaucratic institutions did not hold back PT Semen Indonesia from being competitive.

The second point to note when looking at its CSA is the fact that Indonesia is the world’s fourth most populous country, ranked the 10th largest economy in terms of purchasing power parity, and is a member of the influential G-20 group of leading economies (World Bank 2018). The Indonesian economy, from the time of SBY’s second term, was growing more

[65] Interview with BKPM Director of Business Cooperation 27 July 2017 in Jakarta.

[66] Interview with BKPM Director of Business Cooperation 27 July 2017 in Jakarta.

[67] Interview with PT Semen Indonesia Board of Director 28 October 2016 in Jakarta.

strongly than any time since the AFC. In past five years, Indonesia become one of the fast-growing economies in the region by having around five percent GDP growth when many countries were dipped into under two percent (Indonesia 2017). One in every five Indonesians are middle class according to World Bank statistics (World Bank 2017). Like many Emerging Economies, Indonesia's economic growth is driven by national consumption. There is a circular link between the cement sector, infrastructure development and economic growth (Abiad, Debuque-Gonzales & Sy 2017). Infrastructure development is also key to fairer distribution of wealth and opportunity across the nation as a whole.

The fast-growing economy brought two substantial consequences; first, the urgency of infrastructure development and second, high demand for housing. There is enormous potential for market growth in Indonesia because of the underdeveloped nature of the country's road networks, ports, and other economically vital physical infrastructure. In 2009-2010, Indonesia was ranked 96th from 148 countries in terms of infrastructure competitiveness based on World Economic Forum. Despite an improved ranking, to 56th in 2014-2015 (Industry 2016) and 52th in 2017 (Klaus Schwab 2017). Indonesia still faces major infrastructure shortfalls. About 7.6 million Indonesians face a housing backlog (Housing 2015, p. 11). The government embarked upon its 'A Million Houses' program to address the housing gap as a part of Jokowi national programs. The World Bank estimation revealed that Indonesia needed at least 820,000 to 920,000 new housing units every year to meet the demands of population growth (World Bank).

Infrastructure inequality is an impediment to national economic development. For years, Indonesia focused on the development of Java, where the country's capital and most big cities are located, where more than one billion inhabitant or where around 58% of the country's population live (Quincieu 2015). The Outer Islands, where most natural resources are located, had only limited economic output by comparison. A study by Gibson and Olivia (2010) found that for rural households in Indonesia, experienced both lack of access of public facilities and poor quality of infrastructure, especially roads and electricity, negatively impacted non-farm enterprises. Since SBY's time in office, the government has been mapping infrastructure needs and launched the MP3I Program in 2011[68] (Indonesia 2011, p.

[68] This program has been mentioned earlier. It stands for Masterplan for Acceleration and Expansion of Indonesia's Economic Development, a national program under Susilo Bambang Yudhoyono's presidency and has been claimed an integral part of the national development planning scheme (Tijaja & Faisal 2014). Industrial Policy in Indonesia: A Global Value Chain Perspective.

15). Lack of support and corruption were blamed for the poor progress of this Program (Roberts et al. 2015) but, at the time of writing, the current President, Jokowi, is committed to prioritise investment in infrastructure development above all other development targets followed the targets of MP3EI

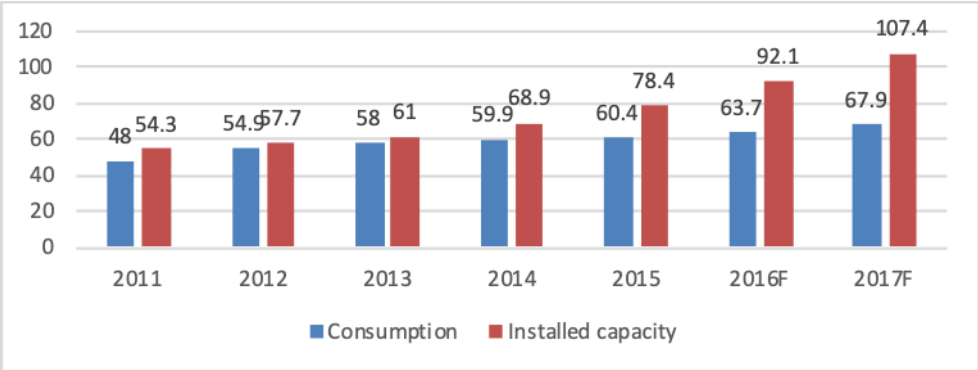

Figure 6.1: Indonesia's Domestic Cement Consumption and Installed Capacity.

Source: reprinted Young (2016, p. 6).

Despite the slow growth of cement consumption over the past five years (refer to Figure 6.1), the Indonesian economy will continue to grow in size in the following decades boosted by a growing population. Around 32 million of the consuming class will move from rural to urban areas and affected to the increasing of urban sprawl live in the city (Housing 2012, p. 11; Oberman et al. 2012, p. 4). The former president director of the company Dwi Soetjipto (2014, p. 205) has identified that demand for cement would keep increasing around 8 to 10 per cent for the foreseeable future. This is in line with a McKinsey Company report that around ninety million Indonesians will be the consuming class in 2020 (see Figure 6.2). McKinsey also forecasted that in 2030, 70 per cent of that population will be of working age (between 15 to 64 years old) making economic expansion even more imperative if Indonesia is to avoid an unemployment crisis along with the political challenges that it would bring (Oberman et al. 2012, p. 23-25). Besides, the latest data showed that Indonesian government has allocated trillion rupiah to address the problem of infrastructure from roads to housing (see Figure 6.3), in which PT Semen Indonesia expected to play an active role as cement supplier.

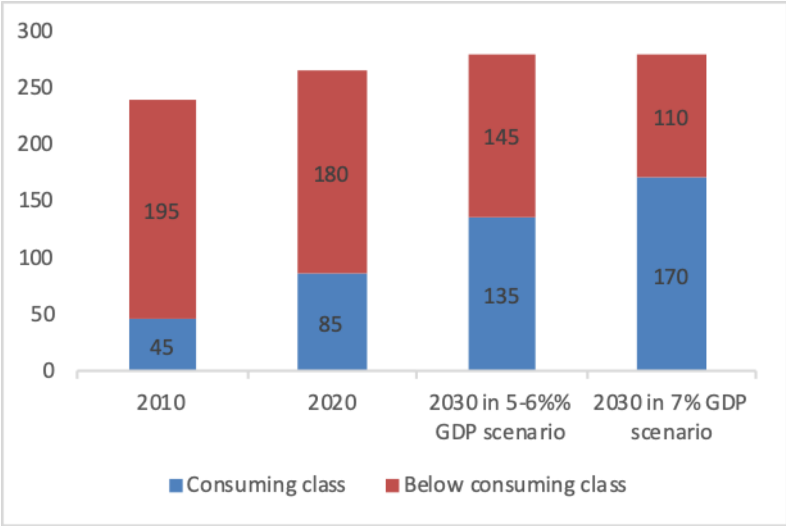

Figure 6.2: An Estimated 90 million Indonesians Join the Consuming Class by[69] 2030.

Source: Oberman et al. (2012).

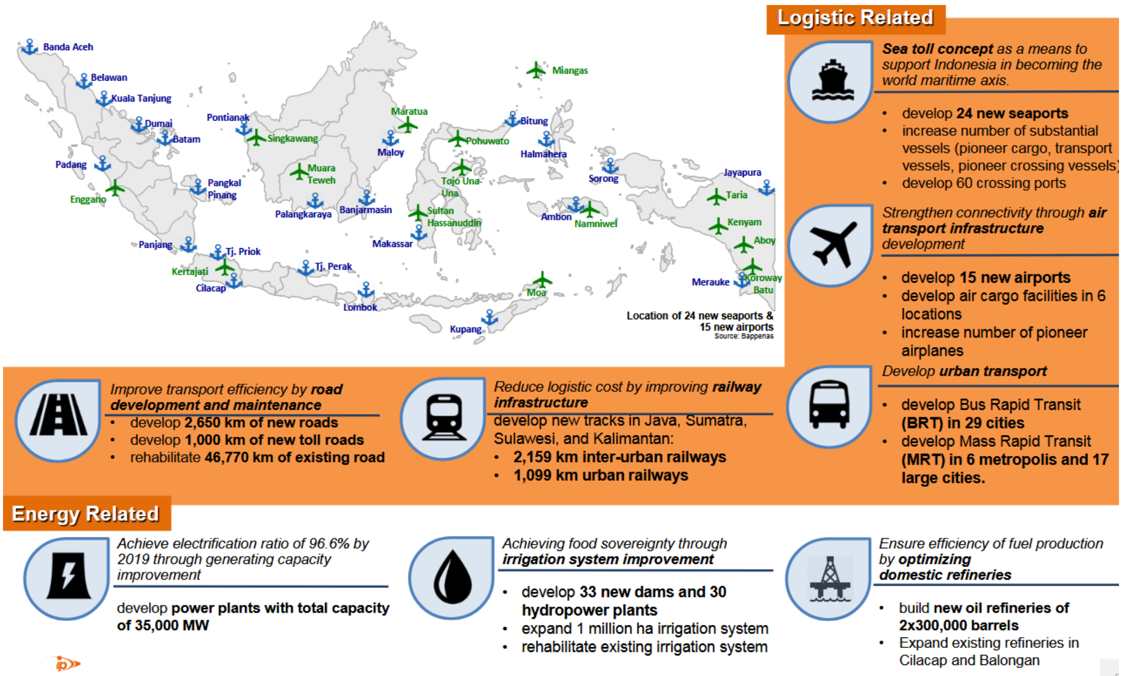

Figure 6.3: Indonesian National Infrastructural Projects.

Source: Winarno (2017).

In broader context, economic growth relates to economic capacity. Naturally the higher level of development a country has, the bigger its economic size and tendency to invest abroad. This is line with Dunning Investment Development Path Theory, which argued that the

69 Consuming class is individuals with an annual net income above $ 3,600 at 2005 Purchasing power parity standard OBERMAN, R., DOBBS, R., BUDIMAN, A., THOMPSON, F. & ROSSÉ, M. 2012. The archipelago economy: Unleashing Indonesia's potential. McKinsey Global Institute..

capability of country to undertake outward FDI is determined partly by its economic development (Dunning & Lundan 2008; Pananond & Zeithaml 1998). Although, Indonesia has the capital and technical capability, many politicians and their supporters still insist that the domestic market is big enough to support growth, which, as explained, presents an impediment to the internationalisation of Indonesian SOEs.

6.1.2 Firm Specific Advantage

The second determinant which must be considered is the firm specific advantage (FSA). This determinant is crucial because it brings out the internal factors of the expansion. The findings presented in Chapter Five also has been covered the data on PT Semen Indonesia. Thus, this section will take further job on examining PT Semen Indonesia's FSA in relations to the internationalisation of the company to Vietnam. In the study of FSA, experts emphasised the company's strength to explain why it is possibly to success (Rugman, Alan & Verbeke 2001, p. 238). To understand about PT Semen Indonesia transformation to be a global player, the evolution of the company in terms of ownership, business capacity, performance and technology are crucial to study. Those elements have strong impact to company's growth as we have seen today. In regard to ownership, the findings and analysis discussed here will be directed towards the benefits and costs of being state company. This discussion draws on Dieleman and Boddewyn's (2012) work on the case of Indonesian conglomerate, the Salim group, which is also applicable to PT Semen Indonesia.

The vast majority of MNCs in the world are private-sector companies, which are either publicly listed or privately-owned entities, and which are not subject to any state direction. In contrast, EMMNCs tend to exhibit high degree of state direction, either as wholly owned SOEs or through indirect influence in the form of significant state shareholdings or strong centrally driven industrial policy (Aguiar 2007, p. 24; Yadong & Huaichuan 2009, p. 52). In Indonesia, the Salim and Lippo Groups were well-known privately-owned conglomerates with strong informal ties to powerful politicians. The trend among multinational companies from Ems, in recent years, is towards greater overt state direction, with China leading the way. Indonesia is also following this trend as, one by one, Indonesian SOEs[70] look to expand overseas, with PT Semen Indonesia being a first mover.

[70] The latest internationalisation were planned by three SOE in public railways (Aldin, 20 August 2018)

Just like other SOE EMMNCs, in Indonesia's context, it is hard to make a clear distinction between an SOE's commercial and non-commercial roles. Although there are two kinds of SOEs as explained in the previous part; the publicly listed company (*Persero Terbuka*) and public enterprise (*Perum*), in which the prior one is to pursue profit (Indonesia 2003). However, both rely upon state assets, and thus, in return are expected to satisfy state political or policy needs. Most of the time, profit-earning (economic function) comes second to the national interest and service to the greater good (political duty). This political duty is simply understood an being an agent of development (Hill 2000, p. 107). PT Semen Indonesia has strong political ties with the state through the Minister of SOE who is the sole representative of the controlling shareholder on the Board, under *Dwi Warna* shares, with strategic oversight. In regard to that, under the Minister Regulation of SOE PER-03/BU/2012, the Minister of SOEs is responsible for appointing the Board of Directors and Commissioner, to name just a few. Many appointees are former public officials, most from the Ministry of SOEs.[71]

Formally, the power of the Minister to exert authority through the General Meeting of Shareholders is limited in the context that he/she is not able to make the day to day decision or intervene the Boards.

> The General Meeting of Shareholders or a Shareholder cannot intervene in the duties, functions and authorities of the Board of Commissioners and Board of Directors with prejudice to the GMS's authority to exercise their rights in accordance with the Statutes and Legislation. […] Shareholders will give consideration to decisions that are in favour of company's long-term interest (Semen Indonesia Tbk 2012a, p. 203).

However, the government is still able to manage SOEs through the General Meeting of Enterprises, and other forms of public monitoring (SOEs, 2017). The informal meetings by Yusuf Kalla the vice president and Suparni as well as Dahlan Iskan and Dwi Suciptjo in person, reflecting the company's strong attachment to good state-business relations (Semen Indonesia 2016a, p. 18–19). In a more substantiated way, the company for instance was given direct mandate to be a part of Indonesian government projects. In 2016, Jusuf Kalla invited the former President Director of PT Semen Indonesia – Suparni to meet him in his office.

[71]By May 2017, there were 125 of SOEs Commissioners were also public officials (Indonesia, CNN, 22 May 2017)

Kalla assured Suparni that the company would be given bulk contracts to support government infrastructures project (Semen Indonesia Semen Indonesia Tbk2016, p. 18–19).

Being an agent of development allows PT Semen Indonesia to gain from 'government backing' (Cuervo-Cazurra et al. 2014, p. 924). The decision to create a strategic holding company was a state initiative that greatly increased the capacity of PT Semen Indonesia (Gresik). The company also was supported in its internationalisation by other government agencies, such as the Indonesian Embassy in Vietnam. Benefits also accrue through business relationships with other Indonesian SOEs which cover land transport and shipping, distribution and finance (Semen Indonesia 2012, p. 191). Before investing in Vietnam, PT Semen Indonesia received loans from Indonesian government. The oldest accessible data from Annual Report of Semen Gresik Semen Indonesia Tbk (2008, p. 274) disclosed that the company received loans for the project of Tonasa IV. Not merely financial support, being SOEs also helped the company to have comprehensive Mutual of Understanding (MOU) with other SOEs like Mandiri Bank (PT Semen Indonesia Tbk2012, see also table 6-1). In recent years the SOE bank-Bank Negara Indonesia (BNI) provided a working capital loan facility with one trillion worth to PT Semen Indonesia with the intention to boost the infrastructure projects (Setyowati 2016).[72]

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[72]Some of the infrastructural projects in which PT Semen Indonesia (Gresik) was a principal supplier (Persero) (2016) are:

1. Toll Road Project: Bakauheni-Tebanggi Besar, Ciawi-Sukabumi, Bekasi-Cawang-Kampung Melayu, Medan - Kualanamu - Tebing Tinggi, Medan-Binjai, Pejagan-Pemalang, Kertosono-Mojokerto, Surabaya-Mojokerto, Depok-Antasari, Gempol-Pasuruan , Cinere-Jagorawi, Solo-Kertosono, Bawen-Salatiga.

2. Arterial Road Project: Improved road along the coast, south Java road, the outer ring of Surabaya, Jakarta's western ring road, Pakupatan Palima Serang road, Palima road Teneng Market and others.

3. Power Plant Project: Pangkalan Susu, Bantaeng, Takalar 2, Belang-Belang Mamuju, Marisa, Pomala, Virtue Dragon Nickel Industry, Kuala Tanjung, Geothermal Power Plant North Sulawesi, Poso 1 and others.

4. Property Project: Spread in almost all major cities in Indonesia.

5. Local Government Projects: Construction of public facilities such as hospitals, bridges, roads, offices, dams / reservoirs (Aceh, Banten, Central Java, NTT, North Sulawesi, Riau Islands, NTB, South Sulawesi and Bali), flats, stadium, irrigation, and others

6. Airport Expansion Project: Sukarno Hatta Jakarta Airport, A Yani Semarang, Supadio Pontianak, Syamsudin Noor Banjarmasin, Jalaludin Gorontalo, Sai Sering Kalimantan, Mutiara Palu, El Tari Kupang, Halu Oleo Kendari, Sam Ratulangi Manado, DEO Sorong and Talut and others .

7. Port Expansion Project: New Tanjung Priok, Banjarmasin, Teluk Lamong, Kuala Tanjung, Pontianak, Bitung, Makassar, Banjarmasin, Kupang and Halmahera.

There is however a political returns to be paid by PT Semen Indonesia, just like other SOEs and there are also political risks. One form of return from the company to the states involves the promotion of a government project such as the construction of toll road, railway, seaport (Kim & Chung 2018), and known as public service obligation (Hill 2000, p. 107). For example, Jokowi issued one cement price policy, which later comes with economic consequence such as losing profit margins and done extra works to serve the market. One form of risk is conflict of interest. Siegel, as quoted by Dieleman and Boddewyn (2012, p. 72), underlined that political ties can lead companies to be caught between rival socio-political networks. This might have affected PT Semen Indonesia on occasions where the company experienced difficulty in gaining expansion permits from particular ministries or agencies like in Rembang case for instance (Ministry of SOEs 2017).

Table 6-1 PT Semen Indonesia Relationships and Types of Transactions with Parties.

State Owned Enterprises	Links	Transaction
- PT Bank Rakyat Indonesia (Persero) Tbk - PT Bank Negara Indonesia (Persero) Tbk - PT Bank Mandiri (Persero) Tbk - PT Bank Bukopin Tbk - PT Bank Tabungan Negara (Persero) Tbk	Badan Usaha Milik Negara (State Owned Enterprises)	Penempatan dana dan/atau pinjaman (placing funding, borrowing)
- PT Perusahaan Listrik Negara (Persero)	Badan Usaha Milik Negara (State Owned Enterprises)	Pemakaian listrik (electricity consumption)
- PT Batubara Bukit Asam (Persero) Tbk	Badan Usaha Milik Negara (State Owned Enterprises)	Pembelian Batubara (buying coal)
- PT Pertamina (Persero) - PT Petrokimian Gresik (Persero) - PT Varuna Tirta Prakarsa - PT Waskita Karya (Persero) - PT Hutama Karya (Persero) - PT Rekayasa Industri (Persero) - PT Kereta Api Indonesia (Persero)	Badan Usaha Milik Negara (State Owned Enterprises)	Pembelian produk dan jasa yang spesifik sesuai bidang usaha entitas sepengendalian (buying specific product and services from same entities)

8. Public Transportation Project: LRT.

9. Other industrial projects: Paper mills in South Sumatra, smelter factories in Java, Kalimantan and Sulawesi, warehouses for industrial estate areas spread across Sumatra (3), Kalimantan (3), Sulawesi (5), Maluku (1), Papua (1) and Java (2).

10. Other projects: fly over, water front reclamation and more.

- PT Asuransi Jasa Indonesia (Persero) - PT Nindya Karya (Persero) - PT Adhi Karya (Persero) - PT Dahana (Persero) - PT Asuransi Jiwasraya (Persero) - PT Pelabuhan Indonesia II (Persero) - PT Jamsostek (Persero) - PT Sucofindo (Persero) - PT Pelabuhan Indonesia IV (Persero) - PT Asuransi Jiwa Inhealth Indonesia - PT Aneka Tambang (Persero) Tbk - PT Barata Indonesia (Persero) - PT Telekomunikasi Indonesia (Persero) Tbk - Dsb	

Source: Semen Indonesia Tbk(2012b).

Regardless of it being a political agent, a publicly listed company like PT Semen Indonesia is supposed to be a commercial entity; making profits and providing returns through dividends to shareholders, and paying tax and non-tax revenue to the state. The company in point of fact has been one of the more profitable Indonesian SOEs, based on Forbes Global 2000 in 2012 (Semen Indonesia Semen Indonesia Tbk2012b, p. 213). With success come increased expectations of return to the state. For example, the company was pushed to acquire other underperforming cement SOEs, like Semen Kupang (Agustiyanti 2013). Jokowi also ordered PT Semen Indonesia to reduce the cement price margin for consumers (Widyanita 2017). But PT Semen Indonesia is not required to pay a specified dividend to the government (World Bank 2017, p. 46). This policy is quite the reverse of the majority of countries in Europe, which have specific standard on their rate-of-return targets for SOEs (OECD 2015, p. 30).

In these ways, the state directs significant economic activity through the mechanism of a publicly listed company especially since SBY in office. This, it is argued, demonstrates the transformation of state activism and raised what this thesis argues as the neo-developmental state model.

In sum, the context of being state run can be summarised in the table below:

Table 6-2 PT Semen Indonesia context as Indonesia's SOE

Purpose	Benefits	Costs
Political • Agent of development • Board of Directors	• Gained government support to form holding	• Used for political means through public service obligation like

appointed by minister, • Board of Commissioners appointed by minister were public officials, • Indirect ties with the government through irregular meeting outside the shareholder meetings	• Gained support by other government institutions such as embassy	one – cement price policy, suggested to acquire other non-profitable national assets
Economic • Making profits • Through tax, dividend, Non-Tax State Revenue, controlling shareholder	• economic opportunities and contracts (example: access to credit from SOE banks, soft loan, government projects) • direct capital injections (*penyertaan modal negara*) • no standard of dividend and rate of return	• government asked to cut cement price, reduce the margin profit

Source: Adapted with some modification from Dieleman and Boddewyn (2012), multiple sources.

Resulting from the findings on PT Semen Indonesia, it can be concluded that strong state ownership or direction of PT Semen Indonesia follows similar patterns to EMMNC formation in East and South East Asia. State-ownership is most common in strategic sectors like oil, airlines, and agriculture (Gammeltoft, Pradhan & Goldstein 2010, p. 3). State intervention in most emerging economies is not seen as a harmful because companies receive financial backing and other types of assistance (Marinov & Marinova 2013, p. 4). Indeed, market mechanisms in emerging economies differ significantly from market mechanisms in developed countries. In Indonesia, the state has stepped in where it is hard to rely on the private sector to deliver on state development policy priorities because projects in basic infrastructure irrigation, sanitation and clean water, are not appealing for business due to high costs, duration and anticipated low returns (Setiawan 2013). For these reasons, state intervention, on balance, advantages the economy in sectors where markets fail to meet requirements.

Thereof, the state strategic role of EMMNCs then is a significant point of difference with MNCs. In developed countries, MNCs are private and purely dividend-oriented serving to maximise investor returns while being independent from state interference, beyond regulatory requirements under corporations' laws. In contrast, EMMNCs mostly either SOE or private must in some way serve the national interest and hence, SOEs like PT Semen Indonesia (Gresik) rely upon Indonesian economic nationalism as much as market mechanisms. Indonesia's outward FDI thus mirrors that of 'first wave' developing economies in the 1980s in which privately-owned corporations also served government priorities. The earliest East Asia EMMNCs were in the heavy industry sector, because, after the Japanese model of industrialisation, governments wanted to increase investment in areas considered strategic to national economic growth. Observing the prevalence of close government-business relations in East Asia, Dieleman and Boddewyn (2012, p. 71) argue,

> Political ties with governmental actors are imperative for survival and prosperity because the latter control access to major business opportunities and can provide crucial support through subsidies, favourable regulation, government contracts, protection against competitors, tax benefits and the like.

In other words, good political ties constitute a key firm specific advantage, and this is evident in the emergence of PT Semen Indonesia (Gresik). First, while the decision of the Indonesian government to protect the cement industry can be critiqued from a liberal market perspective as price distortion, such intervention can be justified on the grounds that it promotes further investment (Öniş et al. 1991, p. 112). One must remember that, while there are many Indonesian SOEs that are given state privileges, state support is no guarantee of success. Being nurtured for so long through direct and indirect mechanisms, PT Semen Indonesia (Gresik) not surprisingly enjoyed a competitive advantage. To be the first Indonesian SOE as global player, PT Semen Indonesia has benefited from domestic economic and political support.

Second, despite the cost and benefits as argued before, the success of PT Semen Indonesia to invest overseas confirmed points that Tihany (2015, p. 85) made, saying that there are differences in approaches to internationalisation between private firms and SOEs. Private firms are more likely internationalise than SOEs because they are more adaptable, more customer-focused and not attached in a formal way to any state policy objectives. In contrast, SOEs have to be aware of political factors.

Ownership matters aside, factors like management, performance, corporate governance, and technology all impact on the decision to go global. Growth too is an important consideration. The explanation behind why PT Semen Indonesia (Gresik) was transformed into a strategic holding company was discussed in Chapter 5. Studies of diversified companies in emerging markets suggest that political connections have a positive link to business diversification (Li et al. 2012, p. 801; Marinov et al. 2012, p. 194). The question to be addressed here is whether or not there was a direct correlation between becoming a strategic holding company and taking on new subsidiaries and the decision to internationalise. The formation of a larger conglomeration, while politically sensitive, benefitted the company's capacity to manage market imperfections (Guillén 2000, p. 363; Li et al. 2012, p. 363). The benefits of being a conglomerate or consolidated business group include being able to leverage finance through internal group capital markets (Tihany 2015, p. 385). Second, consolidation synergizes subsidiaries making business activities more efficient and cost-effective (Guillén 2000, p. 363; Tihany 2015, p. 385), avoid the market imperfection effect such as high transport cost because location factor on resource transfer when there is unused resource in other subsidiaries (Li et al. 2012). The internationalisation of PT Semen (Gresik) has been of benefit to the company, which, as stated, leads the cement sector in Indonesia. Placing the company as the national champion in Indonesian cement industry allowed it to surpass the previous dominant player, Indocement. Many EMMNCs have become the national champions and, because there is little room for them to expand at home, they seek new expansionary opportunities by internationalising (UNCTAD 2007, p. 26; Fan 2008, p. 355). In other words, growth is sustained through internationalisation.

With regard to corporate governance and technology, EMMNCs have not focussed sufficiently on the former. As a consequence, poor corporate governance has been a significant disadvantage (Cuervo-Cazurra & Ramamurti 2014; Marinov & Marinova 2013). PT Semen Indonesia has also suffered from poor corporate governance and it is to assume that it has never had to deal with the issue of corruption, nepotism or professional misconduct. The board of PT Semen Indonesia, particularly Dwi Suciptjo, realized that it was crucial for the company to adopt corporate 'best practice' principles adapted from western business cultures (PT Semen Gresik [Persero]8). Nevertheless, he acknowledged that it was impossible to ignore the personal ties and the value of collectivism that have been part of the company's success, as it was in other East Asian 'latecomers' to industrialisation (Gilpin & Gilpin 2001, p. 165). He also acknowledged that host countries where the company invests also have certain accepted business practices which need to be respected and learned (Soetjipto 2014). The question after all is how the companies from EMs like PT Semen Indonesia adapt more open and consistent rules and practice of doing business? for the supporter of liberal economy, changing the ownership to be fully private may be the case. However, this thesis insists that full privatisation is not a best solution in where the market imperfection stills the biggest problem, without the government support of access to capital and resource, the company may hard to compete its counterparts and they are too big to fail. Therefore, the state activism will find its way to return back. What the government and Indonesians can do is balancing the role of the state and keeping the cement company to be accountable and operates based on better corporate practice without totally leaving the state role.

EMMNCs from developing Asia are noted for suffering from a technology lag (Zhang 2009; Ramamurti 2012) case of PT Semen Indonesia (Gresik), early investments in technology gave it another advantage over its competitors, a fact that underlines that poor governance did not hinder the company's evolution. Technology adoption was a direct consequence of Cemex's involvement in the company, which, despite the political challenges discussed in Chapter Five, transferred important new energy efficiency technologies to the company (Athukorala 2007, p. 15). This validates the role of technology and innovation to the process of catching up by EMs and illustrates the 'invisible' innovation asset of PT Semen Indonesia (Gresik) (Amsden 2001; Marinov & Marinova 2013; Klaus 2011). PT Semen Indonesia (Gresik) was not held back in any way by a lack of technology in its efforts to internationalise and was a great pain to ensure technological compatibility with its Vietnam venture and subsidiaries back home. As is suggested in the literature, inward FDI can be a catalyst for technology diffusion.

Taken together, above findings suggest that PT Semen Indonesia benefited from many firm specific advantages as much as its country specific advantages. The quality of its advantages made it possible for the company to be the first Indonesian SOE to invest offshore.

6.1.3 Market Seeking Within Asia

If we look to the expansion path, PT Semen Indonesia appears to be late in its internationalisation. While it was the oldest and biggest cement company in Indonesia, prior to 2012, internationalisation was on the company's agenda (PT Semen Indonesia [Persero] SEMEN INDONESIA TBK2012). For a long time, the government directed PT Semen Indonesia (Gresik) to be inward-looking, at least in the context of serving the national market first (Enterprises 2010, p. 12). Indeed, no Indonesian SOEs transformed from being an exporter to being an investor until PT Semen Indonesia (Gresik) led then way from 2012 onwards. Other Indonesian SOEs like PT Semen Indonesia faced the problem of rent seeking, and many of them were struggling with financial losses and were busy trying to prevent bankruptcy, which hindered their growth (Aziza 2017a).

FSA and CSA are both important to the expansion of EMMNCs like PT Semen Indonesia. But the factor of motivation and types of FDI are also crucial in understanding the process of internationalisation of EMMNCs. In fact, the distinction between MNC and EMMNC lies behind the types of motivations and the entry mode which they chose. It is because most of the time although companies have similar FSA or CSA, their objectives or pathways may be different. However, an old study by Rugman (2006) found that both types of corporation establish subsidiaries overseas to avoid trade restrictions, including tariffs and import quotas. PT Semen Indonesia (Gresik) was motivated by three business factors; market access, resource and asset seeking. However, market seeking was the dominant factor.

There were two 'internal' reasons behind searching for overseas market as has been discussed in the previous chapter. Firstly, PT Semen Indonesia directors realised that competition was set to intensify as a consequence of the emergence of foreign cement companies.[73] Overseas investment was thus a strategy to secure access to a bigger market where the company had established brand reputation, as is typical of EMMNCs (Guillen & Garcia-Canal 2009; Rajah et al. 2010). The company understood that by investing in Vietnam, it would achieve two aims, gain greater access to a new market and, at the same time, maintain competitiveness in established markets. That said, it did not lead to investment in other countries to which it exported, including Timor Leste, Sri Langka and Maldives with million tonnes of export (Semen Indonesia 2010, p. 88, 109). Internationalisation occurred at a time of growth in

[73] Interview with Echelon Staff, Indonesian Ministry of SOEs, 26 October 2016 in Jakarta.

regional cement markets (Semen Indonesia 2016b, p. 110). Locating production closer to key markets was thus a good strategy for the company to reduce production costs, especially because PT Semen Indonesia has to compete with MNCs like Heidelberg, Holcim and Lafarge and other EMMNCs like Cemex and Siam Cement (Soetjipto 2014, p. 198). This is in accordance with Kumar's argument of defensive business, which is that to protect market share, developing countries companies' move their production in the exported countries (Kumar 1982, pp. 408–409).

The internal and external context of Indonesia's cement industry was changing, driven by domestic economic reforms and the deepening of regional economic cooperation within ASEAN. As Guillen and Garcia-Canal (2009) argue, investment in new markets can also be a response to economic reforms in the home country and can be interpreted as a business defensive strategy. PT Semen Indonesia (Gresik) directors believed that economic globalisation and the formation of an ASEAN Economic Community were irreversible trends (Soetjipto 2014, p. 194). The other major concern was the growing influence of Chinese cement companies searching for new investment opportunities aboard, driven by the economic slowdown at home. As the former President Director of PT Semen Indonesia, Suparni, stated the logic behind the company's aggressive strategy (Semen Indonesia 2016a):

> Like football, there are only two choices for the SMI (Semen Indonesia) Group facing this era of MEA, taking the position as a goalkeeper to guard and ward off a wave of attacks by competitors or become attackers. Compete directly and attack into the heart of the competitor's defence. And, SMI Group has taken the last position. The best defence is attacking.

If anything, these decision-making processes illustrate the professionalism guiding PT Semen Indonesia strategy. Company direction was set with clear and direct reference to the imperatives of firm survival in a more open and competitive economic context. The core considerations of this strategy are apparent in the company's annual report, which stated:

> The cement group (perseroan) tends to concentrate on regional buyers based on some consideration follows: Cement products are more economical if distributed close with the main marketing area; it can be the realization of the company's vision to be a leading player within the cement industry in the regional market; it demonstrates the participation of Indonesia to develop its role in the region; it is reducing the risk of the state as main marketing area by expanding the marketing area to the regional region; Southeast Asia is the region with a relative stable economic growth rates amid the global economic turmoil; as an anticipation of the AFTA [ASEAN Free Trade Area]. (PT Semen Indonesia Tbk 2012, p. 60-61).

Investing abroad was undertaken in order to access and exploit natural resources for the in the interest of secure industrial inputs, which is a common reason for EMMNC overseas expansion (Rasiah, Gammeltoft & Jiang 2010, p. 341). Reflecting the case of Chinese resources EMMNCs, one of the main drivers behind China's 'going out' strategy was to secure sufficient natural resources to supply Chinese industry and promote national economic growth (Rugman, Nguyen & Wei 2014, p. 208). This was also a motive for PT Semen Indonesia expansion- to secure the resources of production in the region such as the raw material of limestone and clay (Semen Indonesia Semen Indonesia Tbk2015, p. 74). Like other EMs, Indonesia's economy has growing demanded for resources like energy and oil and it also run out of cement raw material in the future.

The acquisition of Than Long Cement Company gave PT Semen Indonesia access to that company's technologies and, also very important, its brand name. Owning the brand enabled the company to operate under the guise of a Vietnamese entity (Semen Indonesia Tbk2014), while owning the technology enabled it to upgrade its resource and capabilities to compete in the new market and this is in line with Guillen and Garcia-Canal (2009) arguments. As a matter of fact, Thang Long was selected through careful process of due diligence. The company found that Thang Long was a prominent cement company in Vietnam with European technology and integrated infrastructure (Semen Indonesia Tbk2015, p. 74-75). EMMNCs commonly use acquisitions and alliances as entry modes to gain footholds in new countries, instead of riskier green field investments (Yadong & Huaichuan 2009, p. 50). Through acquisition, EMMNCs are able to leverage the host country's competitive advantage (Guillen & Garcia-Canal 2009, p. 28). This is in line with PT Semen Indonesia decision to acquire two companies; Thang Long Cement Joint Stock Company 2 (TLCC2) and An Phu Cement Joint Stock Company (APCC) in Vietnam (Semen Indonesia Tbk2012, p. 324) which more than 99 percent of share.

The decision to acquire foreign company was not solely directed to Vietnam. The team for overseas expansion undertook comprehensive due diligence including the assistance of Indonesian embassy to provide information regarding the regulatory environment, which is common thing among EMMNCs (Rasiah, Gammeltoft & Jiang 2010, p. 340). In that process, there were actually some other host country options (Enterprises 2017). But at last, the company decided to take over TLCC in Vietnam. Taking everything into account, Vietnam as a possible host country was selected on the basis of some determinant factors below (Semen Indonesia Semen Indonesia Tbk2014, p. 67–68):

1) Vietnam is a country that has a long coastline. This condition provides an advantage for the Company due to its excellent location as the Company's hub to supply to the regional markets.
2) Second, Vietnam had just experienced a decline in economic performance (GDP growth). This makes it easier for the Company to invest, as the countries with declining economy are much more welcoming towards the investors. Furthermore, Indonesia and Vietnam have an excellent relationship.
3) Third, TLCC is a prominent cement company in Vietnam with comprehensive European technology and integrated infrastructure. It has total capacity of 2.3 million tonnes cement per annum.

The theory of South-South Cooperation and the literature on resource seeking FDI states that developing country multinationals tend to invest in neighbouring countries with a similar or lower level of development than their home country (Dunning et al. 1996; Aykut & Goldstein 2006; Goldstein 2007; Kumar 1982; Rasiah et al. 2010). This ensures familiarity with consumer demands and the social as well as political characteristics of the investment destination (Aykut & Goldstein 2006, p. 100). In fact, the selection of which host country the expansion will be located is one of the most crucial process. Specifically, the factor of sociocultural closeness has been the core driver of foreign investment (Guillen & Garcia-Canal 2009, p. 26). While there are significant differences between Indonesia and Vietnam in terms of political and legal systems as well as religious beliefs, their social structure have more resemblance. Like Indonesia, that country which is located in the same region - South East Asia, just growing and modernising. The country which is also a large country with 60 million population in the 1986 had experienced development issue such as poverty. Before the country was one of the poorest countries in the world (World Bank 2019).

6.1.4 Horizontal Acquisition

The literature suggests that there are two types of outward investment, horizontal and vertical. According to Marinov et al. (2012, p. 58) most of EMMNCs today, especially in natural resources sectors, prefer horizontal strategy for their internationalisation. Horizontal FDI typically involves duplicating parts of the production process overseas (Navaretti et al.

2002; Frieden & Lake 2003). The last indicator which requires to explain in understanding EMMNCs is the type of FDI which they took. Taking the horizontal approach, PT Semen Indonesia established Thang Long as a subsidiary with an equal position with the other three subsidiaries (PT Semen Gresik, PT Semen Padang and PT Semen Indonesia) to produce and provide cement products for overseas market.

Horizontal FDI was chosen by PT Semen Indonesia for two main reasons. First, there was an issue of products shipment to Vietnam and South East Asia. The nature of cement as bulky product (Umum 2012, p. 149) makes the duplication of whole business activities more reasonable rather than sending products through shipping, because it much be pricy in terms of variable costs such as transport. It is also easier because the company does not have to build new plant and equipment. The benefits of invest with this type of FDI helps the company to be more flexible in allocating resources and controlling transaction costs in the production process (Frieden & Lake 2002, p. 146).

The next reason is related to the company's competitive advantage. The problem with EMMNCs is they are latecomers (Luo & Tung 2007, p. 485). Consequently, they lack key competitive advantages including their limited capacity to play in a wider market (Navaretti et al. 2002). In that way, PT Semen Indonesia understood well that to go global, they had to establish a regional base in which key competitors, such as Holcim, Siam Cement and Cemex, were already present. These findings support the argument that horizontal FDI is usually undertaken with the motive of strategic resource and asset seeking (Marinov et al. 2012, p. 60). PT Semen Indonesia might have been known for its quality and brand back home, and they were also familiar to consumer in a few Asian countries, but they were still way behind global competitors in terms of market scale and brand recognition.

Interestingly, the findings did not confirm that the horizontal FDI was led by the motivation to get behind trade barriers (Caves 1971, p. 4). Regarding the implementation of ASEAN Economic Community in 2015 (as explained in the 7.1.1 part), the tariff barrier to Vietnam according to the data was around five to zero per cent (ASEAN 2012) for cement product which was so low. Thus, the factor of trade barrier was not significant to PT Semen Indonesia expansion.

6.2 EMMNC SOEs and PT Semen Indonesia: The Comparative Analysis

The above discussion has referred to broader studies of EMMNC behaviour, highlighting the importance of a range of factors in shaping company strategy with regard to internationalisation. EMMNCs face complex challenges at the national and global level and yet these are the key to understanding of their decision-making processes. At this point in the thesis, it is useful to examine PT Semen Indonesia in closer comparison with EMMNCs from other countries. It is pivotal because first of all, it helps to show the similarities and differences with prior EMMNCs which raised in the 1980s, and enables identification of how this thesis contributes to the empirical study of EMMNCs. Such comparison can further help to explain why, among Emerging Economies particularly in Asia, Indonesia has made only very slow progress in generating outward FDI in past couple decades. What follows is an outline comparison of PT Semen Indonesia with the Mexican cement producer, Cemex, and the Singaporean state conglomerate, Temasek.

6.2.1 Country Specific Advantage: The Comparison

In this section, the politico-legal systems, cultural, and economic environments of Singapore, Mexico and Indonesia are broadly compared to identify where each held a country-specific commercial advantage.

6.2.1.1 Singapore: Looking outward

Singapore, although located in the same region with Indonesia, and with shared cultural characteristics of Chinese and *Melayu* ethnicity, has a different legal system, with its origins in British common law, and is less compromised by political interference and corruption. At least in the past decades, Singapore has been known for its low level of corruption and strong law enforcement with a bureaucracy that is regarded as professional. Reflecting Singapore's strong corporate governance regulations, and its zero-tolerance for corruption, it is ranked third out of 180 countries for being 'clean' by the international anti-corruption watchdog, Transparency International, in its annual Corruption Perception Index (Transparency International 2018, p. 2; Koh 2009). This good system as a consequence, pushed Singaporean companies like Temasek to comply with the corporate governance system.

Singapore's economy is characterised as innovation-driven in contrast to Indonesia's efficiency-driven economy (Schwab 2018, p. 320). This can be explained by Singapore's size, lack of natural resources and shortage of ‘cheap labour’, which are disadvantages that have compelled the Singaporean state and business to innovate. The country’s Gross National Income (GNI) per capita of US$52,600 is the highest among Asian countries (World Bank 2018), placing the country as the one of the highest income economies in the region. Unlike Indonesia’s economy, which is focused on domestic consumption and primary industry, Singapore has been a manufacturing and export-oriented economy since the 1970s (Athukorala 2007, p. 39). Despite its small territory, Singapore exploited the strategic advantage of its geographical location at the ‘crossroads of Asia’. It turned its stable system of government and legal system into factor endowments by creating conditions conducive to foreign investment. To attract FDI, Singapore established a ‘business-friendly’ regulatory environment (Vietor & Thompson 2003). Strategic transport infrastructure developments established the country as a regional business hub, including an international airport, rail transit system and port facilities, and placed it at the centre of global production networks (Phang 2003; Hill & Menon 2014, p. 7). As a consequence, Singapore was counted as one of East Asia’s newly industrializing countries (NICs) of East Asia, together with Japan and South Korea, and ahead of its much larger and better resourced Southeast Asian neighbours (Frieden & Lake 2002, p. 378).

Perhaps because of its size, Singapore was able to be more agile. But being outward-looking also involved hosting and investing in innovation (research and development) and using policy to direct Singaporean firms to expand overseas (Goldstein & Pananond 2008; UNCTAD 2007, p. 418). Economic agencies like Economic Development Board (EDB), provided Singaporean investors, particularly the GLC (government link company) with information and access to markets outside Singapore. For these reasons; transportation, governance, innovation, the country became a major regional headquarters for global MNCs (Hill & Menon 2014, p. 10).

Of course, PT Semen Indonesia and the Singaporean state-owned conglomerate, Temasek followed different trajectories. However, their internationalisation reflected the influence of strong state direction.[74] At the time when Temasek was built in 1974, Singapore has just started its economic development (Goldstein & Pananond 2008, p. 423). The country has a clear vision on economy and industry and was ruled by and authoritarian regime. As a result,

[74] Temasek was internationalised in 2002 (Temasek 2017, p. 20)

the country's economy was under strong state control. (Pereira 2008) argued that the absence of industrial entrepreneurs in Singapore's early days was the main reason why GLCs were created. Singapore's economy depended on GLCs under Temasek which were backed by a virtual one-party state that made it politically easier for the government to provide adequate support for economic expansion (Ang & Ding 2006, pp. 66–67; Goldstein & Pananond 2008, p. 423). Like the Ministry of SOEs in Indonesia, the Singaporean state selected highly proficient managers to run its enterprises and retained a decisive role in shaping business directions, including a "right to veto any business proposition made by representatives of any of the 36 companies, to ensure that businesses were in the national interest" (On Huat 2016, p. 510). For this reason, if we talk about the political and regulation system as country's specific factors then the two countries were more likely compatible than contradictory. The difference lies in the capacity of the government and the policy discipline established earlier in Singapore (Hill & Menon 2014, p. 13).

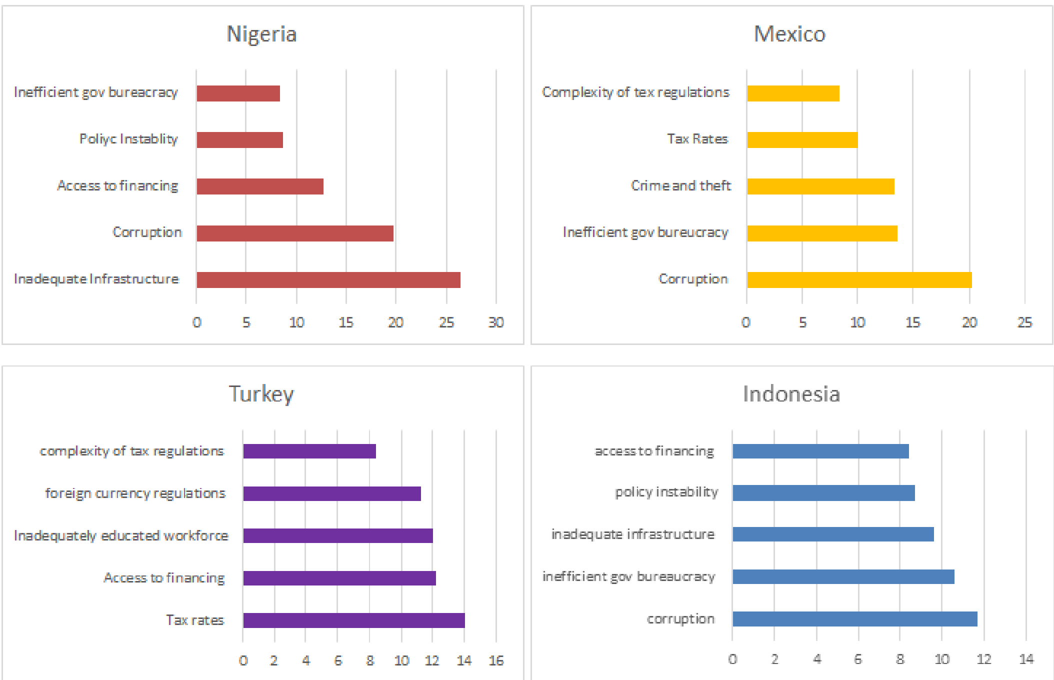

Figure 6.4: MINT Economic Competitiveness.

Source: reprinted Rachman (2016).

6.2.1.2 Mexico: Structural Transformation

Mexico and Indonesia have been bracketed together under NIMPT (Nigeria, Indonesia, Mexico, Philippines and Turkey) and MINT (Mexico, Indonesia, Nigeria and Turkey), which are acronyms coined by investment brokers to denote countries whose economies share similar patterns of rapid economic growth, large populations and large emerging middle classes. This grouping of states is lauded as the successors to BRICS as the world's 'newly emerging economies' (BBC 2014; Euromonitor 2015). Mexico faces three main vulnerabilities as it seeks to build upon its economic potential; corruption, inefficient bureaucracy and crime. The numbers from Figure 6.4 indicated that Mexico was in some way frail than Indonesia in regard to politics. In terms of corruption and crime, Mexico is more vulnerable than Indonesia. Both have been democracies for the past two decades, but Mexico is grappling with the entrenched interests of drug cartels, which are a legacy of many decades of weak governance and the social upheavals created by the North American Free Trade Agreement (NAFTA) which had welcomed reform from North America (Lessard & Lucea 2009, p. 21; Randall 2006, p. 51; Krauze 2018; Villarreal 2010, p. 17). Influential criminals have been able to shape the economic policy making due to their political link with the public officials and the inability of Mexico's justice system to prosecute crimes of corruption (Initiative 2018; Althaus 2018). Despite these limitations, Cemex was able to grow and to internationalise. To its advantage, Cemex was built under family business (Lessard & Lucea 2009, p. 21). In Mexico, conglomerates were the most powerful in Latin America (Hogenboom 2004, p. 207).

Mexico has become one of the fastest growing EMs, leading other Latin American economies and with a much larger GDP to Indonesia. Regardless the country's smaller size when it compares to Indonesia, Mexico also has comparable factor endowments, like natural resources, cheap labour and a large domestic market. Since late of 1980s, and especially after the formation of NAFTA, Mexico became an investment priority for US companies looking to reduce production costs (Frieden & Lake 2002, p. 373; Otero 2018, p. 1). Mexico had paid a high price of its earlier oil dependence was like Indonesia before, suffered from oil boom and Dutch disease[75] (Ten Kate 1992, p. 660). When its oil boom ended, Mexico was forced to

[75] Dutch disease was once found based on Netherland economic experience in the 1980s. The more the Netherlands developed its natural gas sector, the more depressed its manufacture of tradable goods became, and this was widely known as the Dutch disease (Jayanthakumaran 2016). In general, the Dutch Disease is occurring when the resource export boom happened but it reduces the competitiveness of other exports Rosser (2007). Escaping the resource curse: The case of Indonesia. Journal of Contemporary Asia, 37, 38-58. To identify Dutch Disease, it can be seen from the symptoms or effect to the economy which may happened such as: (a) real exchange rate appreciation; (b) a slowdown in manufacturing exports, output, and employment; and (c) an increase in wages IMF 2012. Indonesia : Sustaining Growth During Global Volatility. USA: 'IMF eLibrary '.

find a new source of wealth and, under IMF direction looked to liberalise its economy and internationalise Mexican companies, which it did under the Washington Consensus of the 1990s and 2000s (Blázquez & Santiso 2004; Ten Kate 1992; Casanova 2009). However, apart from the liberalisation, industrialisation and increased exports to the US, the country remained a major destination for FDI (Randall 2006, p. 61), lately in energy sector. The data in 2015 revealed that the contribution of FDI to the country's economy reached 44 percent of the GDP (Bank 2018).

The effect of economic liberalisation has been varied in Mexico. There have been some setbacks, like the economic crisis in the end of 1994 (Otero 2018, p. 36). But the country managed to take some benefits from the free trade. Mexico has been one of the top sources of foreign investment among rapidly developing economies, with seven notable global companies in 2007 (Aguiar 2007, p. 8). Economic liberalisation and inward FDI especially from North America (Canada and the US) also propelled the export of investment from Mexico after the signed of the North America Free Trade Agreement (NAFTA) (naftanoworg 2012). Cemex, as an example, first went global in 1992 by acquiring two Spanish cement companies-Valenciennes and Sanson, but continued to rely on government financial support (Emmott 2009). Mexico embarked on massive infrastructure projects to build pipelines, highways, and ports under the National Infrastructure Plan (Armijo 1999, p. 1). But Mexico (ranked 46th) was still far under Singapore (ranked 2nd) and Indonesia (ranked 45th) on the Global Competitiveness Index 2017–2018 (Schwab 2018, p. xi).

Looking at these three cases (see Table 6-3), it may conclude that there is a similarity among them three, which is that country specific factors benefitted internationalisation in two ways. First, they all had poor political and regulatory conditions but strong links between the state and market, in fact Indonesia and Mexico are still struggling to make progress on this aspect[76]. Although they are all democracy today, it was true that the three of them were once ruled by authoritarian regimes or in other words they have strong state. That is to say that the weaker political and law system of one country's, the stronger its state-market nexus. This seems to confirm the general acceptance on EMs study. Many believe that because of weak institutions, companies in Mexico and Indonesia seek to gain from state protection (Aguiar 2007; Gammeltoft et al. 2008; Goldstein 2009; Gammeltoft et al. 2010; Marinov & Marinova

[76] Only if definition of good political system means there is clear relation between political actors under democratically system

2013; Rasiah et al. 2010). Temasek, Cemex or PT Semen Indonesia were all large monopolies. However, it is important to point out that, among them, Singapore has the best working bureaucracy (Vietor & Thompson 2003; Zutshi & Gibbons 1998). Second, the weak governance becomes an incentive for them all to globalise especially to their Neighbour who were mostly developing countries. This helping them to adapt.

Table 6-3 Singapore, Mexico and Indonesia Country Specific Advantage Comparison

Determinants	Singapore	Mexico	Indonesia
Political and Regulatory Environment	*Pre*: ruled under authoritarian regime *During:* state was supportive *Jakarta Post :* Strong institutional and legal system, avoid state link yet still relies on state ownership	*Pre:* ruled by authoritarian and corrupt regime *During:* Week institutional legal system, state was supportive *Jakarta Post :* remained supportive (financial assistance)	*Pre:* ruled by authoritarian and corrupt regime *During:* Weak institutional and legal system, states was supportive *Jakarta Post :* supportive in limited manner
Economic environment	*Pre:* developing basic infrastructure *During:* High growth of economy, one of the best infrastructure in the world, but small consumers *Jakarta Post :* liberalised market system	*Pre:* Lack of basic infrastructure *During:* competitive market, NAFTA *Jakarta Post :* Massive infrastructure projects, economy has been growing and liberalised	*Pre:* Lack of basic infrastructure *During:* dynamic economic growth (rapid but volatile), massive consumers, hybrid economic system but tent to be nationalistic, AFTA *Jakarta Post :* Massive infrastructure projects, economy has been liberalized (with limited degree)
Cultural Environment	*Chinese and Melayu Ethnicity Group,*	Mafia and violence	Chinese and Melayu Ethnicity Group,

traditional	traditional

All three countries experienced rapid growth with different degrees, with Singapore leading on this aspect, while Indonesia and Mexico are catching up. But they all differ in terms of economic policies, Singapore has clearer approach in export-oriented since 1970s, while Indonesia and Mexico have mixed economic strategies, retaining a focus on import-substitution. Industrialisation in Singapore was achieved parallel to infrastructure development. Forth, in cultural aspect, Singapore and Indonesia have much in common than Mexico, because they shared similar ethnicities- *Melayu* and Chinese. Whereas, Mexico's economy influenced much crime groups who had close link with state apparatus.

Thus, generally speaking, the findings have been consistent with the prior theory on EMMNCs, in the points that the three companies born from poor governance and well-established institutions, also they influenced by strong state support during the first stage of going global even for Singapore.

6.2.2 Firm Specific Advantage: The Comparison

EMMNCs like PT Semen Indonesia, Temasek and Cemex have varied capacities to go global in regard to the ownership, business capacity, performance and technology aspects. To compare and contrast between the three, it should be start with Temasek.

6.2.2.1 Singapore Owned: Temasek

Like PT Semen Indonesia, Temasek was transformed into a state-run holding company to serve state strategic priorities, although this occurred 20 years earlier, in 1974 (OECD 2015c, p. 74). The Temasek company was founded in 1959, when the Singaporean Government took control of British properties left behind as a legacy of colonial rule. The Ministry of Finance had the power to acquire, purchase, hold, transfer, dispose and manage state assets in order to accelerate the economic development. To that end, the ministry divided the assets with three major holdings and one institution; Temasek, MND Holdings, MOH Holdings and the Government of Singapore Investment Corporation (GIC). Each had different responsibilities; Temasek is responsible for commercial entities includes managing the GLCs (Government-linked Companies), MND Holding responsible for inactive companies, while MOH Holding handled the hospitals, and GIC managed Singapore's capital reserves (Ang & Ding 2006, p. 67; OECD 2015c, p. 50).

Temasek thus played key role in Singapore's state-led development (Fan et.al 2014, p. 40). This is not only because it was established by the state, where the Singaporean President approves the Temasek Board (Kirkpatrick 2014, p. 7), but also because the GLCs under Temasek contributed 18% of the Government's overall revenue (Budget 2018). Temasek is run by specific mandate, which states that the company exists with the express purpose of facilitating Singapore's economic growth (Ang & Ding 2006, p. 70). As with PT Semen Indonesia, Temasek has benefitted from direct involvement in its government's industrialisation projects and by state policy initiatives favouring the Ministry of Finance, which is the sole shareholder (Goldstein & Pananond 2008, p. 420). This clarifies that Temasek as the parent company of the holding (the investment company) owned 100 per cent by Singaporean government (Service 2017) but managed under private mechanism or separated entity. Yet, the subsidiaries under Temasek are partly owned by private or foreign entities.

Temasek is shielded against direct political interference by its Charter, which recognises its autonomy to manage its affairs according to commercial as opposed to political priorities and by the fact that it deals within only one state agency, the Ministry of Finance, which does not appoint a representative to the Board (Temasek 2019; Kirkpatrick 2014). The board of directors consisted of ten members who are non-executive, independent private sector leaders and two of them were foreigners/expatriates usually with economic or business background. There has been a change inside Temasek management where previously the board member dominated by ex-military and civil servant (Ramirez & Tan 2004; Kirkpatrick 2014) especially after the issue of Temasek's Charter in 2002 (Goldstein & Pananond 2008). Therefore, there has been reform inside Temasek and more independence than in the past, though undeniably the company retains its national economic development role (Singapore 2017).

From ownership and shareholders, the second aspect to measure is the management structure. Unlike PT Semen Indonesia which focused on cement and its related industry, Temasek is a super holding company which operated varied business. It owned at least 70 subsidiaries in varying sectors such as Singapore Telecommunication, Singapore International Airlines, Singapore Technologies and many more. The first-tier subsidiaries of Temasek, further, have their own subsidiaries which some of them are publicly listed companies (Ang & Ding 2006, p. 67). In its first annual report released, Temasek noted that it had acquired companies in 35 countries during the two-year period (Goldstein & Pananond 2008, p. 423).

Other than ownership and management, Temasek is known for its asset portfolio, which has accounts worth US$235 billion in 2018 (see Figure 6.5). While the Temasek is an investment company, and does not actually produce anything any products, it has managed around a hundred companies across the world (see Figure 6.6 and Figure 6.7). The list has been growing since 1974 when the holding first incorporated, there were only 35 companies under the group (Temasek 2017, p. 100). These subsidiaries later dominated markets in Asia and globally. Singtel for instance, had 735 million users across the world and 49 % market share of Singapore and 28 % in Australia in the end of 2017 (Singtel 2018). Similarly, Singapore Airlines (SIA), which gained $893 million net profit to March 2018 and is Australia's second-largest foreign carrier (australianaviation.com.au 2018).

Along with that, the hundred companies within Temasek Group have good reputation and profitable businesses. They also possess advance technologies and are highly innovative. Temasek itself has nine subsidiaries in the IT sector alone including Singtel (Temasek 2018a). [77]

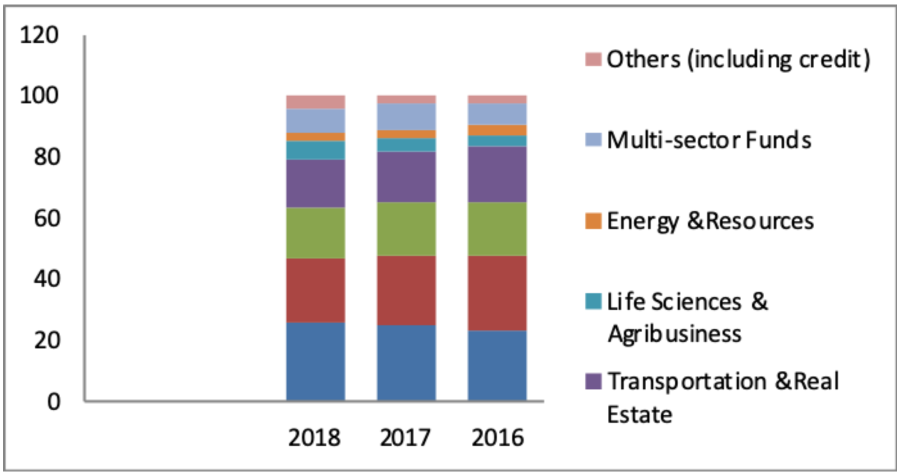

Figure 6.5: Temasek Portfolio Companies Based on Sectors.

Source: Temasek (2018, p. 5).

[77] Temasek as well very concern on innovation. To compete in a competitive market, SIA apart from its achievement as World's Best Airline' in Skytrax's World Airline Awards launched three years transformation program appointed as. The company not only invested in IT but as well had highly-built partnership with Oxford Sciences Innovation (OSI) in 2016 (Foo 16 September 2016).

Figure 6.6: Temasek Branch.

Source: Temasek (2017, p. 99).

Temasek's success has been by degrees affected by its sound corporate governance. To this end, Temasek is led by a professional team committed to Temasek's principle. Temasek boards and staff are selected for their business acumen. In 2013, the former World Bank President, Robert Zoellick, was appointed to the Temasek Board (Chan 1 August 2013). However, it has taken years for Temasek to build its outstanding reputation including the substantial changes followed after the massive divestment in the late 1980s, making the holding was opened for public (Chwee Huat 1990, p. 55). Chwee Huat (1990, p. 50) also revealed that in 1980s the information regarding Temasek was limited and not until 2004, Temasek became progressively a more transparent by issuing its annual consolidated account for the first time (Kirkpatrick 2014, p. 51). The holding also never been independent from state apparatus or ex-state officials. Taking the appointment of Lee Kuan Yew daughter in law and wife as parts of Temasek's Board in 2002 for instance (Fan et.al 2014, p. 41), where state-link was being strengthened and even the boards after. Lee's daughter stepped down to make way for a clearly independent CEO.

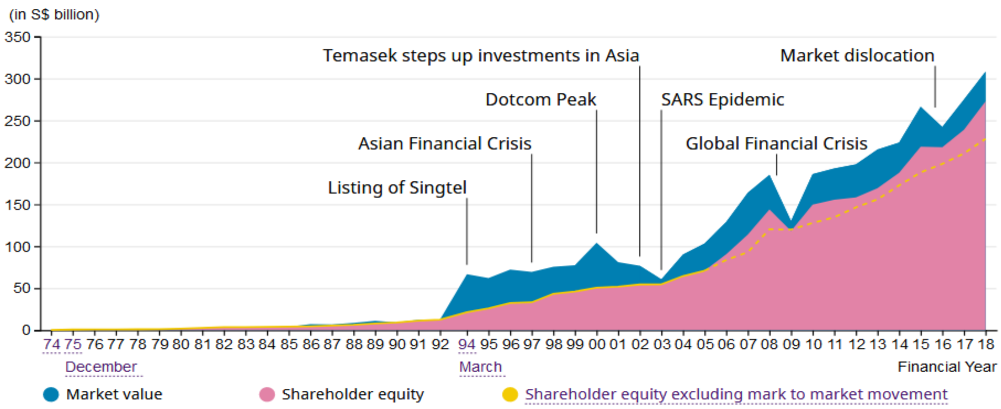

Figure 6.7: Temasek Net Portfolio Value since Inception.

Source: Temasek (2018b).

But while that is hard to avoid the fact that Temasek is owned by the state, the super holding remains committed to better corporate governance. This was particularly occurred after Lew Kuan Yew's daughter's replacement - the next Chief Executive, Chip Goodyear, was the ex-CEO of BHP Billiton, Australia's largest mining company (Lim 2009). Temasek, hence, succeeded to manage between its state-asset and its primary principle- run under commercial principle which suggests that Temasek directed towards what they called as "pursuit of excellence with tomorrow's mindset" (Temasek 2017, p. 12). As the company's annual report stated, "our culture of ownership and accountability, which places the institution above the individual, has served us well over the years" (Temasek 2017, p. 11). As a result, in 2013, Temasek rated as the most transparent sovereign wealth funds in the world on Linaburg-Maduell Transparency Index (Sim, Thomsen & Yeong 2014, p. 6).

If Temasek is a sovereign wealth fund owned by Singaporean government which operated kinds of business, Cementos Mexicanos (CEMEX) in contrast, is a private conglomerate specialising in the cement and construction sectors, founded in 1906 by Mexican conglomerate- Lorenzo Hormisdas Zambrano Gutiérrez (Lessard & Reavis 2009, p. 1). (Casanova 2009, p. 114). Regardless of it being a private company, Cemex has been supported by the Mexican government through import-substitution policies which protected it from outside competitors (Casanova 2009, p. 114). Cemex is a family-owned business which, under the leadership of CEO Lorenzo Zambrano, grandson of the company's founder, became one of the world's largest cement companies (Dolan 1998; Casanova 2009; Schumpeter 2014). Cemex was listed in Mexico's stock exchange as a public company. Today, the company holds a virtual monopoly over the Mexican cement sector, and is the third largest cement producer globally by capacity (Institute 2018). After Lorenzo Zambrano died in 2014 the company remained owned by Lorenzo family by having Lorenzo's cousins Rogelio Zambrano Lozano as new chairman and Feranando Gonzalez as chief executive officer (Lopez 2014; Reuters 2014). Thus, while not an SOE, Cemex plays a comparable role to PT Semen Indonesia (Gresik) in the Mexican economy.

6.2.2.2 Cemex: Mexico's pride

Despite being sectoral company, Cemex owns fifty subsidiaries across the globe involved in cement production and extensive upstream and downstream operations (CEMEX 2017b, p. 3). Its operations span more 50 countries across the Americas, the Caribbean, Europe, Africa, the Middle East and Asia (SAB 2017) and the company employs 50,000 people (CEMEX 2019; SAB 2017). Company expansion also occurred through acquisition, though not at the direction of the state. Cemex acquired cement companies in Mexico from merger with Cementos Portland Monterrey and became Cementos Mexicanos SA in 1931. It then acquired Cementos Maya in 1966 and Cementos Guadalajara in 1976. In 1987, the company bought Cementos Anahuac, added its production and widen its market to Gulf Region. The year after the company continued its expansion plan and acquired Cementos Tolteca (Vargas-Hernández, López-Morales & Pavón Villegas 2015). By 1990s, the company controlled eleven subsidiaries and in 1992 the company started its internationalisation by taking over two Spanish cement companies (Lessard & Reavis 2009, p. 4).

Table 6-4 Cemex Global Subsidiaries and Plants

The main subsidiaries as of December 31, 2017 and 2016 were as follows:

Subsidiary	Country	% Interest 2017	% Interest 2016
CEMEX Mexico, S. A. De C.V[1]	Mexico	100.0	100.0
CEMEX Espania, S.A.[2]	Spain	99.9	99.9
CEMEX, Inc	United States of America	100.0	100.0
CEMEX Latam Holdings, S.A[3]	Spain	73.2	73.3
CEMEX (Costa Rica), S.A.	Costa Rica	99.1	99.1
CEMEX Nicaragua, S.A.	Nicaragua	100.0	100.0
Assiut Cement Company	Egypt	95.8	95.8
CEMEX Colombia S.A.[4]	Colombia	99.9	99.9
Cemento Bayano, S.A.[5]	Panama	100.0	100.0
CEMEX Dominica, S.A.	Dominican Republic	100.0	100.0
Trinidad Cement Limited	Trinidad and Tobago	69.8	-
CEMEX de Puerto Rico Inc.	Puerto Rico	100.0	100.0
CEMEX France Gestion (S.A.S.)	France	100.0	100.0
CEMEX Holdings Philippines, Inc[6]	Philippines	55.0	55.0

Solid Cement Corporation[6]	Philippines	100.0	100.0
APO Cement Corporation[6]	Philippines	100.0	100.0
CEMEX Holdings (Malaysia) Sdn Bhd	Malaysia	100.0	100.0
CEMEX U.K.	United Kingdom	100.0	100.0
CEMEX Deutschland, AG.	Germany	100.0	100.0
CEMEX Czech Republic, s.r.o.	Czech Republic	100.0	100.0
CEMEX Polska sp. Z.o.o.	Poland	100.0	100.0
CEMEX Holdings (Israel) Ltd.	Israel	100.0	100.0
CEMEX SIA	Latvia	100.0	100.0
CEMEX Topmix LLC, CEMEX Supermix LLC and CEMEX Falcon LLC[7]	United Arab Emirates	100.0	100.0
Neoris N.V. [8]	The Netherlands	99.8	99.8
CEMEX International Trading, LLC[9]	United States of America	100.0	100.0
Transenergy, Inc.[10]	United States of America	100.0	100.0

Source: CEMEX (2017b, p. 172)

The decision of Cemex CEO Lorenzo Zambrano to go global was one of the turning points of the company to be one of the top EMMNCs (Bank 2011, p. 92). Cemex was as well included in the 2008 BCG 100 Global Challengers List together with the other six of Mexican global companies (Aguiar 2007, p. 8). Internationalisation was driven by the need to expand, because the company was already the dominant cement producer in Mexico. In 1989, Cemex was the second largest cement producer in Mexico and one of the top ten in the world (CEMEX 2019). It was already a major cement exporter, contributing around six per cent of total US cement imports during 1991-94 (USGS 2018). Investment offshore in Europe and the US and was a logical next step.

Table 6-5 Cemex Global Subsidiaries Review of Operation

GLOBAL OPERATIONS	MEXICO	UNITED STATES[1]	EUROPE[2]	SOUTH, CENTRAL AMERICA AND THE CARIBBEAN[3]	ASIA, MIDDLE EAST AND AFRICA[4]	OTHER	TOTAL
Net sales	**3,095**	**3,484**	**3,516**	**1,883**	**1,361**	**332**	**13,672**
Operating earnings before other expenses, net	**1,027**	**276**	**165**	**380**	**161**	**(285)**	**1,725**
Operating EBITDA	**1,145**	**604**	**363**	**471**	**223**	**(234)**	**2,572**

Assets[5]	**3,599**	**14,694**	**5,178**	**2,359**	**1,456**	**1,657**	**28,994**

Millions of US dollars as of December 31, 2017

Source: SAB (2017, p. 53)

Currently, Cemex was able to produce ninety-two million tonnes cement with US$806 million net income in 2017 and US$ 28.99 billion in total assets (CEMEX 2019, 2017a; SAB 2017). It also has gone beyond cement product, by selling ready-mixed concrete and even housing. The capacity of its cement plants itself reached 52 million cubic meters of ready-mix concrete and 151 million metric tons of aggregates (CEMEX 2017a). The market share also broadens to more regions and even continent. The sales of Latam (Cemex subsidiary in Latin America includes Colombia, Panama, Costa Rica, Nicaragua, El Salvador, and Guetamala) reached 1,243 million of US dollars from the total of 13,672 for instance equal to 13.9 percent of the capacity (Holdings 2017, p. 53, see Table 6-4). This is the reason that made the overseas subsidiaries has significant contribution to the company's revenue (Aguiar 2007, p. 24, see table 6-5). Cement companies in Mexico only account for 10 percent of Cemex assets (Holdings 2017, p. 53).

Cemex prioritised efficiency and global competitiveness through the development of competitive practices and the adoption of the latest technologies. It and did not have to deal with bureaucratic interference or state direction, a factor that allowed the company to focus solely on profit making through "ruthless operating efficiency" (Institute 2018; Lessard & Reavis 2009). The company learned to be adaptive and internally disciplined with strict adherence to its code of conduct and following standards of performance benchmarked against international competitors (Lessard & Reavis 2009, pp. 5–7). Long before, the Cemex Way was brought about to the company, Zambrano, has made substantial innovation to Cemex technology. In 1989 he bought CEMEXNET in order to provide company's own satellite (Casanova 2009, p. 115), which would connect people and CEMEX subsidiaries (Lessard & Reavis 2009, p. 3). In spite of being or technological platform, the concept has substantial impact to company's overall performance. Because it mainly had made the coordination and communication between units or departments inside Cemex worked far better. The 'Cemex Way' meant perpetual innovation and the philosophy is applied across all of its holdings in Mexico and abroad (PMI) (UNCTAD 2007, p. 33; CEMEX 2018a).

Despite the fact that Cemex has been managed by particular corporate governance and no longer having Lorenzo Zambrano as the majority shareholder anymore, critics to Cemex as family business has been raised especially because most of the highest managerial continue held by the Zambrano family and there were some inscrutable financial transactions (Flannery 2011). Still, after Lorenzo Zambrano passed deceased, the company has integrated the two ways of leadership which was uncommon yet it balances the 'power' between the traditional/family value and professionalism, because at one side it kept the legacy and on the other side continue to respect the company's professionalism. The chairman position given to Zambrano's cousin and the CEO entrusted to chief financial officer Fernando A. Gonzalez.

6.3 EMMNC Growth Factors

Comparing PT Semen Indonesia, Temasek and Cemex, this thesis highlights some consistent factors behind their expansion and internationalisation (see Table 6-6). First, the role of the state in facilitating growth through acquisitions and protection of domestic market share. Even though Cemex is a privately-owned conglomerate, it benefitted significantly from a protective Mexican state that was for much of its history run by authoritarian governments. State protection does not necessarily make a company inefficient to the extent that it will fail. The critical point is how a company is managed, internally, and how the company relates to state authorities in order to maximise its global advantages.

Second, the three companies are conglomerates structured as holding groups with multiple subsidiaries and which possess a monopolistic market position. This is in fact a common practice either in Indonesian or Mexico even in Singapore (Hogenboom 2004, p. 207). All three EMMNCs studied here became national champions before commencing their internationalisation. Temasek gained experience as a super holding in Singapore before investing abroad. Cemex started its expansion by acquiring competitors in Mexico before branching out to invest in Span and North America.

Third, the merit of having a holding company structure with many subsidiaries is that a conglomerate can secure a strong or even dominant international market share. Although Cemex's markets are now mostly overseas, the company's aggregate production outstrips most other cement companies in the world (Edwards 2017). Similarly, Temasek holds numerous subsidiaries which dominate Asian market from airlines to finance. In fact, only 29% of Temasek assets are held in Singapore, the rest in Asia (Temasek 2017, p. 8). In contrast to both Cemex and Temasek, PT Semen Indonesia is dominant in Indonesia but not overseas. This is not surprising, realising that Indonesia has a relatively bigger domestic economy and market for cement industry. Besides, the company is still in its earliest years of going global. This country specific factor is the most critical in explaining the growth and direction of PT Semen Indonesia.

Fourth, the technology both Temasek and Cemex possessed had built their competitive advantage even before they expanded globally. If we take that as standard for PT Semen Indonesia, then it can reasonably be asserted that PT Semen Indonesia is neither better nor worse than Cemex or Temasek. The company had been for a decade prior to moving offshore acquiring the latest most eco-friendly technology, unlike China's cement companies for instance. This prioritisation of innovative technology is a direct consequence of the company's corporate governance agenda and parallels the emphasis on technology innovation which is a hall mark of many successful EMMNCs (Aguiar 2007, p. 19). The company has managed to have well equipped factories and cement plants, within the limits of its financial capability.

Fifth, in the context of performance, prior to their internationalisation, Temasek and Cemex adopted a principle of professionalism, setting clear corporate standards, Temasek with the Temasek Charter and Cemex with Cemex Way. In this respect, PT Semen Indonesia was late in adopting comprehensive corporate guidelines. Robust corporate governance enabled Temasek and Cemex to boost their competitive advantage by making them accountable for their efficiency. However, the finding on PT Semen Indonesia revealed that although the company had missed on that and to some extent it was the consequence of being Indonesian SOEs, the former President Director Dwi Suciptjo had conducted massive reform within the company, built the company's future on better management system. His legacy thereof will

Table 6-6 Company Specific Advantage Comparison

Determinants	Temasek	Cemex	PT Semen Indonesia
Business Capacity	Super holding (investment with 70 subsidiaries in 35 countries), Big assets portfolio US$ 235 billion	Private holding sector company in 50 countries, US$ 28.99 billion	SOE holding sector company, the second largest in South East Asia, with Rp 48,963,503 million asset

Performance	Best business practice, Temasek Charter	Adaptive and led by transparency, Cemex Way	Committed to good corporate governance, introduced CHAMPS
Technology	Advance technology and highly innovated	The first innovator in cement sector through Cemexnet and Centro de Control Cemento	very innovative, still follower
Ownership	State run holding (managing GLCs) under Singapore Ministry of Finance	Private company, family business-conglomerates,	Indonesia State-owned under ministry of SOE

6.3.1 EMMNCs Motivation: The Comparison

In the theory of FDI, the motivation for EMMNC formation and expansion is actually similar with MNC, whether they invest for market seeking, resource seeking, or asset seeking motive. The difference, however, lies on what type of motivations drive expansion and at what point on their growth trajectory. For instance, most developed countries MNC are looking for natural resources and markets. Therefore, they usually invest in lower-cost economies where the resources and the market are abundant. In contrast, EMMNCs usually have these assets at home, where they do not lack natural resources or human capital. However, their limited technology prevents them from invest in high income economies, notably in the earlier stage of internationalisation. Therefore, EMMNCs invest in other emerging markets to build their production and technological capacities.

6.3.1.1 Temasek: 'Do Well, Do Right, Do Good'

Such theoretical argument above on EMMNCs study perhaps does not fit into the case of Temasek. The holding started its foreign investment in 1990s, led by its telecommunication subsidiary-Singapore Technologies (Singtel). Telecommunication became a strategic sector that Singaporean government much focused on its earlier development strategy together with airline and shipbuilding (Pereira 2008). The challenges and opportunities of globalisation and Singapore Post industrialisation, not to mention economic recession in 1985, the company was being restructured to develop into regional telecommunication powerhouse (Singapore 2019; Zutshi & Gibbons 1998). From changing its name to assigned former Minister of

Defence as the chairman, Singtel transformed into a global telecommunication company (Zutshi & Gibbons 1998, p. 228). The shift of economic focus from manufacturing to service had significantly impact Singapore to upgrade its labours as well as its GLCs (Pereira 2008, p. 1194).

Prior to its investment in Australia, Temasek under Singtel beforehand had built partnership with some of leading international companies like Aztec Corporation, Brooktree Corporation, Rockwell Corporation and some other companies in Netherlands, Japan, US, and New Zealand (Zutshi & Gibbons 1998, p. 231). The company learned from success companies in developed countries. Temasek's expansion continued with the acquisition of Australian carrier, Cable & Wireless Optus Ltd., in March 2001 for S$ 13.6 billion, followed by other acquisitions in Indonesia, Bangladesh and Pakistan (Singapore 2019). Not long after, Temasek, transformed to be not just holding company inside Singapore, but also global holding. It turned out that Temasek became the second biggest holding based on deals (Bank 2011, p. 92).

Apart from the driving factors for Temasek's expansion, the question is how that developmental target was being pursued? The answer is technically, Temasek, unlike PT Semen Indonesia and even Cemex (as will be discussed) took advantage of the opportunity to acquire developed economy companies, like Optus, rather than invest in emerging market companies only (see Table 6-7). Because SingTel understood that only by asset seeking would it be able to meet its target to be a major telecommunications force. However, in acquiring an Australian based company with 'only' 3.4 million Australian mobile phone subscribers, it did not overreach or over-capitalise, and in return gained access to a developed country market and its communications network (Lau 2001). That kind of analysis was based on two justifications. First of all, finding the right host countries in developing world was not easy; SingTel had failed to take control over alternative potential host companies in Malaysia and Hong Kong (Lau 2001). Secondly, Optus could provide the brand, technology, human capital and networks for SingTel to serve in an appropriate market.

6.3.1.2 'We are Cemex'

In the same way to PT Semen Indonesia which went global because unfavourable national condition in general because of intense competition after ASEAN Economic Community and to depend its traditional market outside Indonesia in particular, Cemex was facing difficult situation as well after the anti-dumping penalties implemented by the US in 1989 and confronted NAFTA (Lessard & Reavis 2009, p. 2). Yet, Cemex decided to invest in Spain rather than its neighbour at first. The reasoning behind this move was market-driven but also cultural. The aim was to find strategic partners and gain a larger share in Spain’s domestic market, where Cemex held a natural cultural advantage over European competitors which were dominant in Span at that time. Thus, Cemex travelled a great geographical distance to Spain to find an appropriate partner in order to protect their traditional market or existing market positions (defensive strategy) (Dunning & Lundan 2008; Lessard & Reavis 2009).

Thus, as one would expect that both Cemex and PT Semen Indonesia shared the same driven factor of internationalisation. Perhaps PT Semen Indonesia strategic decision was much likely influenced by its experience with Cemex. Dwi Soetjipto acknowledged that the presence of Cemex as the company’s partner had to some extent has been positive, in the context that the Indonesian SOE was able to learn from the Mexican company. In other words, there was useful knowledge transfer in terms of corporate internationalisation strategy between Mexico and Indonesia.

Given the findings above, it appears that first, the motivation for emerging market companies to internationalise is most likely market seeking. Thus, even though Temasek decided to invest in Australia to acquire Optus assets, this decision was a matter of timing (in the company’s growth trajectory) opportunity and market sector type, rather than market size. Second, the motives of EMMNCs are mixed, even if their expansion strategies can be categorised generally as either market, asset or resource seeking. For this reason, we can conclude that it is indeed difficult to draw a clear dividing line between EMMNCs in terms of their decisions to internationalise.

Table 6-7 Motivation to Internationalise: The Comparison

Determinants	Singapore	Mexico	Indonesia
Motivation	Asset seeking Firm: to be the telecommunication powerhouse Country: Jakarta Post industrialisation	Market seeking Firm: to defend its market share Country: NAFTA, open economy due to free trade	Market seeking Firm: to defense its market share Country: AFTA, open economy due to free trade

Source: author’s analysis

6.3.2 Investment Flows: The Comparison

Following the discussion of the specific advantage and the motivation of the cases, the last thing to focus on is the investment flow. After understanding about the driving factors and motivation behind EMMNCs investment, the significance of investment flow helps to reveal how that investment was managed and what kind of strategy they took to protect their market. Hence, this part provides clear picture of the similarities and contradiction among Temasek, Cemex and PT Semen Indonesia. Thus, there are two areas that should be the focused on this part; the host countries and type of FDI (see Table 6-8).

It was clear that as already explained above (Part 6.1.4) PT Semen Indonesia selected Vietnam to be its host country for geographical reasons and its economy as a developing country. The trend of EMMNCs has been around their favour to the other developing countries which so-called South – South Cooperation. The other two however were more compelling because they both decided to take different path. Temasek picked Australia while Cemex went far to Spain. The reason behind this was because Temasek early subsidiary – SingTel, which went global was in IT sector. At that time, IT business was not very suitable for Southeast Asia but it has been very potential for Australia which had been advance economy. The market share of Australian telecommunication was around 3.4 million Australian, which counted as more than double of Singapore’s market (Lau 2001). Meanwhile, Cemex decision to go to Spain based on market size consideration. Regardless the factor of production cost was actually not profitable, Spain has bigger potential market than Mexico in terms of cement. Thereof, it was inconsistent with the study of FDI from EMs. Taking everything into account, one can conclude that the factor of asset might much considerable than level of economy in SingTel case and the factor of market size was far imperative than geography for CEMEX.

Next, in terms of FDI type, the findings of the three cases as previously explained, clearly demonstrated that first; PT Semen Indonesia has taken the same path with its counterparts, Temasek and Cemex, which affirms that FDI from EMs or developing countries are commonly horizontal structure (Aizenman & Marion 2004, p. 126). According to the theoretical explanation on horizontal structure in Chapter Two that through horizontal structure, company acquired other existing companies in foreign countries instead of opening new subsidiary to increase gain competitiveness from transaction-cost advantage such as the brand, the technology or capacity production. The other substantial consideration is also to strengthen their market power (Marinov et al. 2012). To PT Semen Indonesia the process of took over Vietnamese cement producers was carried out in order to obtain new potential market. But as the nature of cement product is a heavy industry, the best strategy was to replicate the same production chain with its Indonesian subsidiaries. That has been consistent with Cemex's strategy to find new market as the market competition inside Mexico was intense (Lessard & Reavis 2009, p. 4). To see the intense yet the potential competition, Cemex sold out some of its assets (Casanova 2009, p. 212), focused its business on cement industry and invested in two Spanish companies. After the acquisition of Valenciana and Sanson, Cemex controlled 25 percent market in total, making the company as the largest cement company in the country (Casanova 2009, p. 122). Similarly, SingTel/Temasek which took over the second largest Australian company, aimed to dominate the Asian and Australian market, and also stayed with its field of expertise in telecommunications.

The interesting part after all was the experience of one EMMNC could be very inspirational to the other companies. PT Semen Indonesia, taking as an example, came after Cemex, to learn its business strategy and realised that by diversifying the business and applying defensive business strategy are must to be survived.

Second, the factor of what kind of industry which pursue by EMMNCs have been crucial to determine the FDI. The mixed between country specific and firm specific factor have such big impact to the type of FDI EMMNCs took. This is because the country specific factors such as natural resources, market size, government policies, regulation influence the pre until the Jakarta Post -production and thus has big impact to the efficiency of investing overseas. This kind of advantage also benefited particularly to developing or emerging economies because it helps them to adapt better when they invest in the country with similar environment.

Meanwhile, the firm specific factor is much connected with the three cases. Given the fact that the nature of EMMNCs is lack in terms of capital and most of everything, as they, has forced them to be very cautious in investing and disallows them to be risk taker. Otherwise speaking, they preferred to manage the risk by concentrating on similar business where they had sufficient experience and skills to compete. The inflexibility nature of cement business for instance required PT Semen Indonesia and Cemex's commitment to run the single core business for decades only on cement production. SingTel on the other side committed to the telecommunication industry because that industry was still limited from competitors. While Australia itself has the endowment for the whole chain of production, which made it fit with the conditionality to be host countries.

The risk of investing abroad also links to the factor of minimising the trade or investment cost, which has mostly the reason behind horizontal FDI. As expected, the deal between SingTel and Optus was success. Aside from the fact that the company had failed to acquire foreign companies before and the fact that SingTel might benefit from the assets of Optus, SingTel picked the Australian company based on market size. Cemex just like PT Semen Indonesia provides evidence on the urgency of doing global expansion in order to increase its efficiency. The transport cost of sending cement product was much higher than investing close to the foreign market.

Table 6-8 Investment Flows

Determinants	Singapore	Mexico	Indonesia
Investment Flows	Horizontal FDI Destination= Australia, the factor of asset might much considerable than level of economy	Horizontal FDI Destination= Spain, the factor of market size was far imperative than geography	Horizontal FDI Destination= Vietnam, the factor of geography/strategic location

Source: author’s analysis

6.4 Beyond PT Semen Indonesia’s Expansion: What’s next?

Before discussing about what next strategy and economic policy for Indonesia after the expansion of its SOEs, it is helpful to make sense of PT Semen Indonesia’s expansion from an International Political Economy perspective. In a narrowed-sense, PT Semen Indonesia was a part of Indonesian industrial policy and development as explained in the previous chapter. In a broader sense, the cement holding was about how the company built its power and seeks for wealth (economic benefits). In order to seek for economic benefits, this thesis proposes some explanations. In the first place, there have been structural changes in global economy particularly in Asia. The structural change here implies to the pattern of global investment from North-North relation to South-South Relations even South-North Relation. It was not surprising that OFDI from developing countries had begun to increase from the 1970s as this coincided with the emergence of Newly Industrialised Economies (NIEs) in Asia. Indonesian private companies have been active in global investment since that period, but, as noted, Indonesian SOEs were much slower to adapt, because they also had to abide by government domestic development priorities. The internationalisation of Indonesian SOEs has thus been overlooked in the scholarship on Indonesian overseas expansion. The narrative of Indonesian SOEs has mostly focussed on rent seeking, corruption, and inefficiency. For decades, there were never any Indonesian state-run countries listed by Forbes. This is not the case for EMMNCs from Singapore, Malaysia and of course, China.

Today, PT Semen Indonesia has become the first example of Indonesian SOE which undertook South-South investment. Despite the fact that earlier than that, some of Indonesia's SOEs have exported and expanded through joint ventures with overseas partners, PT SI was the first to become a majority shareholder in a foreign company. As Indonesian economy keeps growing, the country tended to exercise its economic power including in the free market competition. The Indonesian government has adopted the view that, to gain from global economy, Indonesia must try to be an active player in regional and global business, which means encouraging Indonesian investment overseas. In the world of market integration, emerging economy like Indonesia must fight so it is possible to survive (Luo & Tung 2007, p. 486). The regional free market system has brought an opportunity as well as challenge. Though realise that it is hard to win the high-end product competition, Indonesia has been trying to at least in the past decade to catch up with the West or even the other key players in the Asia.

Besides, the case of PT Semen Indonesia expansion in Vietnam demonstrated the South-South investment, in the same token, it indicated a 'triangular diplomacy' (firm-state) between PT Semen Indonesia, Indonesian Government and Vietnamese Government (Rajah, Peter & Yang 2010, p. 344; Strange 1992). Previously, the relation between firm and state mostly undertook by the private companies. Today, PT Semen Indonesia has proved that Indonesian SOE is also 'powerful' economic actor. Being powerful means that PT Semen Indonesia acquired 70 per cent company's shares of a strategic economic sector in Vietnam, making Indonesia a more economically significant part of ASEAN (Semen Indonesia 2014, p. 67). Such was the company's position of influence that even Dahlan Iskan – the former Minister of SOEs could intervene in the process of acquisition negotiation. The upshot of this strategic economic partnership has been closer relations between Vietnam and Indonesia which signed a strategic partnership under a joint statement in a broad based, equal and mutually beneficial with the country since 2013 (nhandanonline 2017; Indonesia 2019).

However, Indonesian government need to consider some better policy options than just following after the trend of advance technology economic-based or totally industrialised which some countries in East Asia had achieved. The raw materials or natural resources-based economy is its nature as well as competitive advantage of Indonesia. Therefore, the key is not to leave that kind of economic model behind but to maximise the value-added process such as having better basic infrastructure and making effective industrial policy. That was China’s strategic approach, and it has worked. As Dahlan Iskan argued, “I have affirmed to all SOEs not to delay new investments, or delay the existing investment plan or even cancel the planned investment (the national and global expansion) (Semen Indonesia Semen Indonesia Tbk2012b, p. 6).”

The further implication of having its subsidiaries in Vietnam was that it would widen Indonesia’s market share at a regional level. It changed the regional competition that previously won by giant cement company like Cemex. After the expansion, PT Semen Indonesia was not only the biggest cement conglomerate in Indonesia but also in the region, which meant greater economic opportunity. Enlarged market share meant that the company could secure raw materials for future production externally and thus decrease pressure on Indonesia’s resources. This has the added benefit of minimise the potential for land disputes to arise over land acquisitions for factory construction back in Indonesia. The case of expansion in Rembang for instance, has been an evidence of political risk. The government is able to focus on other pivotal targets and it prevents any political dispute.

At the time of writing, the Indonesian state’s level of commitment to SOE internationalisation is uncertain. From Indonesia’s position, the decision to become outward looking as the globalisation today is changing the nature of international political economy is still unclear. Among Indonesian elites and bureaucrats, there is still difference in understanding outward looking policy. There is an optimistic view. Indonesian elites and expert as well as public who want to see Indonesia as foreign investor in international level. As Indonesia’s economy continue to grow and the free market mechanism like ASEAN economy community opened potential markets. At the time of PT Semen Indonesia’s acquisition of Thang Long, all evidence pointed towards a major push by Indonesia to increase its economic influence within ASEAN. Therefore, they believed that the Vietnam subsidiary was only a beginning and PT Semen Indonesia is a good example to follow by other state-run companies. This led Dahlan Iskan and Rini Soemarno to push the go global initiative among Indonesian SOEs as the Ministry of SOE's long term plan has targeted. In advance of the Thang Long acquisition, Dahlan assigned a delegation consisting of some Indonesian SOEs delegates for business visit to Vietnam, including representatives from PT Semen Indonesia. For Rini, PT Semen Indonesia is a strategic national asset. She appointed Hendi Prio Santoso the ex-President Director of PT Perusahaan Gas Negara (State Natural Gas Company) to lead PT Semen Indonesia after Rizkan Chandra (Aziza 2017b) the former President Director deceased. She also instructed the current President Director -Hendi Prio santoso to promote the international expansion (Semen Indonesia Semen Indonesia Tbk2017b).

But there is a strong tradition of inward-looking economic nationalism in Indonesia and thus internationalisation occurs in tension with political pressures to concentrate on the domestic economy are also some pessimistic elites who more concern on domestic market and overlook the global business including Hendi Prio Santoso himself. Since Hendi is in office, he Jakarta Post poned all the overseas projects and focused more on national market, this evidenced by the process of the acquisition of Holcim Indonesia (Jakarta Post 2018). This has been the case since long ago, when Indonesia was seen to be reluctant to open market because the conflictual thinking between the pro ISI and EOI (as mentioned earlier in Chapter Three). The huge number of Indonesia's population is the reason why Indonesia should stay as nationally focused (Jomo 2001, p. 195). They argued that goods and services better to be sell inside rather than selling them outside the country. The foreign market penetration is also costly. Meet the domestic demand will be profitable and easier to handle. Surely, Indonesia unlike Japan or Singapore is not depending on foreign market because in nature it has large population. Japan and Singapore in contrary did overseas expansion to find new markets. Nevertheless, in the globalised world, that thinking is not applicable. Many of international competitors are now not taking export as an option but rather invest and produce their product in the Indonesia.

Unfortunately, the finding showed that Hendi Prio Santoso is sceptical about international expansion and does not adhere to the same thinking as Dwi or Rini and Dahlan. Hendi argued that instead of working on international market penetration, securing domestic market and be focus on the national level is the first priority for efficiency reason (Persero), 4 October

2017). He thought that the 2017 company's outlook which was showed a stagnant condition was the proof that the company need more budget cut. Hendi likely to become business minded type. He seemed concern more on financial discipline (Segera 2018). This is very different with the former directors' way of doing business. If Hendi decided to disregard Rini's command and continue to limit PT Semen Indonesia expansion, then the effort has been made by Dwi Suciptjo and Dahlan such as the new vision of CHAMPS and global ambition will be pointless.

Thus, the economic direction of the Indonesian neo-developmental state is subject to shifting political or policy sentiment. Unlike the Indonesian developmental state of the Suharto era, political leadership and policy formation is subject to genuine political contestation, meaning that continuity is not guaranteed in the way that it once was. Further, the cement competition is fierce while cement consumption was not as great as predicted earlier by either the company or the government. In practice, the economic prediction by the government and by PT Semen Indonesia itself has not been working consistently with domestic demand. The problem of oversupply also to some degree caused by the Chinese's cement sector go global policy (Fan 2008, p. 354) and PT Semen Indonesia was aware of the situation. There have been some preventive steps taken such as import policy or price policy but cement is no longer directly protected through state control as it was in the past through strict discipline policy mechanism. Even if the government is able to control the price, making some intervention to support the national businesses like financial support, but the risk of too many cement competitors inside Indonesia is inevitable. Indonesia needs more distribution areas to handle its cement oversupply. The fact is for Indonesia, as one insider of the government witnessed, there is lack of synergy among institutions. Hence, a state-run company like PT Semen Indonesia is regulated by different ministries. There is then still a governance-gap that rent seekers are able to exploit, to, for example secure a business license. The future of PT Semen Indonesia is therefore difficult to predict. Opening new subsidiaries outside the country in fact aimed to minimise the direct and indirect risks. Risks referred here could be political, social and economic.

Chapter 7: Conclusion

This chapter presents the implication of the findings, its theoretical contribution and policy implication. It as well explains the limitation of the study and suggestion for future work.

7.1 Implications of the Findings

7.1.1 Theoretical Contribution

This thesis provides insights to following area of study; the study of EMMNCs, debate on DSM and understanding of Indonesia's Jakarta Post -AFC political economy.

To start with the expansion issue, the rise of EMMNCs though claimed have reached third wave, is still under study. Given that, a particular case on Indonesia as one of Emerging Economies in East Asia where outward FDI has been limited, illustrates the challenges as well as opportunities for Emerging Economy to internationalise. This research confirms previous theoretical and empirical studies on EMMNCs and contributes to better understanding on Indonesian SOEs. Previous researches have shown that EMMNCs are different MNCs from developed Countries. This study illustrates how FDI can flow from developing countries much earlier in the development process than envisaged by Dunning (DATE). The story of PT Semen Indonesia highlights the complexities of policy, economic and cultural contexts of emerging markets.

Further, by taking PT Semen Indonesia as the case study, it was found in this study that first, the capacity of PT Semen Indonesia to go global has been demonstrated the durability of an old Developmental Model in South East Asia with some modifications and different national and international political economic context, identified as Neo-Developmental State Model. This analysis could be found from how Indonesian government in the Jakarta Post -AFC particularly under SBY and Jokowi's periods urged infrastructural agenda to be the top national priority. The shared interest between PT Semen Indonesia and the government has been positive. It remarks the key role SOEs play in Indonesia's development. This is could be a complementary of the EMMNCs literature especially on the private business, in Indonesia context-the study of Salim group.[78] The claim of this thesis therefore presences as an alternative to the case of Indonesian company expansion that the internationalisation of Indonesian capital can be explained other than oligarch perspective which has been so widespread.

At the same time, SOE reforms in both company and ministry levels had carried out as responses to the crisis and economic development, and to some extent replacing the trust over Chinese conglomerates. Though this has been very slow, but it did change the corporate governance of PT Semen Indonesia from overlapped to 'effective' bureaucracy. It is worth nothing that the presence of leaders like Dahlan Iskan and Dwi Suciptjo had contributed to the growth of PT Semen Indonesia. By having the right people in office, the company would be able to show high performance. This finding is consistent with article by with careful analysis with general acceptance like Astami et al. (2010) found. They concluded that SOEs in the right hands of investors and professional management will performance better. However, further analysis of this project shows that the state's development agenda are still part of SOE responsibility. This accords with Fitriningrum (2015) earlier study. Thus, this thesis proposes that to be publicly owned and state-run at once is plausible.

The same things applied in the context of actor's mindset and economic connectedness. Despite the developmental mindset of the elites especially under SBY and Jokowi which were motivated the state support over cement SOEs, there were still overlapping functions and interests between government agencies, hindered the speed of the reform and transformation. This finding is in line with the findings of Fitriningrum (2015) which highlighted the potential conflict between ministries. The good news was there were some reforms that worked and outweighed the drawbacks of the system. After all, the discussion on the Neo-DSM is substantially important in understanding the political economy after AFC.

Likewise, the globalisation of PT Semen Indonesia would not be happened without the company's adjustment to the dynamic of economic structure in domestic and international sphere. Since the expansion is the result of growth and innovation in business strategy, it is important to analysis the three aspects of company's growth: ownership, business capacity,

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[78] By the time this thesis will submitted, the PhD thesis on the internationalisation of Indonesian EMMNCS (Salim Group) in Murdoch University is published by AL-FADHAT, M. F. January 2017. The Rise of Internationalized Capital: ASEAN Economic Governance and Indonesian Conglomerates. Doctoral Murdoch . In fact, his thesis indicated similar conclusion to this thesis although used different perspective.

performance and technology. Looking at the ownership changes illustrate the continuity of state power over its asset despite the structural adjustment after AFC in 1997, as the government is still the majority shareholder. The SOE also transformed into a giant and professional company following the status of becoming partly public business entity and cement holding. The implication of the two then reflected on the company's production capacity and market shares which significant in year. That is was certainly achieved under Dwi Suciptjo leadership. There was strong evidence about his significance role on the company's transformation. He played leading role in the success of the company, backed up by Dahlan Iskan - the minister of SOEs during that time. The explicit lesson learned to this transformation is that mix ownership between public and government could coexist and beneficial. In one side, the company followed the corporate law and the other side; the company maintained the state support which gave it access to resources.

Second, the present study also identifies that the expansion of the SOE had been driven by some key factors both internal (FSA) and external determinants (CSA). In this regard, this thesis comes up with four notable points to note. Start with the internal factor the company expansion or FSA, it should be noted that the quality of good corporate governance, business capacity, innovation, and technology have strong impacts to the EMMNC growth. Those qualities then supported by the fact that the company is an SOE which supported by the government helped them to have better access of resource and funding. Second, the FSA was not mainly driven by internal factors although it is as well very crucial. On some level the CSA or Indonesia's regulatory, economic and cultural environment likewise give rise to PT Semen Indonesia as EMMNC. The absence of specific policy of holding for instance has given Dahlan Iskan 'permission' to allow the holding creation of PT Semen Indonesia.

At the same time, the global expansion of PT Semen Indonesia was motivated by market seeking factor, due to the importance of the lower cost of production. Thereafter, in order to internationalise, the holding group decided to undertake horizontal FDI strategy to capture international market. This was driven by the fact that the external factor of growing market, the ASEAN economic community and most of all the intense competition had been motivated the state company to move forward from national player to be global player. Slightly in contrast with those determinants, the comparison between PT Semen Indonesia with Cemex and Temasek indicate that weak regulatory environment could not prevent EMMNCs to grow. This is because the three companies were born out from corrupt and lack of transparency countries (though Singapore only experiences this in its early day). However, corruption in particular is beyond the scope of this thesis.

Third, the current study makes several contributions to the current literature on EMMNCs especially in adding some findings relate to state role and leadership factor. On the top of that, the late coming and the raising of Indonesia SOE in the global investment at once help us to understand the challenges facing by Indonesian company to expand from the bureaucratical constraint and double roles of the SOE at one side, and the opportunities of being supported by the government and being public altogether in the other side. That situation seemed problematic and it was indeed problematic. There were contradictions between one factors to another. Yet, those contradictions have been giving PT Semen Indonesia space to move forward from national to regional player. Meaning the system undoubtedly has been working.

Forth, the results of this research indicate that the previous model of EMMNCs has not been sufficient to explain types of the global company from Emerging Markets particularly in Southeast Asia and in Indonesia specifically, because each of the case has peculiarities. Recent research by Al-Fadhat (2017) on internationalisation of Indonesian conglomerates from regional trade governance perspective has recommended further research on Indonesian SOEs internationalisation and how that also leads to better understanding of capitalist expansion in the region. Linking his work and Dieleman and Boddewyn (2012)‘s article, one can see that the case of PT Semen Indonesia and the case of Salim Group are actually supportive. The two seminal works shared substantial conclusions with this research especially on the incentive of state role and expansion strategy.

In the end, as Beeson (2009) stated that “In the continuing saga of competing capitalisms, there may yet be life in East Asian developmentalism”. This thesis reaches the same conclusion which I identified as Neo-Developmentalism.

7.1.2 Policy Implication

7.1.2.1 For the government

In the discussion of MNC, government always seen in a negative light, to the case of EMMNCs the situation is different. Government either to private EMMNCs or SOEs has significant role. This thesis outlines two important points to note when it comes to the government role on Indonesian SOEs internationalisation particularly on the bureaucracy (insulation) and network in policy input and negotiation. This is because the key of East Asian success and the past loss of Indonesia to catch up, stood at the quality of their government intervention (Amsden 1995). First of all, it is crucial for Indonesia to bring back the role its bureaucrats as strong as before, to put careful analysis and better policy making. As long as Indonesian government could manage the merit of government role to be effective then the industrial targets will be achieved. The failure of policy making in Indonesia is not only lay on the lack of policy implementation but start at the policy formulation. However, if the policy is formulated, controlled and evaluated in a discipline manner with better data management then any development targets are possible to achieve. Although the political and regulatory environments are two factors which were very difficult to manage, there will be always a space for reforms. The key is commitment and political will. The success or failure of developmental agenda is not solely upon the competing individual or group interest between politicians and oligarchs, but the capacity of the institution, bureaucrats and the executives to control the system and lead the networks between actors; at least it happened in the prior DSM countries and the case of PT Semen Indonesia. This thesis once again, is not neglected the high cost of Indonesian political system. However, the economic progress is not impossible to be made.

During this time, the country's struggle to catch up was fundamentally affected by political commitment and coordination. It is important for the state apparatus and bureaucrats to be disciplined, while have the same vision on the economy despite their bias of their own interest, agenda and political logic like Moon and Prasad (1994) argued. The problem on having the reforms and making them work not only because there were rent seekers behind the policy making, but also fairly because the sectoral egoism between government agencies on administrative discretion. It was unsurprising to see how developmental targets did not work well even until today. The more solid and insulated the bureaucracy run and directed, the harder the rent seekers could gain in political process. It sounds impossible even today in the time when money politics is massively happened in Indonesian. But this study identified that Jokowi himself has tried to manage limited policy choice under his administration and this has been supported by Power (2018) on his article "Jokowi's authoritarian turn and Indonesia's democratic decline'.

Further, although this thesis is not aimed to investigate corruption case and it found no direct relation to specific notion, this thesis object that Indonesia is free from rent seekers and expect huge changes. However, weak regulatory settings and complex bureaucratical chain are the problem of most developing economies especially in Asia. Yet, many of them were success to turn it into good account and gain from economic globalisation. Cement sector for instance managed under several ministries yet some of them were working on the same main function and duty (*Tugas pokok dan fungsi-Tupoksi*), making the bureaucracy even complicated and as a result inefficient. But in contrast, out from the mess, the ministry of SOEs in the case of PT Semen Indonesia succeeded in taking the institutional role, supporting and protecting the company from uncertainties and weak regulatory environment in direct and indirect ways. Again, it is not to say that Indonesia's political economic structure does not need better reform. In contrast, in order to achieve development objectives, it is critical for the Indonesia to solve the overlapping regulations and sustain the prior best policy practices such as the formation of holding.

To the latest point on weak regulatory environment, the case of Indonesian SOE especially PT Semen Indonesia has shown how the absence of some fundamental or vague regulations has affected the growth of SOEs. Having said that, the government sometimes has to find the gap between those problems and either continued to undertake any strategic decision (like what Dahlan Iskan did by creating Holding) or issued new sub-regulations like ministerial regulations/decrees (like what Rini Soemarno did by passing (PP) No. 72/2016 on state capital injections into SOEs). This is an example where the key instruments of political regulation or hardware play a significant role in insulating the SOE from conflicting interests.

Aside from that, better coordination might help the SOEs to achieve more than they could today. The government can focus to supply more political and financial support for the company to expand, guide them in the lobbying process and sending minister or even vice president to be in the negotiation, deciding who in charge for the outward FDI and build a coordination around the related agencies – in this case BKPM should take an active role. This would minimise the cost and time for the company. During the interview, the institution has mentioned that in the past few years there have been some discussion on BKPM focus on outward FDI[79]. This should be continued and improved. In addition, as mentioned above by

[79] Interview with BKPM director of business cooperation 27 July 2017 in Jakarta

the former director of PT Semen Indonesia, it is important for the SOEs to give assistance because they operate with special mandate either for national energy security or others. This is in fact in line with the experience of prior Indonesian EMMNCs which were private business. In fact, they found their way to expand by using personal connection and ethic proximity (see Chapter 5; Al-Fadhat 2017).

Above all, to boost industrial competitiveness by building more infrastructures are not enough. In sector level, many of Indonesian government projects are funded by China and to some extent affected cement sector. Considering this, closing the sector for foreign investment particularly from China will be seen negative. But, the ministry of industry should be firm on protecting the sector, because the tariff barrier will not work on handling the overcapacity issue. Cement sector maybe has strong relation with local context especially in bringing FDI to province and districts. However, the national government has to consider the negative impact of inward FDI in this industry which is still a part of the national government jurisdiction. In fact, by looking at the global economic situation in the past few years, it is hard to expect any other constraint to the economic growth.

In national and international level, the internationalisation of FDI has been a potential target within Indonesia's foreign interest. Jokowi was quoted by Sheany (2018) stated that, "Don't feel as if we're a small country. We must be ready to invest, so our efforts must be synergized between attracting investors but also making investments in other countries". The global expansion is not just about investing abroad but making the most out of the globalisation. Indonesia has been a part of the ASEAN economic community and one of leading economy in the region; thereby it has to engage with the new reality. Besides, for the couple years back the trade balance has been deficit. This is sending strong signal that Indonesia immediately has to move from inward looking to be outward looking in terms of trade. But allowing SOEs to go global need to be strategically managed includes sending them based on how capable and strategic the sector is rather than which SOEs that strong in lobbying.

7.1.2.2 For PT Semen Indonesia and other Indonesian SOES

Having to know that PT Semen Indonesia has been the first Indonesian SOE that go global, it is possible for the company and other SOEs to learn from the cement company. However, the success of PT semen Indonesia needs to be interpreted with caution. First, looking at each determinants of internationalisation, tells us that going global is not an easy and quick process in doing business especially for state company. However, the benefits of going beyond national borders outweigh the challenges, in particular to deal with the reality of oversupply condition years after. However, to prevent also the risk of oversupply for few years to come, it is probably the best strategy to maximise the role of subsidiary in Vietnam for wider market outside Indonesia for couple years to come before widening the targets of host countries.

The second lesson to take is for other internationalisation project in the future, PT Semen Indonesia or any other SOE must continue to undertake comprehensive process especially on due diligence process. The success of Dwi Suciptjo and the management in making the company internationalised was due to the result of professional assessment both from inside and outside consultants. They also kept track of the new subsidiary under Jakarta Post Merger Program. If the process will be done, in contrary, under opaque process, then business failure should be expected.

The other factor is the appointment of Dwi Suciptjo to be the PT Semen Padang and then PT Semen Gresik's director by the majority shareholder (the minister of SOEs) have substantial impact to the company growth. Because of that the government as the controlling shareholder in the future must carefully select the best people to lead the state companies. The case of PT Semen Indonesia should remind the government that having a company's leader with similar background will work better than those who come from different work background.

First and foremost, the discipline over Indonesia's SOEs is crucial. As mentioned by the Bappenas staff, stated that the success of South Korea or China is because their capacity to undertake intense evaluation and monitoring over their SOEs which has not been happened in Indonesia.

7.1.2.3 For other stakeholders

Besides, the state actors and company itself, the internationalisation also relates to other stakeholders, which is here referring to any non-ministerial institutions. The point is it needs more than just one actor to bring success to Indonesia's SOE to go global. In spite of being accuse for making monopolistic business, the role of business association for example is pivotal to connect actors within the industry, helping to build fair mechanism and minimise market failure. The regulatory aspect also is another factor to manage in order to create insulated bureaucratical structure. In other words, a clear, sustain and consistent legal system is then crucial for the company to run in professional base. Nonetheless, the legal aspect must guarantee to put national interest first over particular group interest and minimise the gap that is possible to use for individual benefits.

7.2 Limitation of the Study

Generally speaking, the expansion of PT Semen Indonesia would not happen in a night. It was a result of a long-term process, shaped by the pre and Jakarta Post periods, multiple actors and interests. As a consequence, to investigate the overseas expansion of the SOE, it is quite impossible to cover all parts of the story particularly on the continuity of the expansion projects. It turns out that few leadership changes both in the ministry as well as the company levels had significant impact on the company's management and that is beyond the capacity of this thesis. However, the facts that the company earned net profits and continue to do so (Franedya 2018), there is likely chance of the company to capture more international market.

Nonetheless, looking at the case of PT Semen Indonesia, the further question to ask is: was the success of PT Semen Indonesia to go global could be followed? Or can the success of the SOE be generalised and reproduced for other Indonesian SOEs? The answer is there are various factors that partly applicable, yet there are some characteristics which were sectoral-specific. However, factors of state ownership, regulatory and economic environment need to be considered in order for other SOEs to learn from PT Semen Indonesia. Therefore, given unique context of cement sector, caution must be exercised with regard to internationalisation.

That is also applied to the puzzle of Neo-developmental State, what worked for PT Semen Indonesia in terms of industrial policy, SOE governance and institutional links may come with different output to other industry. Technically, the nature of the business and the key actors within the institutional arrangements are pivotal for making the company ready to move forward. It is worth mentioning that cement is considered a strategic commodity within industrial policy. Because it has directed its significance to the other development targets like the construction and infrastructure has inseparable to the growth of the Indonesian economy. This is also the reason why the industry among others was the latest to be deregulated (Plunkett et al. 1997). In addition to that, if we also look closely to cement industry in Indonesia, we can see that in contrary to oil sector, cement sector although is a heavy industry but is not as much as oil in terms of capital-intensive industry. Thus, it has been more possible for private business to entry. In consequence, the SOE tend to operate independently rather than become an object of power contestation like SOE in oil industry. The nature of being heavy industry likewise has made the expansion strategy was much efficient by doing an acquisition. In other words, the difference of the industry nature influences the strategy of SOE.

It can be thus suggested that in the future, a better understanding of other Indonesian SOEs internationalisation needs to be developed. Different SOEs in different sectors may show peculiar internal and external determinants, from institutional structure to competition dynamic. Further investigation of Indonesia SOE internationalisation is important because the dynamic within international economy will continue to shift and Indonesia may continue to grow. It is safe to say, thereof, that the country will inevitably turns into industrialised economy which relies upon energy, oil, cement and service sectors which push more SOEs to seek for more resources and market.

Appendix 1: List and Details of Interviews

In order to support the most update data related the topic on global expansion of PT Semen Indonesia, we will interview a number of decision makers including the officials from the institutions related. The table follows contains details information about the interviewees which traced from openly accessed media, publication sources and official information.

1. PT Semen Indonesia
   1.1 Parent Company: One board member/Ex Board of Thang Long Subsidiary
   1.2 Subsidiary: Head of Sales Bureau of Semen Tonasa
2. Indonesian Ministry of State-Owned Enterprises
   2.1 Mining, Strategic Industry and Media I: One Assistant of Deputy Director
   2.2 Law and Regulation: Two Officials
3. Indonesian Ministry of Finance: One junior Researcher/Official
4. National Development Planning Board
   4.1 Industry, Tourism and Creative Economy: One Junior Associate
   4.2 One Senior Associate
5. Indonesian Investment Coordinating Board: One Director

Appendix 2 Semi-structured Interview Questions Used For PT Semen Indonesia Executives

Topics	Key Questions	Probing Questions
Growth and Expansion (Developmental state model)	*How the state matters in expansion of PT Semen Indonesia?* *What the government had been doing to run the firm as SOE?*	Through the trajectory of PT Semen Indonesia at the time when SBY became president, was there any particular policy that he implemented? How about today during Jokowi's presidency? What motivated the decision of PT Semen Indonesia to invest overseas in Vietnam or any other country? Why is it important to acquire the firm outside Indonesia? *(From inside the firm perspective)* As SOE, in the case of expanding abroad who must decide to do so? Was it fully considered by the board of directors and commissioners? Or Was the minister of SOEs?To what extent she is able to shape the firm activities? Is it possible for the PT Semen Indonesia Board of Directors to defer to government direction concerning company strategy? Before decided to expand, on which level the expansion was being proposed? is it the motivation came from a long time ago inside the firm? Or was it initiated by the government?
Firm structure, strategies and targets	*Structure :* *What are the significant changes since the firm first built until today in the context of firm structure?* *Strategies :* *What are PT Semen Indonesia's long term overseas investment strategy priorities?* *Targets:* *Has the target to be a leading cement company has been achieved?*	What do you think about 'self-sufficient'? Is it the best way to catch up with established players in the cement industry such as Cemex? What kind of firm PT Semen Indonesia at the early period? Was it run by the government since its early age? Was it a small or medium firm? How the strategy does has been reshaping since 2009? How was this achieved?
PT Semen Indonesia as EMMNcs	*Ownership:* *In the ownership of 51 per centof the firm share by the Indonesian government, to what extent Indonesian government has right in running the firm?*	Is it any possibility that at some points in the future the firm will be fully owned by Indonesian government? Or opposite, will it be independent?

Organizational structure: *As a holding company, would you describe the firm's structure? Is it vertical? Or horizontal?*	Based on the firm structure, PT Semen Indonesia consists of four firms. How are these firms governed? Do they operate as independent companies? How has the company developed extensive global subsidiary networks? What is the purpose of these?
Organizational culture: *How the Indonesian values such as gotong royong influenced employees' insight and work?*	Is the firm having the sense of community based values? Is there any family –style gathering? Or special occasion held by inviting the whole employees? How the higher level communicates with the rest of the firm's employees? How the firm coordinate with the associated- ministries?
Business capacity: *How strong the business capacity of the firm?*	In the context of competitive advantage compare to the players in the same industry, how competitive do you think the firm is? How about the firm asset, what the positive aspects that the firm has (managerial, human resources, leadership)?
Regulatory environment: *Do you think the government regulations have been supportive to help the firm grow?*	What kind of crucial regulations that has been and could be positive that the firm need? If it has not been, why do you think it could be?
Economic environment: *Do you think the economic environment today inside and outside Indonesia has been encouraging the firm?*	In what way the national and global economic environment has been beneficial for the firm to expand? If it has not been, why do you think it could be?
Investment flows: *What kind of market entry that PT Semen Indonesia has taken through its regional expansion?*	Why this kind of market entry that the firm took rather than any other mode such as alliance or joint venture? How has the company managed prior business relations in Vietnam? In relation to taking Vietnam as the subsidiary, why does it so? Was it because ownership (trademark, technique, entrepreneurial skills or return to scale?), internalization (own production), or location (raw materials, low wages, taxes, or tariffs)?
Technology: *Does PT Semen Indonesia have access to the most advanced technologies?*	

Models of EMNCs in explaining PT SI expansion	*Competition:* *Was it PT Semen Indonesia is the first one that competes globally compares to the other cement producers from Indonesia? How about compared to the other countries in the region?*	What kind of technology does the firm possess? *Do you know any significant competitors in the region?* Did PT Semen Indonesia is the first who initiated to expand compare to them?
	Compare to Chinese EMMNCs – the biggest emerging economies, what is the most essential characteristic of them?	Do you think Indonesian SOEs have similarity and differences with EMMNCs from China? In what way they are the same and different? What do you think their competitive advantage is?
	Compare to Cemex – a cement producer from other emerging economies , what is the most essential characteristic of Cemex?	Do you think Indonesian SOEs have similarity and differences with Cemex? In what way they are the same and different? What do you think Cemex competitive advantage is?

Appendix 3 Semi-structured Interview Questions Used For Government Officials/Policymakers

Topics	Key Questions	Probing Questions
Growth and Expansion (Developmental state model)	Is the industrialization is the number one priority of the government today? More than agriculture? *How the state matters in expansion of PT Semen Indonesia?* *What the government had been doing to run the firm as SOE?*	Through the trajectory of PT Semen Indonesia at the time when SBY became president, were there any particular policies that he implemented? How about today during Jokowi's presidency? What motivated the decision of PT Semen Indonesia to invest overseas in Vietnam or any other country? Why is it important to acquire the firm outside Indonesia? (From inside the firm perspective) As SOE, in the case of expanding abroad was the minister of SOEs also were inside the decision making process? To what extent you are able to shape the firm activities? How it works? Does the government have full authority to make decisions for PT Semen Indonesia? Or any particular limitation or standard in doing so? Before decided to expand, on which level the expansion was being proposed? is it the motivation came from a long time ago, before you act as a minister? Based on the news, the Indonesian government will make a more SOE turn to be holding company, are those companies will still be under state-ownership? Or is it a strategic plan to build a more independent SOE in the future? What do you think about 'self-sufficient'? Is it the best way to catch up with prior players in the cement industry such as Cemex?
Firm structure, strategies and targets	*Structure :* *What are the significant changes since the firm first built until today in the context of firm structure?* *Strategies :* *What are PT Semen Indonesia's long term overseas investment strategy priorities?* *Targets:* *How the target to be a leading cement company has been achieved?*	What kind of firm was PT Semen Indonesia at the early period? Was it run by the government since its early age? Was it a small or medium firm? *How has the strategy has been reshaping since 2009?* How was this achieved?
PT Semen	*Ownership:*	

Indonesia as EMMNcs	*In the ownership of 51 per cent of the firm share by the Indonesian government, to what extent Indonesian government has right in running the firm?*	Is it any possibility that at the same points in the future the firm will be fully owned by Indonesian government? Or opposite, will it be independent, so the firm has more control over its assets and resources?
	Organizational structure: *As a holding company, would you describe the firm's structure? Is it vertical? Or horizontal?*	Based on the firm structure, PT Semen Indonesia consists of four firms. Do those firms operate independently or are they all guided by the same board? How has the company developed extensive global subsidiary networks?
	Organizational culture: *How the Indonesian values such as gotong royong influenced employees' insight and work?*	Is the firm having the sense of community based values? Is there any family-style gathering? Or special occasion held by inviting the whole employees? How the higher levl communicates with the rest of the firm's employees? How the firm coordinate with the associated- ministries?
	Business capacity: *How strong the business capacity of the firm?*	In the context of competitive advantage compare to the players in the same industry, how competitive do you think PT Semen Indonesia is? How about the firm asset, what the positive aspects that the firm has (managerial, human resources, leadership)?
	Regulatory environment: *Do you think the government regulations have been supportive to help the firm grow?*	How do you think is the regulatory environment for business like PT Semen Indonesia can be improved? If it has not been, why do you think it could be?
	Economic environment: *Do you think the economic environment today inside and outside Indonesia has been encouraging the firm?*	In what way the national and global economic environment has been beneficial for the firm to expand? If it has not been, why do you think it could be?
	Investment flows: *What kind of market entry that PT Semen Indonesia has taken through its regional expansion?*	Why this kind of market entry that the firm took rather than any other mode such as alliance or joint venture? How has the company managed prior business relations in Vietnam? In relation to taking Vietnam as the subsidiary, why does it so? Was it because
	Technology:	

Models of EMNCs in explaining PT SI expansion	*Does PT Semen Indonesia have access to the most advanced technologies?* *Competition:* *Was it PT Semen Indonesia is the first one that competes globally compares to the other cement producers from Indonesia? How about compared to the other countries in the region?* Compare to Chinese EMMNCs –the biggest emerging economies, what is the most essential characteristic of them? Compare to Cemex – a cement producer from other emerging economies, what is the most essential characteristic of Cemex?	ownership (trademark, technique, entrepreneurial skills or return to scale?), internalization (own production), or location (raw materials, low wages, taxes, or tariffs)? What kind of technology does the firm possess? *Do you know any significant competitors in the region?* Did PT Semen Indonesia is the first who initiated to expand compare to them? Do you think Indonesian SOEs have similarity and differences with EMMNCs from China? In what way they are the same and different? What do you think their competitive advantage is? Do you think Indonesian SOEs have similarity and differences with Cemex? In what way they are the same and different? What do you think Cemex competitive advantage is?

Appendix 4: Invitation to Participate in a Research Project

PARTICIPANT INFORMATION

Project Title: Global Expansion of Emerging Market Multinational Corporations (EMMNCs): International Political Economy Perspective (Case Study: PT Semen Indonesia).

Investigators:

Principal Supervisor

A/Professor Paul Battersby

Associate Supervisor

Dr Julian CH Lee

PhD Student

Farahdiba R Bachtiar

Dear ………….,

You are invited to participate in a research project being conducted by RMIT University. Please read this sheet carefully and be confident that you understand its contents before deciding whether to participate. If you have any questions about the project, please ask one of the investigators.

Who is involved in this research project? Why is it being conducted?

- The researchers are Farahdiba R Bachtiar, the PhD student who designed the project and is collecting the data, supervisor Paul Battersby and Julian Lee whose contact details are listed above.

- This research is being conducted as part of a Doctor of Philosophy degree at the Global, Urban and Social Studies Royal Melbourne Institute of Technology.
- This project has been approved by the RMIT Human Research Ethics Committee.
- This study is partly funded by Indonesia Endowment Fund for Education (Lembaga Pengelola Dana Pendidikan-LPDP)

Why have you been approached?

This project seeks to interview person associated professionally with PT Semen Indonesia to ascertain their perspectives on company strategy in relations to offshore expansion. You have been selected for interview due to your professional position as stakeholder in this company. Your contact details were obtained by means of search of open access media, primarily the internet.

What is the project about? What are the questions being addressed?

I am conducting doctoral research into the Global Expansion of Emerging Market Multinational Corporations (EMMNCs) with a focus on PT Semen Indonesia. Even though Indonesia's global economic significance is increasing, little is known about the motives and strategies of guiding the internationalisation of Indonesian owned companies. Therefore, the core of the study will include the growth and expansion of PT Semen Indonesia and its structure, strategies and targets to adjust to new global and regional economic challenges and opportunities. The study will investigate the extent to which PT semen Indonesia is representative of EMMNCs are sufficient and why this is so.

This project will include six informants to be interviewed who qualified to share ideas regarding the topic.

If I agree to participate, what will I be required to do?

If you agree to participate you will be asked in the semi-structure interview about your knowledge, experience and ideas about PT Semen Indonesia. The interview duration will be around an hour or more (no longer than two hours) due to the purpose in obtaining details information about the topic and also to prevent clash with interviewee schedule. Location was chosen to be convenient for the interviewee and likely takes place in conducive area such as office or meeting room. Before you decide to anything feel free to examine the questions material as follows:

- What motived the decision to invest offshore?
- Why PT Semen Indonesia choose to expand into Vietnam and Bangladesh?
- In decision to expand, how much Indonesia's national interests play a role?

What are the possible risks or disadvantages?

There are no risks or disadvantages associated with your participation with your on-going day to day activities or outside of it. However, we are aware that you have important professional responsibility and thus your time and privacy will be crucial issue. Thus, some steps have been taken to prevent any risks that might rise by using interview protocol.

To mitigate the risk of timing and privacy the following steps will be taken:

Every interviewee will be contacted three months prior to the fieldwork through your professional contact details. In order to give you time to choose the most convenient time and venue for the session that both available for you and also myself and research assistant.

Every interviewee will be given options on the form whether they are agreed to be recorded or not. If 'yes' then the interview team member will use audio recorded. In contrast, if the interviewees do not agree then the team member will only taking note in order to avoid loss of data.

The information given in this session will be keep strictly and save in the storage on the main researcher personal computer and on-site campus computer by password. The raw data will only available to the interviewee and supervisory team to proceed including being transcribed.

Before committing to any of the interview part please free to ask me or my supervisors if you have any enquiry or upset about your response, you should contact me or either of my supervisors as soon as convenient. I or my supervisors will discuss your concern confidentially and suggest appropriate follow-up, if necessary. The contact details are on the top of the invitation form.

What are the benefits associated with participation?

There are no any direct and indirect benefits including financial benefits that may accrue to you in participating.

However, the information you give will be beneficial for PT Semen Indonesia as its shows the success story as state-owned enterprises in particular and its possibility to be a significant global multinational corporations. In bigger picture, this project will also contribute to the study of Emerging Markets Multinational Corporations and locate Indonesian firm in this evolving category of corporate activity.

What will happen to the information I provide?

In preventing misunderstanding, we keep the data in confidentiality; we clearly explain that we will identify data by a small number of people (the research team including myself, two of my supervisors and an assistant).

The information interviewees give during the interview will be processed and published in the findings section of the thesis in RMIT Repository. This is an online open access library of RMIT University. While the raw data including any images or recording will be kept securely at RMIT for 5 years after publication before being destroyed. Yet, the final thesis will remain published online. The findings (the data which have been analysed) are possibly also to re-write through presentation, journal, or any publications.

However, any information gather can be disclosed only if; 1) it is to protect the interviewee or others from harm; 2) if specifically required or allowed by law; 3) or you provide the researcher with written permission. The interview undertakes only if the interviewee agreed on being interview shown by sign the interview consent.

In the future after the session, if you are not sending or contacting us to withdraw your general and specific comments or statements during the interview, we assume that you have given consent to the re-produce of the data by your completion.

What are my rights as a participant?

- The right to withdraw from participation at any time
- The right to request that any recording cease

- The right to have any unprocessed data withdrawn and destroyed, provided it can be reliably identified, and provided that so doing does not increase the risk for the participant
- The right to have any questions answered at any time

Whom should I contact if I have any questions?

- Farahdiba R Bachtiar
- A/Professor Paul Battersby Dr Julian CH Lee

What other issues should I be aware of before deciding whether to participate?

Decision making is a complex process and involved numbers of stakeholders. Unintentionally, the interview reveals more unrelated information. In order to mitigate the risk, the strategy used as follows. The supervisors have been reviewed the question list and assured that the questions will not be out of topic. If it still occurs then it will be excluded from being mentioned in any part of the thesis. To emphasize the commitment before, the raw information not to be seen by anyone other than the research team, unless explicitly requested.

It should be stressed that this project has no interest in finding illegal activities, political views, political issue such as corruption or any confidential firm activity.

Yours sincerely

A/Professor Paul Battersby

Signature:

……………………………………

Dr Julian CH Lee

Signature:

…………………………………….

Farahdiba R Bachtiar

Signature:

……………………………………..

If you have any concerns about your participation in this project, which you do not wish to discuss with the researchers, then you can contact the Ethics Officer, Research Integrity, Governance and Systems, RMIT University, GPO Box 2476V VIC 3001. email human.ethics@rmit.edu.au

Appendix 5: Undangan Keikutsertaan Dalam Proyek Penelitian

INFORMASI INFORMAN

Judul Proyek: Ekspansi Global Perusahaan Multinasional Negara Emerging Market (EMMNCs): Perspektif Ekonomi Politik Internasional (Studi Kasus: PT Semen Indonesia).

Peneliti:

Pembimbing Utama

A/Professor Paul Battersby

Pembimbing Kedua

Dr Julian CH Lee

Mahasiswa Doktor

Farahdiba R Bachtiar

Kepada ………….,

Anda diundang untuk berpartisipasi dalam penelitian yang dilakukan oleh RMIT University. Silakan Anda membaca dengan seksama paparan pada lembar ini dan merasa yakin bahwa Anda memahami isinya sebelum memutuskan untuk ikut serta dalam penelitian ini. Apabila anda memiliki pertanyaan terkait penelitian ini, Anda bisa langsung menghubungi salah satu peneliti.

Siapa yang terlibat dalam penelitian ini? Untuk apa penelitian ini dilakukan?

- Penelitian ini melibatkan Farahdiba R Bachtiar, mahasiswa doktoral yang merancang penelitian dan mengumpulkan data, pembimbing utama Paul Battersby dan pembimbing kedua Julian Lee dengan rincian informasi sebagaiman diterangkan di bagian atas.

- Penelitian ini dilakukan sebagai bagian dari syarat kesarjanaan sebagai PhD di Fakultas Global, Urban dan Studi Sosial RMIT.
- Proyek ini telah disetujui oleh RMIT Human Research Ethics Committee.
- Proyek ini juga ikut didanai oleh Lembaga Pengelola Dana Pendidikan-LPDP

Mengapa anda diikutsertakan?

Proyek ini bertujuan untuk mewawancarai orang yang terkait secara profesional dengan PT Semen Indonesia untuk memastikan perspektif mereka tentang strategi perusahaan terkait ekspansi lepas pantai. Anda telah dipilih untuk ikut serta dalam wawancara karena posisi profesional Anda sebagai pemangku kepentingan di perusahaan ini. Rincian kontak Anda diperoleh dengan cara pencarian pada media massa, terutama melalui internet.

Penelitian mengenai apa? Pertanyaan apa yang akan diberikan?

Saya melakukan penelitian doctoral terhadap Ekspansi Global Perusahan Multinasional dari Negara Emerging Market (EMMNCs) dengan berfokus kepada kasus PT. Semen Indonesia. Meskipun signifikansi ekonomi global Indonesia meningkat, sedikit yang diketahui tentang motif dan strategi internasionalisasi perusahaan yang dimiliki Indonesia. Oleh karena itu, inti dari penelitian ini akan mencakup pertumbuhan dan ekspansi PT Semen Indonesia serta struktur, strategi dan target untuk menyesuaikan diri dengan tantangan dan peluang baru di ranah ekonomi global dan regional. Penelitian ini akan menyelidiki sejauh mana PT Semen Indonesia cukup mewakili perusahaan multinasional dari Negara Emerging Market dan mengapa demikian.

Proyek ini akan melibatkan enam orang informan untuk diwawancara yang memiliki kualifikasi untuk berbagi ide terkait topik penelitian.

Jika saya bersedia ikut serta, apa yang akan harus saya lakukan?

Jika Anda setuju untuk berpartisipasi Anda akan ditanyai dalam wawancara semi-terstruktur tentang pengetahuan, pengalaman dan ide-ide anda tentang PT Semen Indonesia. Durasi wawancara sekitar berkisar antara satu jam atau lebih (tidak lebih dari dua jam) oleh karena tujuan wawancara untuk memperoleh rincian informasi dan sekaligus untuk mencegah bentrokan dengan jadwal kegiatan anda. Lokasi dipilih di tempat yang nyaman untuk anda dan kemungkinan berlangsung di daerah yang kondusif seperti kantor atau ruang pertemuan. Sebelum Anda memutuskan terkait apa pun, anda bebas untuk memeriksa bahan pertanyaan sebagai berikut:

- Apa yang memotivasi keputusan untuk melakukan investasi lepas pantai?
- Mengapa PT Semen Indonesia memilih untuk berekspansi ke Vietnam dan Bangladesh?
- Dalam putusan untuk berekspansi, berapa besar kepentingan Indonesia ikut andil?

Kerugian atau resiko apakah yang bisa menimpa saya?

Tidak ada risiko atau kerugian yang terkait dengan partisipasi Anda dengan kegiatan sehari-hari atau di luar itu. Namun, kami menyadari bahwa Anda memiliki tanggung jawab profesional yang penting dan dengan demikian waktu dan privasi akan menjadi masalah krusial. Dengan demikian, beberapa langkah telah diambil untuk mencegah risiko yang mungkin timbul dengan menggunakan pedoman wawancara.

Untuk menanggulangi resiko terhadap waktu dan privasi dilakukan beberapa langkah di bawah ini:

Setiap informan akan dihubungi tiga bulan sebelum pengumpulan data dilakukan berdasarkan rincian kontak professional masing-masing. Dengan tujuan memberikan Anda waktu untuk memilih waktu dan tempat yang paling nyaman untuk Anda, saya dan asisten peneliti.

Setiap informan akan diberikan pilihan pada lembaran apakah mereka setuju untuk direkam atau tidak saat wawancara berlangsung. Jika 'ya' maka anggota tim wawancara akan menggunakan perekam audio. Sebaliknya, jika pewawancara tidak setuju maka anggota tim hanya akan melakukan pencatatan untuk menghindari hilangnya data.

Informasi yang diberikan dalam sesi ini akan disimpan dengan hati-hati di dalam penyimpanan komputer pribadi dan komputer kampus peneliti utama menggunakan kata sandi. Data mentah hanya akan tersedia untuk informan dan tim peneliti termasuk data yang akan ditranskrip.

Sebelum berkomitmen terhadap bagian apapun dalam wawancara anda bebas untuk bertanya kepada saya atau pembimbing saya, jika Anda memiliki pertanyaan atau kecewa terhadap respon Anda, Anda harus menghubungi saya atau salah satu dari pembimbing saya sesegera mungkin. Saya ataupun pembimbing akan membahas kekhawatiran Anda secara rahasia dan menyarankan tindak lanjut yang sesuai, jika diperlukan. Rincian kontak kami berada di bagian atas lembaran undangan.

Manfaat apa yang bisa diperoleh?

Tidak ada manfaat langsung dan tidak langsung termasuk keuntungan finansial yang mungkin Anda peroleh dalam berpartisipasi

Namun, informasi yang Anda berikan akan bermanfaat bagi PT Semen Indonesia dengan menunjukkan kisah sukses perusahaan milik negara khususnya dan kemungkinan baginya untuk menjadi perusahaan global yang signifikan. Dalam skala yang lebih besar, proyek ini juga akan memberikan kontribusi dalam studi mengenai Perusahaan Multinasional *Emerging Market* dan memposisikan perusahaan Indonesia dalam kategori tersebut.

Apa yang akan terjadi dengan informasi yang saya berikan?

Dalam mencegah kesalahpahaman, kami menyimpan data secara hati-hati; kami menjelaskan bahwa kami akan mengidentifikasi data dengan sejumlah kecil orang (tim peneliti termasuk saya, dua pembimbing saya dan asisten).

Informasi yang diberikan selama wawancara akan diproses dan diterbitkan di bagian penemuan tesis pada RMIT Repository. Ini adalah online akses terbuka pada perpustakaan RMIT University. Sedangkan data mentah termasuk gambar atau rekaman akan disimpan dengan aman di RMIT selama 5 tahun setelah publikasi sebelum dihancurkan. Namun, tesis akhir akan tetap dipublikasikan secara online. Temuan (data yang telah dianalisis) mungkin juga akan ditulis ulang melalui presentasi, jurnal, atau dalam publikasi apapun.

Namun, informasi yang terkumpul dapat diungkapkan hanya jika; 1) dilakukan untuk melindungi informan atau orang lain dari bahaya; 2) jika secara khusus diperlukan atau diizinkan oleh hukum; 3) atau Anda memberikan izin tertulis kepada peneliti. Wawancara dilakukan hanya jika informan menyepakati untuk diwawancara yang ditunjukkan dengan tanda tangan pada lembar persetujuan wawancara.

Di kemudian hari setelah sesi, jika anda tidak mengirimkan atau menghubungi kami untuk membatalkan komentar atau pernyataan baik yang umum maupun yang spesifik selama wawancara dan ketika selesai, kami berasumsi bahwa anda telah memberikan persetujuan terhadap re-produksi data yang anda berikan.

Apa hak saya sebagai informan?

- Hak untuk menarik diri untuk berpartisipasi kapan pun
- Hak untuk meminta rekaman dihentikan
- Hak untuk meminta data yang belum diproses untuk ditarik dan dihancurkan, dengan syarat data tersebut dapat diidentifikasi, dan tidak merugikan informan
- Hak untuk bertanya dan dijawab kapan pun

Siapa yang bisa dihubungi apabila ada pertanyaan?

- Farahdiba R Bachtiar
- A/Professor Paul Battersby
- Dr Julian CH Lee

Apa isu-isu lain yang harus saya ketahui sebelum memutuskan apakah akan berpartisipasi?

Pengambilan keputusan merupakan proses yang kompleks dan melibatkan berbagai. Secara tidak sengaja, wawancara bisa mengungkapkan informasi yang tidak terkait. Dalam rangka untuk mengurangi risiko, strategi yang digunakan sebagai berikut. Pembimbing telah meninjau daftar pertanyaan dan meyakinkan bahwa pertanyaan yang diajukan tidak akan keluar dari topik. Jika masih terjadi maka data yang diperoleh tidak akan disebutkan dalam bagian apapun di dalam tesis. Untuk menekankan komitmen sebelumnya, informasi mentah tidak akan diperlihatkan oleh orang lain selain tim peneliti, kecuali jika diminta secara eksplisit.

Perlu ditekankan bahwa proyek ini tidak memiliki kepentingan dalam meneliti kegiatan ilegal, pandangan politik, isu politik seperti korupsi atau kegiatan perusahaan yang bersifat rahasia.

Hormat Kami

A/Professor Paul Battersby

Tandatangan

……………………………………

Dr Julian CH Lee

Tandatangan:

……………………………………

Farahdiba R Bachtiar

Tandatangan :

……………………………………..

Jika Anda memiliki pertanyaan mengenai apapun tentang partisipasi Anda dalam proyek ini, *namun anda tidak ingin berdiskusi dengan para peneliti*, *maka Anda dapat menghubungi* Ethics Officer, Research Integrity, Governance and Systems, RMIT University, GPO Box 2476V VIC 3001. email *human.ethics@rmit.edu.au*

Appendix 6 Consent to Participate In Semi–Structure Interview

1) I have had the project explained to me, and I have read the information sheet
2) I agree to participate in the research project as described
3) I agree to be identified
4) I agree to be interviewed by the researcher or his/her assistant and

☐ YES, my voice will be recorded

☐ NO, the researcher will only take notes

5) I acknowledge that:
   a) I understand that my participation is voluntary and that I am free to withdraw from the project at any time and to withdraw any unprocessed data previously supplied when I find misconduct in the research
   b) The withdraw of participation is delivered in a written form to the researcher
   c) The project is for the purpose of research. It may not be of direct benefit to me
   d) The privacy of the personal information I provide will be safeguarded and only disclosed where have consented to the disclosure or as required by law
   e) The security of the research data will be protected during and after completion of the study.
   f) The data collected during the study may be published. Any information which will identify me will be used for research purposes only.
6) I would like to send any related information even after the interview if needed

☐ YES

☐ NO

7) I would like a report sent to me on the research's completion

☐ YES

☐ NO

Participant:___________________________________date: ___________________

(*signature*)

Researcher:______________________

(*signature*)

Participants should be given a photocopy of this PICF after it has been signed.

Appendix 7 Persetujuan Untuk Mengikuti Wawancara Semi-Terstruktur

1) Saya telah dijelaskan mengenai proyek ini dan telah membaca lembar informasi
2) Saya setuju untuk berpartisipasi dalam proyek riset sebagaimana yang dijelaskan
3) Saya setuju untuk diidentifikasi
4) Saya setuju untuk diwawancara oleh peneliti atau asisten peneliti Terstruktur

☐ YA, suara saya akan direkam

☐ TIDAK, peneliti hanya akan mencatat

5) Saya mengakui bahwa:
   a) Saya memahami bahwa partisipasi saya adalah sukarela dan saya bebas untuk menarik diri dari proyek ini setiap saat dan untuk menarik data yang diberikan sebelumnya yang belum diolah jika saya menemukan kesalahan dalam penelitian ini.
   b) Penarikan partisipasi disampaikan dalam bentuk tertulis kepada peneliti.
   c) Proyek ini untuk tujuan penelitian. Ini mungkin tidak memberi manfaat langsung kepada saya.
   d) Privasi terhadap informasi pribadi yang saya berikan akan dijaga dan hanya diungkapkan jika pengungkapannya telah disetujui atau seperti yang dipersyaratkan oleh hukum.
   e) Keamanan data penelitian akan dilindungi selama dan setelah masa studi.
   f) Data yang dikumpulkan selama masa studi mungkin akan diterbitkan. Informasi apapun yang mengidentifikasikan saya akan digunakan hanya untuk keperluan penelitian.
6) Saya ingin mengirim informasi terkait apapun bahkan setelah wawancara jika diperlukan.

☐ YA

☐ TIDAK

7) Saya ingin laporan penelitian dikirimkan kepada saya setelah penyelesaian penelitian.

- ☐ YA
- ☐ TIDAK

Peserta:_______________________________________tanggal: ____________________

(*tanda tangan*)

Peneliti :____

(*tanda tangan*)

Peserta harus mengembalikan fotokopi formulir ini setelah ditandatangani**.**

Appendix 8 Indonesia Ministry of SOEs Institutional Structure

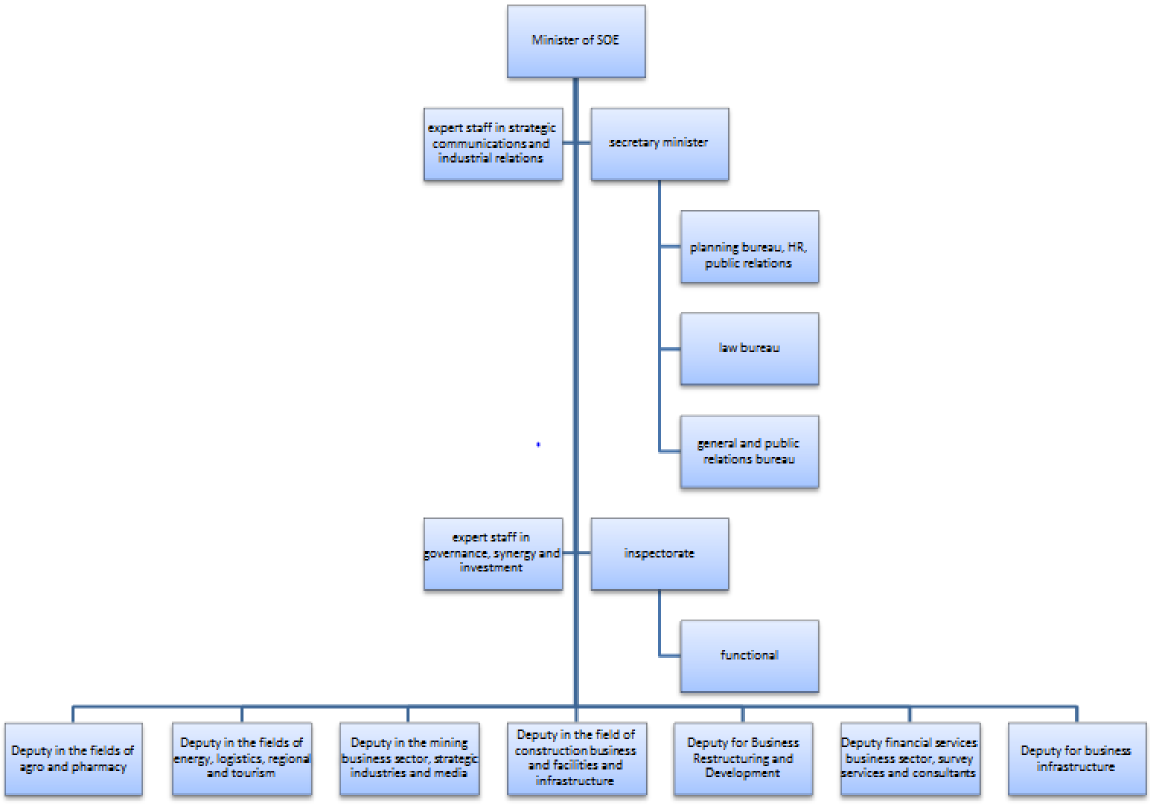

Figure A1: Ministry of SOE Institutional Structure.

Source: Republic of Indonesia (2015b)

(Expressed in thousands of Rupiah, unless otherwise stated)

Appendix 9 PT Semen Gresik Annual Report 2008 on Loans from The Government of The Republic of Indonesia

The original consolidated financial statements included herein are in the Indonesian language.

15. HUTANG BANK (lanjutan)

b. Jangka panjang (lanjutan)

PT Bank CIMB Niaga Tbk

Pada tahun 2005, UTSG, memperoleh fasilitas pinjaman dari PT Bank CIMB Niaga Tbk dengan jumlah maksimum pinjaman sebesar Rp5.000.000 dan digunakan untuk pembelian alat berat. Pinjaman akan jatuh tempo pada tanggal 9 Agustus 2010 dan dijamin oleh deposito berjangka pada PT Bank CIMB Niaga Tbk senilai 110% dari jumlah outstanding fasilitas kredit. Tingkat bunga pinjaman sebesar 1% per tahun di atas tingkat bunga deposito yang dijaminkan (Catatan 3).

15. BANK LOANS (continued)

b. Long-term (continued)

PT Bank CIMB Niaga Tbk

In 2005, UTSG, obtained loan facilities from PT Bank CIMB Niaga Tbk for a maximum amount of Rp5,000,000 to purchase heavy equipment. The loan matures on August 9, 2010 and is secured by deposits at PT Bank CIMB Niaga Tbk, of 110% of the outstanding loan. The loan is subject to interest at a rate of 1% per annum above the interest rate of the guarantee deposits (Note 3).

16. PINJAMAN DARI PEMERINTAH REPUBLIK INDONESIA

Pinjaman dari Pemerintah Republik Indonesia kepada anak perusahaan (ST) terdiri dari pinjaman yang diperoleh Pemerintah dari bank-bank dan lembaga keuangan asing yang diteruskan atas nama ST *(Subordinated Loan Agreements/SLAs)*. Rincian pinjaman berdasarkan sumber pinjaman adalah sebagai berikut:

16. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF INDONESIA

The loans from the Government of the Republic of Indonesia to a subsidiary (ST) consist of loans obtained by the Government from foreign banks and financial institutions which were channelled to ST (Subordinated Loan Agreements/SLAs), as follows:

a. Pokok Pinjaman (Eks Proyek Tonasa IV) / ***a. Loan Principal (Former Tonasa IV Project)***

	2008	2007	
Sumber pinjaman:			*Source of loans:*
Unibank A/S Denmark	23.328.725	31.104.967	*Unibank A/S Denmark*
Bank of China	23.318.360	34.977.541	*Bank of China*
Mitsui Leasing & Development Ltd.	12.647.510	16.261.084	*Mitsui Leasing & Development Ltd.*
KCS Leasing Co. Ltd.	4.210.039	8.420.078	*KCS Leasing Co. Ltd.*
Credit Lyonnais, France and Denmark	1.747.054	3.494.109	*Credit Lyonnais, France and Denmark*
Chartered West LB Limited, Inggris	171.249	342.498	*Chartered West LB Limited, England*
Kredittanstalt Fuer Wiederaufbau, Jerman	92.634	1.758.428	*Kredittanstalt Fuer Wiederaufbau Germany*
Jumlah pinjaman	65.515.571	96.358.705	*Total loans*
Dikurangi bagian yang jatuh tempo dalam waktu satu tahun	(29.239.095)	(30.843.134)	*Less current portion*
Bagian jangka panjang	**36.276.476**	**65.515.571**	***Long-term portion***

Penarikan yang dilakukan ST atas pinjaman yang berasal dari bank dan lembaga keuangan asing dikonversikan ke dalam mata uang Rupiah dengan menggunakan kurs jual Bank Indonesia pada tanggal penarikan. Pinjaman tersebut dikenakan tingkat bunga sebesar 1% di atas tingkat bunga rata-rata Sertifikat Bank Indonesia (SBI) berjangka 6 bulan. Tingkat bunga tersebut termasuk komisi bank sebesar 0,25%. Keterlambatan pembayaran dikenakan denda sebesar 2% per tahun.

ST's drawdowns of financing originating from foreign banks and financial institutions are converted into Rupiah based on Bank Indonesia's selling rate at the date of the drawdowns. The loans are subject to interest at the rate of 1% above the average interest rate for 6-month Bank Indonesia Certificates (SBI). The interest rate includes a 0.25% bank fee. A penalty of 2% per annum is charged for late payments.

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