

Relationship Among the State, the Market and the Civil Society in the Case of Privatization of PT Semen Gresik Tbk

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Abstract: Unlike other previous researches on privatization, this research is a critical study with a combination of non-mainstream approaches by a qualitative approach through a deconstructive discourse analysis that elaborates a sharp critique of the structural and Neo-Marxist theory on developmentalism within the relationships of the state, the market and the civil society. Results show that in the case of privatization policy of PT Semen Gresik Tbk, interrelationships between the state and the market is dualistic; in certain periods the state enables the market, in other times it constrains the market's opportunity. Akin to the dualistic and domineering nature of economic-political structure, interrelationships of the state and the market is asymmetrical, in which the state dominates the civil society, while that of the market and the civil society is asymmetrical, in which the market dominates the civil society. To balance the roles of the state, the market, and the civil society, an intervention by a democratic administration in a symmetrical relationship is needed for the civil society's interests. This research recommends the necessity for the state to put an end to multidimensional crisis by nationalizing assets, for example by buying back the shares of PT Semen Gresik Tbk that were relinquished to foreign investors.

Keywords: privatization, relationship of the state, the market and the civil society, democratic administration

The policy of privatization is a global tendency in both developed and developing countries. Privatization or national assets selling is seen as an obligatory economic agenda to avoid high-cost economy by relieving state-owned enterprises that exhaust budgets. A research by World Bank in 1992 shows that since 1980 more than 80 countries privatized more than 6,800 state-owned enterprises all around the world (Kikeri, et al., 1992).

Even though Great Britain is known in modern era as a pioneer of privatization in 1979, it an empirically and historically fact that privatization occurred a long time before that, when the Germany federal government sold the shares of Volkswagen AG to a

small investor in the stock market in March 1961 (Megginson, 2004).

Singapore is noted as the first Asian country to privatize its assets in 1981.

In developing countries, privatization is, among others, performed by Mexico. A prolonged monetary crisis caused their government to generate a fund gathering method to fulfill budgetary demands. Research by Dhosi (2001) demonstrates that performance in Mexican public companies was lower than in private ones. This condition was triggered by (1) higher production costs; (2) inefficiency due to the surplus of labor. Furthermore, government subsidy also poses a threat of bankruptcy. There was an ineffectiveness in the use of capital and facilities in state-owned enterprises; (3) the excessive cost of labor; (4) the increase of the yearly cost of capital, more than the yearly yield; (5) the lack of innovation

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for new products and the reliance on standard models, and (6) decision-makings that were more political than economical.

In Indonesia, most state-owned enterprises show poor financial performances. Market development fails to become an accelerator for economic growth. World Bank report of Indonesian public sector in 1999 explains this phenomenon, which are: (1) most state-owned enterprises deplete budgets that may be allocated to social services; (2) they invest in unsuitable ventures; (3) they are more inefficient than private companies; (4) management fix is required in order to promote efficiency. Research projection by PSPK BAF team shows that in 2004, 2005 and 2006 there were 70 state-owned enterprises with poor performances, which made it 45% out of total 154 state-owned enterprise, and their total loss was bigger than total profit made by other state-owned enterprise. Total loss in 2004 was Rp 33,376 billion, in 2005 was Rp 35,310 billion, and in 2006 was Rp 37,791 billion (Patriadi and Purwoko, 2003).

Paradigm of state-owned enterprises in Indonesia changes from time to time. During the monetary crisis, state-owned enterprises were recommended to be privatized, or their shares sold to private parties—whether by IPO (initial public offering) through stock exchange or by private placement strategy to strategic investors—to help the government reduce the burden of budget deficit. This paradigm is in line with the generic counsel offered by IMF, World Bank, and US economists who recommended the Washington Consensus (Williamson, 1994).

During Soeharto's reign, Indonesian state-owned enterprises were, for the first time, either privatized or parts of their shares were sold in stock exchange, beginning with Semen Gresik (SG)'s shares in local stock exchange in July 1991. In this era, two Indonesian state-owned enterprises (Indosat in October 1994 and Telkom in November 1995) made a history in international stock exchange through dual listing, both out of the country (in New York and London) and in the country (Jakarta and Surabaya).

In Habibie's era, when the country was in financial difficulties, privatization became controversial when the government sold 14 per cent of SG's shares to a strategic investor, Cemex (from Mexico) in September 1998. The controversy was repeated when

President Megawati's reign sold 42% of Indosat's shares to a strategic investor, this time it was STT (Singapore Technologies Telemedia) at the end of 2002. During this period (1998–2003), the paradigm of privatization was defined as an effort to gather budgetary funds, which were under severe pressures at the time being.

However, privatization generates pros and cons. There are some who believe that a national company is a national asset to be maintained by the government, even when the loss increases. For example, when PT Semen Gresik Group (SGG) was to sell its shares to Cemex. This policy was opposed by the employees union (Serikat Pekerja Semen Gresik-SPSG), by conducting a strike (Kompas, January the 8th, 2002). Some others choose to be realistic. They think that the government does not have to fully own state-owned enterprise, as long as those companies still benefit the country and the people.

Learning from this controversial privatization case of PT Semen Gresik Tbk, especially in association with the government's role in managing the public services of state-owned enterprises, has produced an interesting research topic about the relationships of the state, the market and the civil society in the privatization policy of PT Semen Gresik Tbk.

APPROACHES

Unlike other researches on privatization, this research is a critical study with a combination of non-mainstream approaches, through a qualitative approach in a deconstructive discourse analysis, elaborating sharp critique of the structural and Neo-Marxist theory on developmentalism in the relationships of the state, the market and the civil society.

This relationship is basically divided into three variants: symmetrical, asymmetrical and dualistic.

The three variants, especially in developing countries, including Indonesia (Martinussen, 1997) have a background in the fundamental functions of a country in three dimensional states. According to Samudavanija (1991) these are: a) relationship in dimension of development (D); b) relationship in dimension of participation (P); c) relationship in dimension of security (S).

The three dimensional states are massive pressures for developing countries in the same time, that

they face a certain dilemma: they are demanded to guarantee the economic-social process by supporting development, on the other hand they also have to guarantee the cultural-political process that is connected to the participatory level of citizens in policy-making (Martinussen, 1997).

The state as a neutral institution is in the middle of two pressures, i.e. the pressure from citizens for democracy, which consequentially opens public participation in policy-making; and the pressure from industrial countries. This condition is relevant to Giddens's structurization theory (1984), because not all of third-world countries are able to manage the three dimensions altogether. Some of them are focused on security as another combination to guarantee participation and development—the state is therefore positioned to play all three S-D-P roles.

In the matter of security, for example, third-world countries face both internal and external problems. Internal security problems are associated with heterogeneity, e.g. religion, ethnicity, languages—in the perspective of authority and state legitimacy (Rosberg, 1982a, 1982b; Howtorn, 1991). Conversely, external security problems are associated with colonialism, e.g. eastern versus western countries confrontation, about important natural resources, as a combination of security problems, whose main motive is possession of economic resources (Martinussen, 1997).

Results show that micro relationship model, which is internal relationship among the state, the market and the civil society, comprises three main variants: a) relationship between the state and the market, which is dualistic; b) relationship between the state and the civil society, which is asymmetrical; and c) relationship between the market and the civil society, which is asymmetrical because the market dominates both the state and the civil society.

Relationship Between The State And The Market

Results show that internal economy-political relationship, between the state and the market, is generally dualistic; in certain periods the state enables the market, in other times it constrains the market's progress. This was explained by Giddens's structurization theory (1984).

When the state provides opportunity for the market, the relationship is symmetrical, which denotes a mutualistic symbiosis in the form of cooperation with the market, for example in the case of privatization between Semen Gresik and Cemex. This relationship, in the long term, is coexistent, since both parties support each other to fulfill their structural needs, not only in economic, but also in political structures. This is reality is relevant to de Soto's thesis (1991), which states that in a capitalistic society, the commanding elite class cooperates with the state, and this is necessary for the fulfillment of their structural needs, in a mutualistic symbiosis.

When the state constrains the market's opportunity, the relationship pattern is asymmetrical. For example, despite its good performance, SG was sold to Cemex, and is therefore made incapable of independent improvements.

Interrelationship Between the President and SG

A symmetrical pattern of relationship between the president and SG occurs in a rational relationship, because a president is the head of the state and the government, while SG was a national asset managed by the state. It became irrational when, as a healthy national asset, SG was sold by President Soeharto to a foreign investor, Cemex. There was a bounded rationality in this case, as stated by Simon's thesis, that the state's actor or administrator—the president—was facing options that restrained decision-makers from being rational and comprehensive in the same time, due to the expensiveness of informants, so that they chose options that were the most beneficial for themselves.

In Giddens's structurization theory (1984), the case might be analyzed as follows: the president as the state's actor on certain times enables the market (SG was a healthy national company with high profit), but he also constrains SG's improvements, by selling it to Cemex. According to Martinussen (1997), in this phenomenon, there is a conflict of interest between vested and state's structural interests.

Facts show that the said conflict of interest in the case of SG's privatization was rooted in an acceleration of the president's vested interest to maintain

his regime, as well as that of the state's structural interest to end the monetary crisis.

The phenomenon is contradictory when compared to privatization policies under neo-conservative governments in developed countries like the United States and the United Kingdom when Prime Minister Margaret Thatcher conducted deregulatory and privatization policies for inefficient and burdensome state-owned enterprises (Savas, 1982).

Background and motive differences between developing and developed countries, are, according to Kagami and Tsuji (2000) caused by societal changes and new orientations that privatization brings to developing countries: a) the role of government and market, b) foreign investments, c) better services, d) institutional contract agreements. Kagami and Tsuji (2000) believe that the market is more efficient than the government, hence either privatization or economic internalization is seen as a solution. This symptom is what Friedman (1970) and Clement (1997) mentions, that capitalistic economy system with its free market is the only suitable way for political freedom and democracy.

Such condition has shifted the relationship pattern between the president and SG towards an asymmetrical and exploitative relationship, in which SG as a production unit is enforced to be the sole support of national economy. The president's power dominates SG. In other words, relationship between the two parties is subordinative, in which the president is a superstructure and SG is an infrastructure for national economy. After the publication of Presidential Instruction No. 5 Year 1988, followed by the Minister of Monetary Affairs Rules No. 740 and No. 741 Year 1988 respectively, state-owned enterprises must accept privatization.

In the context of relationship between SG and the president as head of the country and government, from the eras of Presidents Soeharto, B.J Habibie, Megawati Soekarnoputri, and Susilo Bambang Yudhoyono, it has always been a patron-client one, because the relationship is mutualistic. For example, privatization of SG in 1991, 1995, and 1998.

This reality is relevant to structural and Neo-Marxist theories about tendency for mutualistic, rather than antagonistic, relationship between the state and the business world.

According to Schneider et al. (2002), quoting Morgan (1997), relationship between the state and the market shows a structural dependency: a self-manage formation that springs from influences, joint decision-making and long-term exchange.

This symmetrical relationship is observable through cooperative and friendly decisions regarding the market. For example, the state let go of its asset, i.e. SG, to a foreign investor, Cemex. The state also privatized SG's subdivisions, such as PT Semen Padang.

However, privatizations in Indonesia demonstrate an uncertainty in the relationship of the president and the market. When members of civil society opposes them, the state enables this, as if it defends the society from foreign investors, for example the state filed a suit in the International Court through an arbitrator during President Megawati's era. This phenomenon theoretically confirms that the state also constrains the market in certain periods. The president's motives as well as her partiality to the market were concealed, since any disclosure would have led to a legitimacy crisis, as proposed in Habermas's thesis. If the state does not conceal its economic roles in the market, the civil society will lose its trust, believing that the state is partial as well as mercenary.

The state's constraint on pro-market decisions in the form of privatization also took place during President Abdurrahman Wahid's era. For example, President Wahid cancelled out the relinquishment of 51% government shares in PT Semen Padang (SP) and PT Tonasa to Cemex, due to opposition from Padang and Makassar residents respectively (Sinar Harapan, Februari the 25th, 2002). President Wahid's policy was based on the motive of preventing a legitimacy crisis.

The state's dual roles which Giddens (1984) named as structural dualistic demonstrates a conflict of interest within the state itself. The fact illustrates a contradiction inside capitalism. However, capitalism cannot be applied in a state of double burden. Martinussen (1997) elucidates that the state cannot conduct a three-dimensional relationship at the same time: guaranteeing development as an agenda of industrial countries, opening public participation, and guaranteeing internal security. Facing complicated

options as well as structural limitations, capitalist states tend to enhance a capital-oriented development.

Interrelationship Between the Parliament and SG

The double standard as shown by the president also takes place within legislative circle. Based on the abovementioned results, the relationship between the parliament and SG is often dualistic. Occasionally, the parliament provides an opportunity for privatization, as we may observe in Akbar Tandjung's era. On the other hand, some of the parliamentarians are against privatization, for example Parliament Chairman Amien Rais's opposition to SG's privatization. Therefore, the parliament also constrains pro-business policies. The parliament was offended by Cemex's advertisement. The offence was the foundation of the suit in the International arbitrator.

According to Giddens (1984), there is no absolute constraint nor liberty imposed by one authority upon another. Each party shares power (in the form of domination and subordination) in accordance with the contextual time and space.

The parliament's double standard theoretically confirms that capitalism cannot grow in an ambiguous environment. For example, FPAN, a faction in the Indonesian parliament, regarded privatization as a repetition of the preceding government's mistake, since selling state-owned enterprises had proven to undermine national economy (Tempo Interaktif, February the 19th, 2002). The parliament also questioned law-breaking privatizations. For example, the acquisition of SP by SG in 1995, and privatization of the government's shares in SG by Cemex in 1998.

Interrelationship Between Ministers and SG

Results demonstrate another dualism in the relationship of ministers and SG. Most of Ministers of State-Owned Enterprise Affairs agreed with and supported privatization policy, such as Tanri Abeng and Laksamana Sukardi. However, Sugiharto opposed privatization who preferred enhanced performance to privatization. He was later dismissed by President Yudhoyono from Kabinet Bersatu and was supplanted by Sofyan Jalil.

Both Abeng and Sukardi were of the opinion that privatization was a rational option, in which the government, as a shareholder, was able to create a mutualistic symbiosis with state-owned enterprises, including SG. This reality concurs with Block (1977)'s theory of the relationship of the state—in this case represented by ministers—and the market is functional and mutualistic. The state maintains political stability to protect business confidence, whereas the market, otherwise known as the capital owners, boosts capital accumulation. This relationship is the main characteristic of capitalism, as is explained by Ham and Hill in *The Policy Process in the Modern Capitalist State* (Abdul Wahab, 2008), wherein it is mentioned that the major function of a capitalist state is to assist the flow of and support the process of capital accumulation.

In actuality, in the case of privatization the state and the market tend to cooperate rather than deter each other. This cooperation is rooted in exchanges and joint rules. All national company ministers implement privatization policies to relinquish national assets to foreign investors, including Cemex—in the case of Semen Gresik.

There was an attempt, in Sugiharto's era, to decelerate privatization programs, due to his preference to performance enhancement programs. The idealism was put to a stop due to President Yudhoyono's Neoliberalistic government.

Interrelationship Between Board of Commissioners and SG

The relationship pattern between the board of commissioners and SG is contradictory. Structurally, privatization was due to pressures from the state as a superstructure, which is represented by the central government. On the other hand, the board personally disliked any influence from outside management due to possible interference in the board's own interests, for example removal of official facilities, as a possible consequence.

The board was inclined to turn down Cemex, however they did not oppose it in the open, but supported resistance movements instead. For example, the board supported a strike opposing privatization led by *Serikat Pekerja Semen Gresik*—SPSG (Semen Gresik Workers Union).

According to Giddens (1984), disposition of state actors is influenced by both the surrounding situation and condition at the time they make their decisions. Actors could either support or oppose an option, depending on the profit or the loss they may gain. They could either enable or constrain opportunities.

Within this context, Hill (1987) showed that privatization programs are easier with the support from the public enterprise's management (the directors board and the employees). For this aim, both the management and the employees need to be convinced of the benefits of the whole process. Employees must be fully informed of the possibility of job losses and unemployment following the privatization. Without support from these internal groups, privatization will fail, as was the case with British Gas in 1980.

RELATIONSHIP BETWEEN THE STATE AND THE CIVIL SOCIETY

Results demonstrate that the pattern of power relationship between the state and the civil society is basically asymmetrical in a domineering environment, where the state prevails over the society, including members of the employees union (SPSG).

Interrelationship Between the President and the SPSG

The relationship pattern between the president and the SPSG is asymmetrical. In this relationship, the state, as represented by the president, is more dominant than the employees. The reality is relevant to Miliband's elite theory, which states that both the economic and political elites (e.g. the president) are the controlling groups. The society, including SPSG members, is the controlled group.

The elite is few, but more influential. In contrast, the society is many but less influential. For instance, in the case of SG's privatization, despite the employees's resistance, President Soeharto still privatized the said public enterprise. Miliband (1969) states that the state is not a neutral agent. Instead, it is an instrument for class domination.

In truth, the state has been continuing privatization policy within President Yudhoyono's era nowadays, despite resistance from both the society and experts

who emphasize on the necessity for a nationalism policy to save national assets from transnation corporates's interests.

This is also in line with Prebisch's theory, which was based on a study case of privatizations in Latin America. It was published in *The Economic Development of Latin America and Its Principal Problems* (1950): the state's policies do not serve the public, only the growth of private capitals instead.

Interrelationship Between the Parliament and the SPSG

The relationship between the parliament and the SPSG is symmetrical, in which both actors coexist. For instance, the employees's aspiration was communicated to their representatives and was positively responded by the parliament.

Based on research results, the employees's effort for their future was positively responded by members of the parliament. Alford et al. (1985) state that this relationship is founded on influences to enlarge and broaden current power.

Interrelationship Between Ministers and the SPSG

Ministers tend to opt for privatization, rather than notice aspirations of SPSG members who oppose it. Capital is considered as an important thing, since privatization could cover budgetary deficit. According to Ham and Hill in Abdul Wahab (2008), the main function of capitalist state is to assist the flow of and encourage the process of capital accumulation.

In this relationship, the state actively assists the capitalists to increase production and profit, as well as to maintain order and to control the society's behavior. Ham and Hill's thesis is supported by Martinussen (1997), who states that in order to resolve capitalistic development conflicts against the demand for societal participation in decision-making, the state applies a security approach. If the state is obstructed in accumulating capital, it will exert armed forces to protect it. As Block in Budiman (1982) puts it, the state acts as the police force to prevent possible disturbances on the existing system, as well as to develop an ideology where employees feel that

they are justly treated in a system that benefits the capitalists.

Interrelationship Between the Board of Commissioners and the SPSG

The power relationship between the board of commissioners and the SPSG is asymmetrical, where the board needs support, including that from union members who opposes privatization. For example before the General Meeting of Shareholders of Semen Gresik, thousands of employees were protesting against the plan of share release, for the sake of their future (Kompas, February the 25th, 2002).

The board of commissioners supported the strike, and considered it as a rational action to maintain their positions and facilities, which are threatened by the intervention of foreign management.

Cemex suspected that the support from the board of commissioners was motivated by individual interests, since the success of the SPSG would have meant their succeeding of maintaining the board's position. Benefits and support obtained by the board from its relationship with the SPSG is exploitative in nature. When there is repressive action against employees, the board will not be exposed to any risks. The succeed of employees will guarantee the board's position. The phenomenon supports de Soto's theory (1991) that this relationship is a mutualistic symbiosis.

RELATIONSHIP BETWEEN THE MARKET AND THE SOCIETY

Results show that the pattern of power relationship between the market and the society is paradoxical in its asymmetry, with a leaning toward diametral, because the market dominates the society's roles, including that which is represented by the SPSG. Structurally, SG had to support privatization despite resistance from SPSG members.

There is a conflict of interest between the enterprise and the employees. For instance, negotiation between the enterprise and the employees has always been protracted and difficult. Employees of Semen Gresik protested against privatization. The protest was rooted in the fear of cartel influences, since Cemex is an international company. According

to Kagami and Tsuji (2000), privatization may produce effects such as: a) unemployment, b) reduction of the power of workers union, c) oligopoly or monopoly, d) foreign investment domination.

A series of internal relationship between the state, the market and the society shows the domination of the market over the state and the society. Therefore, the New Public Service (NPS) theory recommends a democratic administration to balance these relationship. According to Denhardt and Denhardt (2003), NPS is a correction to New Public Management (NPM) from Osborne and Gaebler (1992) that treats citizens (as was emphasized by New Public Administration) as consumers in the state-enterprising program through privatization. For Denhardt, a democratic administration must defend citizens, in this case society members who are disadvantaged by a policy.

In the context of privatization of SG and Cemex, the NPS theory recommends the state to defend the workers union instead of Cemex. The implication is that the state should opt for labor-centered rather than capital-centered industrial relationship. This is not a popular choice, due to global leaning toward the domineering power of the market over those of both the state and the society.

CONCLUSIONS

Based on the results, it can be concluded that the relationship of the state, the market and the civil society in the case of privatization of PT Semen Gresik Tbk is dualistic. In certain periods, the state enables the market. Nevertheless the state constrains the society's roles that are at odds with privatization. This reality was derived from the state's structural limitations, hence the need to maintain its existence by assisting capital accumulation in the market. In other words, the state tends to build a mutualistic, rather than antagonistic, relationship with the market.

The relationship pattern between the state and the civil society is asymmetrical in a domineering environment, in which the state presides over the society's roles, including those of *Serikat Pekerja Semen Gresik* (SPSG) members. This relationship is asymmetric paradoxical in its asymmetry, with a leaning toward diametral, because the state dominates the society, including SPSG members.

To balance the subsequent roles of the state, the market and the civil society, an intervention by a democratic administration in a symmetrical relationship is needed. The research recommends the necessity for a multidimensional crisis recovery efforts by implementing nationalization of public enterprises assets, for example the buying-back of PT Semen Gresik's shares that had been relinquished to foreign investors.

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