2 The Birth of a Conglomerate

Today, our companies are intimately involved
in the day-to-day lives of millions of Indonesian families
Soedono Salim, Founder of the Salim Group
Source: Group brochure 1996

2.1 Introduction

Companies are started and built by people, and the company that is the focus of this study was founded by a Chinese immigrant in Indonesia. The first section of this chapter takes us back to southern China, just after the start of the Sino-Japanese war in 1937. From there we follow the young founder of the group – Liem Sioe Liong – to the Dutch East Indies where he started his first small-scale trading activities.

The struggle against colonialism and the establishment of the new nation state of Indonesia profoundly changed Liem's chances. The young Liem took advantage of these developments, and engineered a spectacular growth of his Salim Group over more than half a century, while riding the waves of a favourable political and economic climate during the rule of President Suharto. We find that the history of the group was closely intertwined with the political and economic development of Indonesia.

This chapter deals with the history of the group from its start until 1994 and serves as an introduction to the Salim Group. It also introduces some of the topics that will be elaborated upon in later chapters. Subsequent chapters will focus on the development of the Salim Group from 1994 to July 1997; from July 1997 to 2000 and from 2001 to 2003.

2.2 Liems on the Move

The Salim Group was founded by a man named Liem Sioe Liong, who was born on July 16, 1916 in Fuqing, Fujian province in southeastern China.[1] He was the second son of a rice-farmer and left China for the

Dutch East Indies in 1938.[2] According to some sources, he had to leave junior high school at the age of 15 due to poverty, which forced him to run a stall selling noodles.[3]

The timing of his migration was intertwined with his family situation as well as the general the situation in Fujian at that time. His father apparently had died when Liem was young. His elder brother left to Java and Liem became head of the family at the age of 13. The Japanese occupying forces created anxiety among Chinese people. Within this context, Liem Sioe Liong left his native country, reportedly with little more than the clothes on his back. The family land, which he sold, was reported to raise just enough money for the trip. He arrived in Java and joined his brother and uncles in the small town of Kudus on Central Java.[4]

Liem's migration was part of a long migrant tradition. Since the VOC, (*Verenigde Oost-Indische Compagnie* or Dutch East India Company) set up its headquarters in Batavia on the island of Java in 1619, there has been a more substantial and organised Chinese community.[5]

The Chinese migrant community was and still is divided into the *peranakans* (local-born Chinese) and the *totoks* (newly arrived Chinese).[6] From 1740 onward, the Dutch tended to separate ethnic groups, and the Chinese were assigned their own residential quarters in the cities.[7] Within the Chinese community, people were further divided into dialect groups (*bangs*) and subdivided in clans.[8] Dialect groups were historically specialised in certain professions.[9] To date associations based on dialect groups play an important role in ethnic Chinese business, especially among the *totok* Chinese.

Liem Sioe Liong, being from Fuqing, is a Chinese from the *hokchia* dialect group.[10] The *hokchia* were latecomers in migration, and were traditionally located in the rural areas, often active in money-lending. They were considered a relatively poor group among the ethnic Chinese in Indonesia before the war. The *hokchia* are known to be a close-knit group with a strong tendency for mutual assistance.[11]

From the mid-nineteenth century to the mid-twentieth century the number of Chinese immigrants to Indonesia rose substantially.[12] Due to the wave of new immigrations, mainly between 1860 and 1930, the *totok* community expanded, both in size as well as in economic power in the period up to the Japanese occupation.[13]

Throughout history, as a group, the Chinese have generally been better off than the Javanese peasants and masses, often acting as traders and middlemen. In 1930, according to one study, 58% of the Chinese in Java were engaged in trading activities.[14] The Dutch colonial rulers gave the Chinese the legal status of '*foreign Orientals*' which was economically higher than the indigenous population.[15] But they were also regarded with some suspicion by the Dutch rulers. This suspicion continued when Indonesia declared itself an independent nation state in 1945 and remains until the present day.[16]

When Liem Sioe Liong migrated to Central Java by the end of the 1930s, he certainly did not end up in a complete vacuum. As a newly arrived Chinese, a *totok*, he arrived in an existing and organised Chinese society, with family members that could accommodate him. His elder brother Liem Sioe Hie had already been there for several years, as well as two uncles. They gave him the opportunity to join them in business (peanut oil trade) and gradually save money to start trading on his own account. Some sources indicate that he was a shop assistant selling local produce before the Japanese occupation.[17] His younger brother Liem Sioe Kong followed him after several years and the three brothers jointly formed a small company trading food products.[18] Liem also offered credits to his customers, thus engaging not only in trading but also in money lending.

Since the three Liems ended up in Kudus, a place for the typical Indonesian *kretek* (clove cigarette) manufacturing, Liem Sioe Liong (hereafter: Liem) quickly became involved in clove trading as well.[19] Liem later changed his name to the Indonesian-sounding Soedono Salim, following the example of many Chinese Indonesians.[20] The Javanese meaning of this is the following: *soe* = good; *dono* = capital; *sa* = three (referring to three brothers) and *lim* refers to Liem.[21] Yet Liem is referred to by both his Chinese and Indonesian name to date, and the Indonesian media often call him *Om* (uncle) Liem.

2.3 A Daring *Danbangke*

In March 1942, the Japanese forces occupied the Netherlands Indies, and trade became nationalised and strictly regulated. Shortages in textiles and food occurred as international trade was hampered during the war. The Japanese tried to promote self-sufficiency for Indonesia, albeit not very effectively. A result was that a black market thrived, which offered business opportunities in the field of trading.

During the occupation the Japanese banned money lending in rural areas, the traditional activity of the *hokchia*. An opportunity for overland trade (usually seen as smuggling) started to arise. The *hokchia* were among the most daring and risk-taking groups, and many of them started to be small traders or *danbangke*, personally transporting/smuggling goods with bicycles. Liem was one of those *danbangke* traders operating between Kudus and Semarang.[22] Liem later said that he was arrested by the Japanese, accused of illegal possession of arms and interrogated for a week.[23]

Liem started a family during the Japanese occupation and subsequently got several children of which two, Andree Halim and Anthony Salim were to play an important role in the family business later on. The literature is not very clear on what happened to Liem in the late 1940s, but Liem's family business seems to have originated in this period. There are different accounts of how and when this happened. A Salim brochure from 1996 claims that the group started in the late 1940s. Another source adds that Liem's business suffered during the occupation and went bankrupt, forcing Liem to start all over again.[24] Liem himself said later:

> I had gunny bags filled with Japanese money, but the new government introduced new money, and the Japanese money became worthless. ... You should not do business based on money, but based on goods (Liem Sioe Liong).[25]

Yet another source indicates that Liem had a small local produce shop in Kudus with a clan member during the Japanese occupation. Later, when the partnership ended in the last month of the Japanese occupation, he established a partnership with his brother.[26] This happened in a context in which the *hokchia* were gaining economic power, especially during and directly after the Japanese occupation. In certain areas including the Kudus-Semerang area where Liem was located, the *hokchia* basically controlled the textile and *kretek* (clove cigarette) industry, the bicycle and spare parts trade, food distribution and started actively in manufacturing such as soap.[27]

Although many *peranakan* Chinese left with the colonisers for the Netherlands, many *totok* stayed. So did Liem, who sided with the Indonesian nationalist movement. Some Chinese associations actively supported the soldiers of the Indonesian nationalists. At the time, the Dutch army was fighting against the nationalists, and some of their leaders went into hiding. His biography describes that Liem was part of the Futsing Hwee organisation, which was in turn part of the Chinese Siang Bu organisation. Leaders of that organisation chose Liem to house one of the fugitives of the uprising against the Dutch. Liem was chosen as he was known for his modesty, trustworthiness and quiet character. Liem took care of his guest for a year, reportedly without knowing who he was. This guest eventually turned out to be Hasan Din, leader of the organisation named Muhammediyah, and also the father-in-law of Sukarno.[28]

The Indonesian nationalists declared independence on August 17, 1945, although they were granted sovereignty only in 1949. Liem resumed his trading businesses, mainly in basic commodities like peanut oil, cloves and coffee. Through his connection with Hasan Din, he was introduced as a trustworthy supplier to the military. He supplied goods (medicine, food, and clothing) to the Diponegoro division of the Indonesian army during and after the struggle for independence from Dutch colonial rule.[29]

Liem's trade with the Diponegoro division continued to be facilitated by his excellent connections, including Hasan Din.[30] Hasan Din was later reported to be one of the co-founders of the Salim Group[31] and he acted as director of several of Liem's companies.[32] But Liem was reportedly also very apt in trading under difficult circumstances. At that time, Lt. Col. Suharto, who was to later become president and a key connection for Liem, played an important role in the Diponegoro division. Despite Liem's role as a supplier for the army division, it is not clear if they had already been introduced to each other at that time.

2.4 All Businesses Are Good

After the struggle for independence Indonesia tried to build up its own economy, administration and private sector. Within this context, Sukarno emerged as the first strong national leader. From 1957 onward, President Sukarno implemented new policies that were radically different from those under Dutch colonial rule. The old colonial social and economic system was rejected by the new leadership. Foreign capital was now seen as a continuation of colonial oppression and most foreign businesses were nationalised.[33] Chinese capital came under scrutiny as well since some Chinese were seen as collaborators of the Dutch colonial regime.[34]

After the initial period of independence, the government attempted to create an indigenous capitalist class as part of its nationalist policies. One of the measures taken to promote indigenous business was the so-called *Benteng* program. This programme was initiated in 1950 and ended in 1957. Under *Benteng* (which means fortress), import licenses were awarded to indigenous businessmen (this excluded the Chinese, who were categorised as *aliens* at the time) under favourable conditions. This did not produce the desired economic power shift.[35] Instead, 'the economic vacuum created by the elimination of Dutch economic interests and the inefficiency of state enterprise was to a large extent filled by Chinese business'.[36] The *Benteng* program – and other similar programs that were implemented later – failed to diminish the economic dominance of the Chinese minority.

Under Sukarno's leadership, Indonesia moved from a colonial capitalist system towards a policy of nationalism with a strong role for the state, which had detrimental effects on the economy. This period was called Guided Democracy. During this period, the business environment became very difficult: private business was tolerated at best and the economic situation offered a problematic environment for doing business with high inflation, low growth and limited international trade.

In the period following the independence of Indonesia, little is known about the founder of the group and his economic activities. Around 1956, Suharto was briefly posted at Semarang and Elson, author of a biography of Suharto, presumes that Suharto and Liem were probably introduced to each other around that year, but he found no evidence of a close relationship between the two men.[37] The Liem family moved to Jakarta in 1957 where the new government was beginning to gain influence. Jakarta also emerged as the new economic centre.[38] Liem seems to have mainly been active in textiles, trading activities and as supplier to the army, which gained in power during those times. It is important to place the economic alliance with army officers into the context of the position of the Indonesian army at the time. The army was building up its power in different areas of the society, including business (state enterprises as well as private business).

> The Indonesian army had acquired a political orientation and political interests at the time of the revolution against the Dutch. Later, after the introduction of martial law in 1957, the army and other branches of the armed forces became deeply involved in politics, civil administration, and economic management with the result that the army became a key element in the government coalition under Guided Democracy.[39]

> Indonesia has a history of links with power-holders and Chinese business, and Liem was one of the examples. All those division commanders like Suharto did the same. The Indonesian army was never self-sufficient in terms of budget. They got only 30% or so of their budget from the state, the rest of the funding they had to look for themselves. Even until now (former minister).

The foundation of Liem's business group most probably dates back to the late 1950s when Liem formed several business partnerships beyond his family circle. His long term partner is Djuhar Sutanto, a fellow *hokchia* from the same district in China with the same surname in Chinese. A study of the Liem Group in 1989 indicated that the business was a family affair, complemented by a few other partners:

> The group was established in the late 1950s by Mr Soedono Salim alias Liem Sioe Liong, his elder brother (the late) Mr. Liem Soehanda alias Liem Sioe Hie, Mr. Soedarmo Salim alias Liem

> Sioe Kong, Mr. Doni Pranoto alias Liem Sioe Djwan (both younger brothers of Mr. Soedono Salim), Mr Djuhar Sutanto alias Liem Oen Tjien and (the late) Mr. Hasan Din.[40]

According to Anthony Salim, Liem Sioe Liong's son, despite difficult circumstances in those early times, his father was successful and started to diversify and also become active in processed goods around 1953, following his belief that 'all businesses are good'.[41] The Salim business ventures adapted to the often unpredictable environment and grew by taking the opportunities as they came, without a focused business strategy.

> Today we trade in this product and tomorrow there's a new policy and the possibility exists that we trade in something else. The world of entrepreneurship has its own path and characteristics. Following this path is not easy, but mastering it is not impossible (Liem Sioe Liong).[42]

> The group evolved not by design, but by necessity. Whatever opportunity was good, we just grabbed (Anthony Salim).

It is not completely clear whether the expansion of the business in the period directly after the independence of Indonesia was funded by organic growth, by capital brought by new partners, or whether Liem was able to tap into external sources of funds from, for example, the Chinese community or banks.

Anthony Salim clarified in an interview that Liem already went into manufacturing under Sukarno: 'some textile factories started operating as well as a soap factory'. Apart from diversifying into manufacturing, Liem also started Bank Windu Kencana (in 1954) and bought Bank Central Asia (BCA) in 1957. BCA was to become the largest privately owned bank of Indonesia.[43] One author argues that the rise of Liem happened parallel to the rise of the *hokchia* group and can partly be explained by his alliances with fellow dialect members.[44] He initially expanded those lines of business that the *hokchia* had traditionally dominated.

According to his son, the Liem businesses were already quite established by the time Sukarno was forced out of office – among the top 20-30. This is supported by another source:

> In addition to his trading activities in this period, Liem expanded into manufacture (textile, soap, nails, bicycle parts) and successfully established himself as a supplier of the Indonesian army. In the early 1950s, he established the Bank Windu Kencana and

> followed this in 1957 with the purchase of the Bank Central Asia. When Suharto came to power in 1965, Liem already presided over an established and varied business group and had an established history of association with … Suharto himself.[45]

The claim that Liem's business group was already quite established before Suharto came to power has to be placed in the context of business at that time. In the difficult economic environment virtually no large private businesses existed, most commercial activities occurred on a fairly small scale.[46] Liem's businesses were not particularly large or very well known in this period.

Thus, after an initial period of small-scale local trading, Liem was successful in a diverse set of business activities with an opportunistic strategy in a difficult business context. His *hokchia* background initially provided a good starting point, but was not advantageous only, since Chinese capital was under pressure. Liem was able to build a successful trading network outside the Chinese community, mainly with the Indonesian army, who gradually gained political power as well as economic influence. He eventually moved from trading into manufacturing and banking.

2.5 Riding the Waves of Industrialisation

By the time president Suharto seized power in the mid-1960s,[47] the economy was in terrible condition with hyper-inflation (600% in the mid-1960s) and a huge state debt burden.[48] After President Suharto came to power, the business context changed and a new economic policy emerged in which industries slowly opened up for private investment. In 1967, the Foreign Investment Board was established followed by a five-year plan that aimed at industrialisation of the country. This was the first policy of its kind in independent Indonesia. Following the establishment of Suharto's New Order, Indonesia experienced a period of strong economic growth. Between 1967 and 1997, GDP grew an average of 7% per annum. During the New Order, several new economic policies were implemented that created a more favourable and stable business environment.

According to Liem's son: 'my father started to see this new business environment as an opportunity'. Liem made good use of his connections and two members of the Suharto staff were appointed at the board of the Bank Windu Kencana.[49] Liem began to appear among the circle of trusted ethnic Chinese businessmen with whom Suharto established close connections. Using a combination of business skills and political contacts, he acquired several export licences and held import monopolies on cloves. His main companies were P.T. Waringin[50] (export of rubber and coffee) and P.T. Mega (import of cloves). The latter was one of the two companies allowed to import cloves by the government in 1968. Reports suggested that the licences and credit facilities these companies received were directly related to the close relationship with Suharto.[51] These trading businesses in basic commodities gave Liem annual revenues of US$340,000 between 1968 and 1970.[52]

By the end of the 1960s, Liem had expanded his network of partnerships. Apart from Djuhar Sutanto, who also came from Fujian; Ibrahim Risjad, from Aceh; and Sudwikatmono, a cousin of Suharto,[53] also joined him.[54] These four, later complemented by Liem's and Djuhar's sons, are often called the Liem Investors or the Gang of Four. The Liem Investors had close ties with Suharto throughout the decades to come.

The army, now the leading political force, became very active in business-related activities, which provided the army with additional funds.[55] Suharto and his close associates played a leading role in many of these activities.

> The general modus operandi was that the government provided credit facilities or privileged access to a certain market, in the expectation that members of the government (often sleeping partners in the arrangements) would be suitably paid for their cooperation. Amongst the key businessmen of the New Order was Liem Siu Liong, long a broker for army business schemes but now catapulted to new heights by the Army's dominance.[56]

One of the army strategies was the use of special foundations (*yayasan*) for business purposes. These foundations were and remained big business until the end of Suharto's regime. They included the Yayasan Dharma Putra Kostrad, established by Suharto in 1964, which cofounded the bank Windu Kencana with Liem and operated other companies as well.[57] Liem's textile business, called PT Tarumatex, also reportedly received an order to supply military uniforms.[58] Another example is the Yayasan Harapan Kita, headed by Suharto's wife, which was associated with Liem in his company Bogasari (flour milling).[59]

Bogasari was owned by the Liem group and Sudwikatmono served as the president director. In 1970, it received a monopoly on milling in the western region of Indonesia from Bulog, the state logistics company. The articles of association of Bogasari stated that 26% of the profits should be set aside for 'charitable' foundations like Harapan Kita and Dharma Putra.[60] The benefits of this milling arrangement for the Salim Group must have been substantial and the arrangement lasted for decades. A 1987 World Bank report said that 'the profit margin of the flour millers was 25 percent, which is described as "high by international standards" and "difficult to justify"'.[61] The milling activities of Bogasari were among many new initiatives in Indonesia which were set up to replace expensive imports.

Suharto started to promote the industrialisation of Indonesia, and as a result of these policies, the structure of the economy changed rapidly. In 1965, only 15% of the economy stemmed from industrial activities, whereas industrial activity contributed 41.7% to the economy in 1980.[62] The policy of import substitution industrialisation was common not only in Indonesia, but in several other emerging economies as well.

In Indonesia, the import substitution policy was carried out in various phases, of which the first was the 'easy import substitution' until 1975. This phase was concerned with industries that required relatively little capital and technology. Liem used his revenues from trading commodities to diversify into various industrial activities in the first phase of import substitution.[63] However, in view of the relatively small revenues in comparison with the cost of industrialisation, credit from state banks and probably also capital from partners must have played an important role as well.

Liem was well-known for his instinct for selecting the right partners and business opportunities. A person who knows him well explained:

> An example of gut feeling is his move into automotive. The Japanese motor vehicles were the best at the time; European vehicles were not suitable for Indonesian conditions. Yamaha was already taken and Honda was part of Astra. Suzuki was part of a local company. Then Liem talked to the Suzuki sole agency holder in order to ask him to cooperate. He did not want to, but wanted to sell the business for a very high price. In terms of return on investment etc you would say it was too high. But Liem said no, I will buy it. It was very expensive, 50 million dollars or so at the time. And what did he do with it? Suzuki became number two in the market in Indonesia. Intuition is important for him (person close to the group).

> Gut feeling, Liem was very good at that. For example selecting Sudwikatmono as a partner was a brilliant choice; he is a *pribumi*, a cousin of Suharto and really a man who knows his limits (person familiar with the Salim Group).

According to Anthony Salim, the group strategy was opportunistic:

> Actually, it was not planned, not by design but by necessity. And number two, it goes with the opportunity of the country (Anthony Salim).

Apart from textiles and finance, the group set up activities in other sectors where opportunities arose: in flour milling around 1971 or 1972, cement in 1974 and the automotive industries in 1975.[64] In all of these industries, favourable conditions (such as access to credit and exclusive licenses) were created by the government in order to promote the industrialisation of Indonesia and Liem's direct relationships with Suharto facilitated the process.[65] Overseas partners, mainly Japanese, helped the development of the Liem Group by providing technology and knowledge.[66]

In 1972, Anthony Salim returned from his education in the UK and joined the business. While the Salim Group grew quickly several domestic Chinese partners and two of Suharto's children also joined the group in the early 1970s:[67]

> In the early 1970s the group was joined by several new partners, namely Mr. Mochtar Riady alias Lie Mo Tie, Mr. Sigit Haryoyudanto, Mrs. Siti Harjianti Hastuti Rukmana, Mr. Ciputra alias Tjie Siem Hoan, and others.[68]

> It is impossible to manage all the companies alone. For this reason we need partners. For example, in banking we partnered with Mochtar Riady. In real estate we have chosen for Ciputra. If we are talking about the big group, it consists of different partners (Anthony Salim).[69]

> I met Mochtar [Riady] when I happened to be in the same aeroplane. We went to Hong Kong. We then spoke about banks. He had just retired from his position as managing director of the Panin Bank, and was still considering what to do next. I proposed to him: what do you think about managing my bank. He agreed and asked for 25%. I wanted a bit less because I have many family members. I knew he got 23% at the Panin Bank. I offered him 15% and we finally agreed to 17.5% (Liem Sioe Liong).[70]

The fact that Suharto's partners (i.e., selected Chinese businessmen) benefited unequally from the industrialisation process did not go unnoticed. Complaints from students about corruption and the privileged position of Chinese businessmen erupted into violence on 15 January 1974, in an incident that became known as the *Malari* riots.[71] This incident forced Suharto to establish a commission to inquire into corruption. One of the four priority cases mentioned by the commission was Waringin, Liem's trading company, although the case was never pursued.[72]

Thus, from the 1970s onward, the Salim Group became involved in industrial activities on a much larger scale. The Group set up a large number of companies in a variety of sectors, several benefiting from close co-operation with Suharto and his regime. The development of the group is intricately linked to the economic development of Indonesia, and most of the Salim companies produced products for the Indonesian masses. A pattern of diversification – where new companies were started for every new line of business – was apparent from the very beginning. In a favourable business environment with the right high-level political contacts, the Salim Group – as it was known by then – rapidly grows through diversification as well as normal business growth.

2.6 Building Substance

During the period 1974-1981 Indonesia experienced an oil boom, which also helped businessmen like Liem succeed. The positive effects of this boom on the private sector were tax and credit benefits in certain fields as well as increased private and government demand.[73] After the initial import substitution industrialisation period, there was a period of state-led industrialisation focusing on resource processing industries that required more capital. This phase came with more protectionist measures such as restricted foreign investment and trade barriers, and it reversed some of the measures towards liberalisation.[74]

During that time, the Salim family also benefited from its regional Chinese networks around Asia. The Bangkok Bank in Thailand, for example, funded the construction of cement factories.[75] The possibility to tap international – ethnic Chinese – capital was one additional factor that enabled the Salim Group to move from trading into more capital intensive manufacturing.

In this second import substitution industrialisation phase, the Salim Group became involved in steel and chemicals manufacturing during the early 1980s. An example of chemicals was its company Unggul Indah Corporation, which was established in 1983 and began producing alkyl benzene (ingredient used in the manufacturing of detergent) in 1985. Its entry into the steel industry was another example of close co-operation with the Suharto regime. The idea of building a steel industry came from the government and Liem was 'encouraged' to put up 40% of the costs of the steel plant.[76] When asked about their entry into the steel industry the Liem family said:

> We moved into Krakatau Steel to help the government (Liem Sioe Liong).
>
> If you want to invest up to US$800 million it is easier to invest in other factories that make profit more quickly. But this is a special task (Anthony Salim).[77]

To help the Salims finance their part of the deal, the government gave them an import monopoly for steel in the years preceding the coming on stream of domestic production, and allowed for significant increase in prices. In 1985, the import of cold-rolled steel became the exclusive right of Giwang Selogam, a Liem company formed in 1984.[78] State company Krakatau formed a joint venture with Liem and the Ciputra group to produce cold-rolled steel. The cold-rolled steel business was set-up with considerable overseas borrowing, but never made the expected profits. Therefore, the Salim Group withdrew from this business in 1990 by selling its shareholdings to government company Krakatau Steel.

Besides the above-mentioned new ventures, the Salim Group also continuously expanded the capacity of its existing businesses such as cement and flour. Activities in other industries such as real estate, construction and plantations were started as well, usually with domestic or foreign partners. Many of the Salim companies were market leaders or held (semi-)monopolies and were considered closely associated with the presidential family. The press therefore popularly referred to the Salim Group as part of the 'Cendana Trust' after the name of the Jakarta Street in which the Presidential Palace was located.

Anthony Salim argues that a change in strategy occurred as early as 1972, during the period of rapid diversification. In the words of Anthony Salim: 'rather than being driven completely by opportunity, the group began selecting its business opportunities'. This idea is not borne out by other sources, which indicate that the group started to become active in virtually all sectors of the economy in the 1970s, but also in the 1980s. One author even labels the period from 1981-1985 conglomerate diversification into unrelated business.[79]

In the early 1980s, the Liem Group consisted of 54 companies in six fields: trading, automobile, manufacturing, property and construction, finance and timber, logging and miscellaneous (table 2.1).

In the mid-1980s the number of companies started to rise quickly. Having started with just one small company the business of Liem was now a group of separate companies that had grown from 3 companies in 1957 to 225 companies in 1986 (figure 2.1).[80] A CISI report in 1989 recorded 350 separate Liem-affiliated companies. Although known as

Table 2.1 *Salim Group Companies according to Robison*

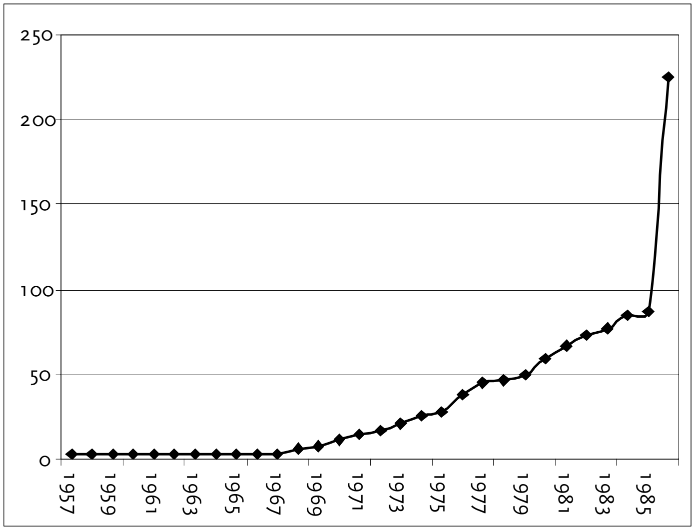
Automobile	**Manufacture**
P.T. National Motors	P.T. Multiatex (textiles)
(Hino, Mazda sole agents)	P.T. Indah Kencana (nails)
P.T. Unicor Prima	P.T. Indara Mas (bicycle tires)
(Hino & Mazda assemblers)	Rubber Refineries
P.T. Indo Mobile Utama	P.T. Tarumatex (textiles)
(Suzuki sole agent & assemblers)	P.T. Pangan Sari Utama (food processing)
P.T. Central Sole Agency (Volvo)	P.T. Bogasari (flour milling)
P.T. Salim Jaya (Volvo assemblers)	P.T. Indonesia Cement
P.T. Harapan Mobil Nusantara	P.T. Distinct Indonesia Cement Enterprise
(Ford distributers)	P.T. Perkasa Cement
P.T. Indohero	P.T. Perkasa Indah Cement Putih
(Suzuki motorcycle assemblers)	P.T. Perkasa Into Abadi Cement
	P.T. Tridaya Manunggal Perkasa
Property & Contruction	P.T. Krakatau Cold Rolling Mill
P.T. Metropolitan Kencana	
P.T. Wisma Metropolitan	**Finance**
P.T. Metropolitan Devt.	Bank Windu Kencana
P.T. Jakarta Land	Bank Central Asia
P.T. Green Land	P.T. Multifinance Corporation
P.T. Jaya Bali	Central Antar Jasa
P.T. Jaya Mandarin Agung	Metropolitan Leasing
P.T. Agung Utama	P.T. Asuransi Central Asia
P.T. Perwick Agung	P.T. Asswansi Java Central Asia Raya
P.T. Asia Nusantara	
P.T. Kabele Asia Nusantara	**Trade**
P.T. Central Sari Int. Builders	P.T. Waringin
P.T. Nugraha Kencana Jaya	P.T. Waringin Kencana
P.T. Cahaya Tugu Kencana	P.T. Permanent
P.T. Central Salim Builders	P.T. Mega
P.T. Rimba Kencana	P.T. Arimono
P.T. Budhi Agung	P.T. Hanurata
Logging, Timber & Miscellaneous	
P.T. Kayu Lapis (plywood)	
P.T. Dono Indah (logging)	
P.T. Overseas Timber Products Corporation	
Indaco Ltd. (tin mining)	

Source: Robison (1986, p. 298-300)[81]

the Salim Group, the companies are separate entities and have no common legal identity. The ownership of the companies is often shared between Liem and other partners.

Faced with a group of companies that was growing rapidly, Liem and his sons started to introduce professional in addition to family management and attempted to decrease the dependency on government contracts.

Figure 2.1 *Number of Salim Group companies according to Sato*



Source: Sato (1993, 1994)

> From 1972 that's when the crossover occurred. When we start to become much more by design rather than opportunity driven. Design in the selection of the business opportunity. The way we set up things. And also managing professionally, establish the concept of holding company, operating units (OPUs), accountability of management (Anthony Salim).

> For a company as large as the Salim Group there is not enough family to take up all the leadership roles. We already have the separation between ownership and management here. The family and partners indeed are still the owners, and slowly we can go public. But our management is already professional. I think we are one of the groups in Indonesia that already had the courage to leave the management and operations to professionals (Anthony Salim).[82]

According to Anthony Salim, the group began to be more market based in its outlook and strategy and wanted to be less connected to the government. Yet various sources indicate that the group was still very much intertwined in government relations at least until the early nineties. Some of its companies received government contracts, licenses beyond maximum quota or special credit facilities. Examples are Indomobil, the automotive pillar of the group that received attractive government orders,[83] or the above-mentioned steel activities of the group. However, the codes of reciprocity also required Liem to step in when needed. For example, when Bank Duta, the majority of which was owned by several Suharto-related foundations, experienced financial difficulties, Liem injected US$200 million in 1990.[84]

After the oil boom ended, in the early 1980s, the Indonesian economy witnessed a setback, and new policies were introduced, mainly aimed at liberalising the economy. In that difficult period, the rupiah was devalued several times, and companies having borrowed abroad suffered during this crisis. P.T. Indocement Tunggal Prakarsa (a Salim company) was rescued by the government, which bought up 35% of the shares for US$325 million in 1985.[85] Despite this, by 1985, the Salim Group emerged as the largest conglomerate in Indonesia, with annual group sales estimated to be over US$900 million[86] and 225 separate companies affiliated with the group in 1986.[87] Liem's business success was attributed to his proximity to the regime, but the Salim Group was apparently also 'good at what it did'.[88]

Thus, in the 1980s the Liem group still grew rapidly and now also moved into new capital-intensive industries such as steel and chemicals. In the difficult period after the oil boom the government stepped in to help Salim Group companies in several industries (cement, steel) by taking over (part of) their shareholdings. The Salim Group also started in numerous other industries and the number of companies affiliated with the group started to rise rapidly. The group was composed of an ever expanding number of legally separate entities that are under ownership of Liem or the Liem Investors.

2.7 The Design of an International Portfolio

Having outgrown its rather small home markets, and probably wanting to diversify their country risk, from 1975 onward, the Salim Group family business had already started expanding internationally to Hong Kong, and other Asian countries. This internationalisation process intensified in the 1980s and 1990s. In the mid 1980s, the Group seriously started its internationalisation efforts. The possibility of Suharto retiring and the business opportunities in the region must have played a role in this. Anthony Salim describes the new non-government and more international strategy as follows:

> From 1979 we started to sort of elevate ourselves from government to market based enterprise. We do understand a lot of political implications, because we try to choose that it is much more on business directions rather than government related business

> – which is still good. Another characteristic is that of course we start to balance our portfolio. We have no pretension to hide that we have started to invest outside Indonesia since 1975, when we created our Singapore and Hong Kong companies (Anthony Salim).

The Liem family established an entity under which most of the international activities were grouped: First Pacific Company located in Hong Kong, but with investments in various countries. First Pacific started in 1982 as First Pacific Finance Limited, initially a financial services company. One of the early directors was quoted saying 'we would be the Liem's window to the world'.[89] In that year, several other companies with similar names were set up and the First Pacific group (listed on the Hong Kong Stock Exchange) started to acquire other companies, among which the Dutch trading firm Hagemeyer in 1983 and a US-based bank. In 1983, the Liems also controlled KMP, a Singapore-based holding company that in turn controlled a number of Singapore-based companies.

During this period, Liem also started investing in Fuqing, his home town, together with Djuhar Sutanto. With a group called Yuan Hong they invested in flour milling, a nearby port, and an industrial park. According to Djuhar Sutanto:

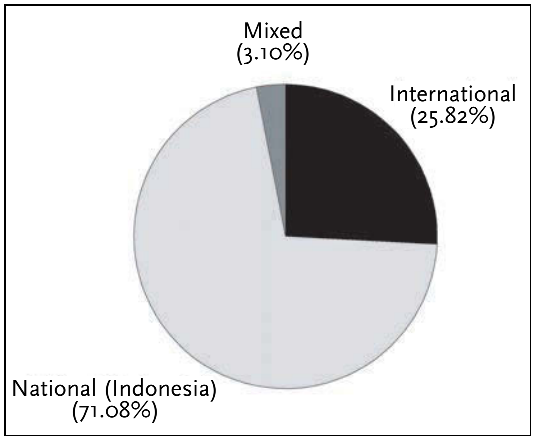
> When we started this in 1987, Fuqing had no factories and no industrial workers. There were no conditions for them – no hotel and only a few antiquated telephones. We had to put in the infrastructure – roads, telecommunications, hotels and a pier', he said. 'Our aim was to do something for our home town, provide work for its people and raise living standards (Djuhar Sutanto).[90]

By the end of the 1980s, the Salim group got access to international business networks, including the international capital market which gave it the option to move into more capital-intensive industries and also more degrees of freedom when it came to choosing its opportunities both in the domestic Indonesian market as well as abroad.

After a period of international diversification, by the mid-1990s, the result was that 25 to 30% of the assets were now outside Indonesia and around 70 to 75% inside whereas prior to the mid-1980s most assets were located in Indonesia (figure 2.2).

The main Salim businesses both in Indonesia and abroad produced for the local markets. When the Indonesian government tried to promote exports rather than industrialisation for domestic consumption only, the Salim Group set up some export businesses (such as shoes)

Figure 2.2 *Internationalisation of the Salim Group*



Source: Salim Group Brochure, 1995-1996

but largely stuck to their domestic business model. Perhaps this is captured by Liem's motto:

> We plant a tree with the purpose of it growing big. What you should not do is to move the tree, which has already grown, to another place (Liem Sioe Liong).[91]

As a result of the deregulation packages of the period 1986-1988, Indonesia's capital market witnessed a structural change because of a rapid growth in banking on the one hand (among those Liem's BCA bank) as well as the rapid development of the Jakarta Stock Exchange.[92] The emergence of the Jakarta Stock Exchange gave the Salim group more access to capital, and they listed various companies on the stock exchange, starting with Indocement in 1989. The listing of Indocement was controversial, since the company had made losses for the previous years, which resulted in the government buying up a significant portion of the shares a few years earlier. A condition for listing was that the company made profits for the preceding two years prior to listing. Indocement could only be listed on the stock exchange because of an exceptional ministerial decree.[93]

> The most publicised aspect of this transformation was the floating in the mid-1989 of new share issues in subsidiaries of about half a dozen of the biggest corporate conglomerates, including ... Liem Sioe Liong's PT Indocement. All of these shares were offered for sale at very substantial premiums ...[94]

Other Indonesian Liem companies followed: Unggul Indah Cahaya (1989), Indofood (1994), Darya-Varia (1994),[95] and Indomobil (1997).[96] With the growth of the region, and the maturing of the capital markets, the Salim Group was now able to tap international capital from banks and investors.

2.8 Summary and Conclusion

Chronologically speaking, we can distinguish a number of different strategies for the Salim Group. It was started by a poor immigrant and was first a small-scale trading business in Central Java. Soon Liem, with his immediate family members, started in other lines of business, but still on a rather small scale.

As soon as the Group had accumulated some capital, it started to be active in a number of other non-trading businesses such as manufacturing and banking. Most of these were industries in which the *hokchia* dialect group was strong. Apart from links to family and dialect group members, Liem also formed partnerships outside the Chinese community, mainly with the Indonesian army.

With the help of high-level contacts, the Salim Group diversified into many industries catering to local consumers. The business of the group became closely linked to the activities of Suharto. The group started to be active in flour milling because of the policy of the government to first and foremost produce (rather than import) its own food to feed its people. This happened in a policy environment of import substitution manufacturing. The main diversification strategy was horizontal diversification into a number of unrelated industries. The group has profited from favourable policies for domestic companies such as licences and financing options from the government. This enabled it to move into various industries such as cement, steel, food, textiles and car manufacturing.

When favourable conditions in industries such as steel were abolished, the group used its connections to move out of these industries or to eliminate its debts. Later, when the group became larger, and when the second generation family members entered the business, international expansion into Asia and Europe became a logical next step. It started in the Pacific region but the Salim Group also established a foothold in Europe and the United States. With the development of capital markets, the Salim Group started to list its companies on various stock exchanges and also got access to international capital sources (table 2.2).

Table 2.2 *Summary*

Period	*Institutional Environment*	*Strategic Choices*
1938-1945 Genesis	- Chinese enjoyed strong position in trading - business context for private business strictly regulated - opportunities in smuggling/ trading	- small scale trading of various products - close cooperation with family members
1945-1957 Army relations	- difficult business environment - demand for basic products - important role of the army - start of a national economy	- initial small-scale diversification - manufacturing of basic products and banking. - supplying goods to the army
1957-1965 Diversification	- nationalistic political environment - slow economic growth - rising power of the army in business	- trade and manufacturing of basic products - further diversification and expansion
1966-1972 Capitalising on Suharto's New Order	- economy improving - army most powerful political actor & very active in business - opening up for foreign investment and international trade - import substitution & protection of local capitalists	- linking up with Suharto to develop economy - evolving conglomerate as new business opportunities arise, e.g., import substitution industries
1972-1980 Institutionalising the business	- flourishing economy - industrialisation - business opportunities exist, especially when linked to Suharto or army	- government connected business - supplemented with international businesses - design the conglomerate: institutionalise & professionalise
1981-1993 Institutionalising the business	- oil crisis and currency depreciation - import substitution efforts halted - export promotion policy - reduced cronyism	- build international businesses - expand local businesses - work with government in order to resolve losses in various industries