4 Fire-Fighting

Uncertainty is always in the equation
Anthony Salim,
CEO & President, Salim Group

4.1 Introduction

The previous chapter described the growth of the Salim Group in the period 1994 to mid-1997. It argued that the group developed rapidly through new investments with partners, growth of existing business and acquisitions. Some of its important businesses were structured along the value chain by following a strategy of vertical integration. In addition a conscious strategy of intra-group co-ordination was carried out by the Salim family. The international division diversified and expanded through acquisitions. All this happened in a business context of high economic growth and government protection for well-connected conglomerates like the Salim Group.

In the period covered in this chapter, the business context is suddenly reversed. The economy contracted, the rupiah was devalued and many companies in Indonesia became insolvent.[1] The Asian Crisis led to an unprecedented decline and near-nationalisation of the Salim Group. Since the Salim Group played such a prominent role in the Indonesian economy, it also played a prominent role in the political and economic crisis in Indonesia. The Salim Group faced the most devastating years of its history.

This chapter covers the period from the start of the crisis in mid-1997 until the end of 2000. It starts with a description of the events leading up to the Asian Crisis, particularly in Indonesia. The dramatic events in the crisis and its effects on the Salim Group are analysed as well as the strategy followed by the Salim Group to cope with the crisis – a strategy of fire-fighting. It discusses the impact on the group's structure, ownership and leadership.

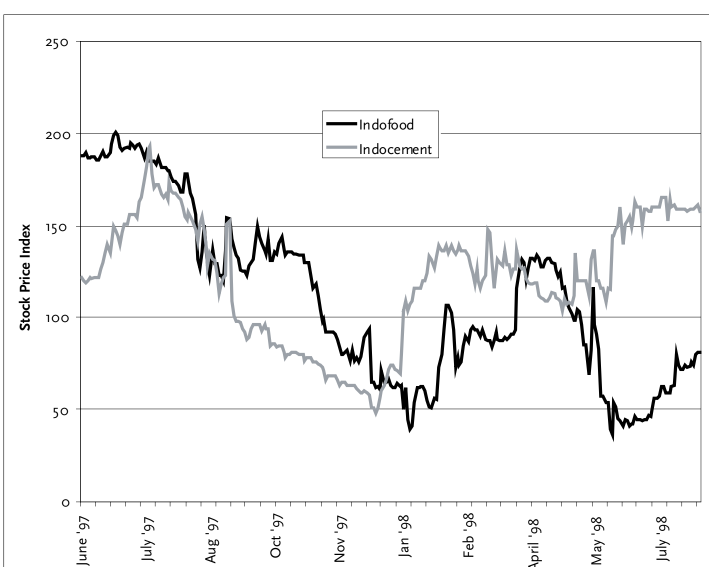
4.2 Unprecedented Problems

In May 1997, the Thai currency started to devalue rapidly, causing a panic among investors in the Asian region. In July 1997, the crisis began to spread to other countries, including Indonesia. The Indonesian government initially assured local conglomerates that the Indonesian currency would not be devalued. This proved unsustainable. After first widening the band, in August, the monetary authorities of Indonesia implemented a free-floating exchange system for the rupiah, which subsequently fell further at a rapid pace. The rupiah, which was valued at 2,450 to the dollar at the end of June 1997, rapidly lost value, reaching a low of 15,000 in June 1998. The fall of the rupiah caused a swelling of corporate debt since companies had most of their loans in dollars, while their assets and income were measured in rupiah.

The results of the crisis were that in 1998 – the worst year of the crisis – half of Indonesia's companies were technically insolvent and the economy contracted by over 13%.[2] The stock exchange fell sharply to a third of its previous level, particularly in the last quarter of 1997 and Salim company stock prices fell as well (see figure 4.1).

The vulnerability of the corporate sector in the region was clearly demonstrated by Pomerleano,[3] who analysed the health of the corporate

Figure 4.1 *Indexed Stock Prices of Indofood and Indocement*



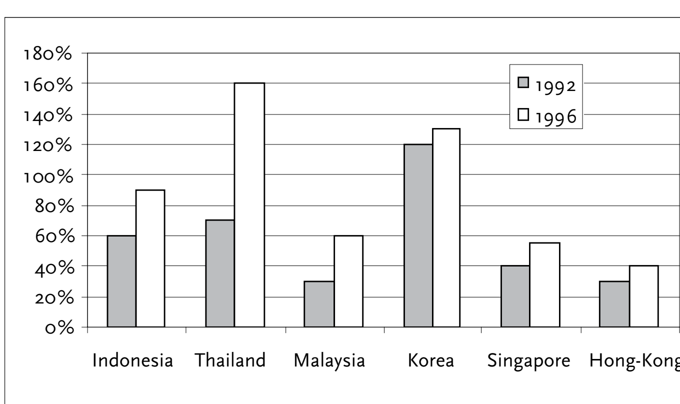
Source: Jakarta Stock Exchange

sector in various countries prior the crisis, and concluded that Thailand, South Korea, and Indonesia were the most vulnerable (figure 4.2). During a time when capital was pouring into Southeast Asia, many businesses, among them the Salim Group, had started borrowing heavily from foreign banks, which offered substantially lower interest rates than local banks. Moreover, most companies, including the Salim Group, expanded rapidly – which required extra capital. The result was a general rise in the debt-to-equity ratio of many Asian companies, and an increase in dollar denominated loans, making the corporate sector vulnerable to currency fluctuations. According to an IMF report the external corporate debt rose from US$34 billion in 1996 to US $60 billion in early 1998.[4]

The Indonesian economist, Thee, mentioned comparable figures: the total foreign debt of Indonesia was US$138 billion, of which US $64.5 billion was private debt.[5] Even worse, many of these foreign currency loans were short-term. Indofood, for example, saw its proportion of US$ short term loans as a percentage of total short term borrowings rise from 11% in 1994 to 49% in 1996, the year prior to the crisis. Most Salim companies experienced more vulnerability to currency fluctuations, as is demonstrated by their proportion of US$ loans as a percentage of their total loans (see table 4.1). Indofood admitted it had hedged only 15% of its debt, and was forced to issue a profit warning in October 1997.[6]

As it became clear that the corporate sector experienced widespread problems paying foreign debts, the government appointed a special commission of five people (the Private Foreign Debt Settlement Team) that was to investigate the matter. Anthony Salim was one of the mem-

Figure 4.2 *Corporate Leverage in Selected Countries*



Source: Adapted from Pomerleano (1998, p. 8)

Table 4.1 *US$ Loans for Major Salim Companies (% of total)*

USD Loans	*1994*	*1995*	*1996*	*1997*
Indofood	37%	54%	63%	77%
Indocement	29%	40%	54%	96%
Indomobil	n.a.	n.a.	51%	71%
UIC	88%	100%	98%	99%

Sources: annual reports of mentioned companies

bers. The committee, in January 1998, concluded that 228 Indonesian companies had experienced problems paying their foreign debts.[7] Anthony Salim also sat on a committee called DPKEK (Council of the Stabilisation of Monetary and Economic Resilience) which advised on the macro-economic situation during the crisis.

Unfortunately, problems were not restricted to the private sector. When the rupiah entered a free fall, Indonesians started withdrawing money from ATMs and converting their money into dollars *en masse*, amidst a panic among the population as well as within the banking sector. Many Chinese businessmen had already started bringing their capital abroad. Since the 1988 deregulation, the financial sector had seen a quick rise in the importance and number of private banks. However, financial institutions were generally not properly monitored, and many banks were stuck with increasing amounts of non-performing loans[8] and withdrawals. It was a phenomenal blow to an already fragile banking system. The government sought the assistance of the International Monetary Fund (IMF) and signed an agreement in October 1997. In November 1997, sixteen banks were closed as a result of IMF demands. As a consequence of the crisis, most of the banks were on the verge of collapse and were given life-saving injections from the Bank of Indonesia (the liquidity assistance was called BLBI credits).[9] Many conglomerates had also used their banks for intra-group lending, something officially not sanctioned but a widespread practice in Indonesia.[10] When the conglomerate companies started to experience problems, their banks naturally also experienced problems in the form of bad loans.[11]

Aside from the crisis in the private sector and the collapse of the banking sector, the economic crisis in Indonesia also led to a political crisis. By the end of 1997 it was clear that the crisis was more serious than expected and a new agreement with the IMF was announced in January 1998. The IMF package of policies agreed to included lowering tariffs on various products, including those that had been beneficial to Salim companies such as wheat and chemical import tariffs, the lowering of the automotive sector protection rate, and the abolishing of the restrictive distribution arrangements for cement. Suharto was apparently reluctant to commit himself to the IMF agreements, which meant the abolition of privileges for all of the people around him.[12] Relations with IMF became strained. While the economy continued to worsen, a third IMF agreement was announced in April 1998. Suharto's health – he was now 76 – also led to speculations with regard to his succession and for the first time in decades, Suharto's position came under increasing pressure.

In early 1998, economists started to voice open criticism of how the government had handled the crisis.[13] Despite this, Suharto was re-elected in March although his credibility was declining. His new cabinet, which also included allies like his daughter Tutut and Bob Hasan, an ethnic Chinese businessman, was not well received. In January and February 1998, there had already been some scattered riots against small Chinese businesses, and the Chinese were afraid of being scapegoated for Indonesia's problems. A panic emerged and many people started to hoard food. Daily demonstrations by students against the regime became the norm. Liem and some other rich Chinese started distributing food parcels to the families most affected by the crisis.[14]

By May 1998, large-scale and devastating riots erupted. Public anger, aggravated by mounting prices for food and other basic needs, was mostly directed at the Suharto family and his so-called cronies. The latter were mostly Chinese businesses, among which the Salim Group was considered the largest. In practice, all companies small or large that were suspected of being Chinese owned were attacked by rioters while physical violence against them also occurred. Indonesia witnessed yet another period of violence against the Chinese minority and, amidst widespread riots, the Salims' family home in Jakarta was set on fire as well as several branches of their BCA bank.[15] This unrest forced Suharto to resign on 21 May 1998 and hand over power to vice-president Habibie. After Suharto stepped down, a movement arose to fight corruption and cronyism. The common term in Indonesia is 'KKN' – corruption, collusion, and nepotism. The backlash against the 'Suharto way of doing things' was to have serious repercussions for all contracts and businesses linked to the Suharto family – including the Salim Group.

Habibie's presidency was fairly short (from May 1998 until October 1999) – and fairly troubled because of the ongoing crisis. After the elections in 1999, President Wahid, nicknamed Gus Dur, took office as the economy was showing signs of turning around, but it did not grow significantly either. Wahid apparently realised that Indonesia could not recover without the capital and talent of businessmen. Some of the conglomerates, including the Salim Group had simply grown too large to fail. He negotiated a deal so that the Chinese-Indonesian business tycoons would return the money that they had taken out of the country

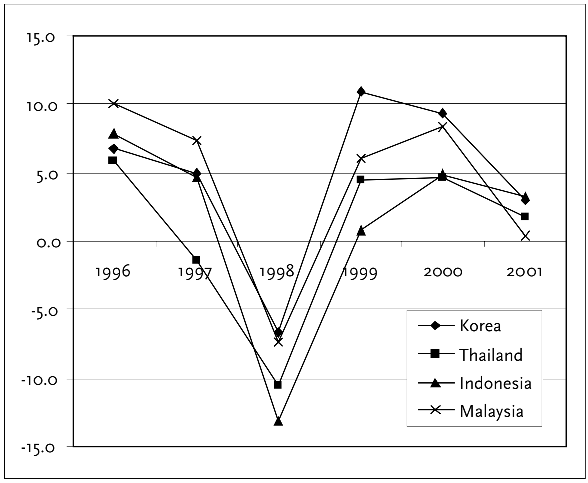
– estimated to be between US$10 and US$80 billion. One of Wahid's first actions was to visit Singapore in November 1999 and talk to Chinese-Indonesian businessmen. Liem was reported to have been in the audience with Anthony Salim and to have agreed to return to Jakarta and resume his investment activities there.[16]

Some trials against former power brokers began, notably Suharto's son Tommy (who went into hiding but was later convicted and sent to jail) and Bob Hasan (also convicted). Several scandals involving corruption and nepotism came to light.[17] Another movement that threatened the stability of Indonesia was that several regions were now demanding greater autonomy. Wahid made national unity a priority and announced a process of decentralisation, which did not lessen the 'cost of doing business' (i.e., corruption) but made it less centralised. Wahid's government was generally plagued with problems, prompting a comment that 'economic recovery remains hostage to politics, with the diverse coalition that makes up the cabinet unable to provide strong and effective government'.[18] Only in 2000 did the economy show signs of some growth (4.8%) but the institutional context (government policies, bureaucracy, legal system) did not undergo any substantial changes.

The recovery from the crisis in Indonesia was slower than elsewhere in the region. According to one economist: 'owing to its weak financial and economic structures and institutions, Indonesia was unable to withstand the severe shock of the currency crisis. A political crisis arose that rendered a speedy economic recovery more difficult and intractable than in South Korea and Thailand'.[19] The other regional economies also experienced a deepening economic crisis, which affected most of the companies included under the umbrella of First Pacific in Hong Kong and KMP in Singapore as well, although the effects of the crisis were less devastating for this group than those in Indonesia, which had the extra burden of a political crisis. The GDP growth in various Asian countries reveals the depth of the economic crisis and the length of the recovery (see figure 4.3).

To summarise, the Asian Crisis in Indonesia caused corporate debt problems as well as a collapse of the banking sector. During the subsequent political crisis the favourable regulatory environment for the Salim Group was abolished, and formerly valuable political connections turned against the group. The political crisis and anti-Chinese mob violence posted a direct physical threat to the Salim family and their assets. The business context in this period can best be characterised as extremely hostile.

Figure 4.3 *GDP Growth in selected Asian Countries*



Source: ADB statistics

4.3 House on Fire

During the first months of the crisis, the group continued its strategy of rapid growth and aggressive acquisitions. It was involved in several large bids and take-over attempts. These included a hostile take-over attempt of San Miguel (a listed Philippine brewer) and a bid for a large stake in the second-largest Indonesian private bank, Bank Danamon, in November 1997.[20] Both deals eventually failed to materialise as a result of the unfolding crisis.

Besides its acquisition plans, however, the Salim Group also acted quickly upon the emerging economic crisis. When asked whether he had prepared for the crisis, Anthony Salim said:

> Yes, uncertainty is always in the equation. Pak Suharto cannot live forever. Number 2, we already started to institutionalise our businesses. Market based put into our consideration. Whatever the changes in politics, it's going to have an impact on macro-micro. Since we are in the market, we are somehow implicated. There is a public perception that we are close to Suharto, which is true, we don't deny it. We did things the best way we knew how at that time – three things: we distanced ourselves from government contracts, which at that time was a fruitful business – the last 20 years no government contracts; having market orientation for our business direction; we always do business

> based on the regulations, prevailing law. Our family is always top ten 10 tax payer in Indonesia (Anthony Salim).

The first action taken by the group when the crisis broke out was an attempt to bring Indofood, its largest Indonesian company, under the umbrella of a foreign Salim company. Its first choice was the much smaller Singapore-based QAF.[21] In order to do this, a rather complicated set of transactions was proposed by Indocement, Indofood and QAF to the shareholders. Indocement owned a majority (50.1%) of the Indofood shares, and it distributed those among its shareholders (i.e., the majority to the Salims themselves). The Liem investors subsequently sold their stake in Indofood to QAF in Singapore. Because the government owned 26% of Indocement (and had also received Indofood shares) it had a large say in the deal. The attempt to move Indofood offshore received explicit approval from the government, as voiced by various ministers.[22] By virtue of its share in Indocement, the government now also owned 10% of Indofood as a result of this transaction. In order to maintain the majority ownership of Indofood, the Salim family had partnered a close business friend, Putera Sampoerna, owner of another Indonesian group, to also take a 6% stake in the company. This was necessary to maintain full control over Indofood.

These moves were discussed in the Indonesian press as 'capital flight', although this was denied by the Salim Group and the government. The unusual step was taken to allow media interviews with spokesman Benny Santoso, who had the difficult task of explaining this move in terms of synergy and attracting more capital in the lower risk environment of Singapore.[23] Just how much synergy you can achieve when you are a giant bought by a little dwarf remained up in the air. This action sparked suspicion in Indonesia that a change in political power was in sight. One former minister, interviewed for this study said 'if a group like Salim engages in capital flight it indicates a shift'. There were indications that the Salims also planned a similar move to sell Indocement to a foreign company.[24]

However, the events that followed distracted attention away from this deal and the Salim Group had to focus on more urgent issues as the crisis worsened, which included a negotiated pay off or restructuring to deal with the mounting dollar denominated debts. An example of this was Indocement, which declared a moratorium on its debts because it could not afford to pay them any more. The company had started a large and expensive expansion at the wrong moment, financed it with dollar loans which mounted as the rupiah depreciated, while the demand for cement in Indonesia declined rapidly. Other companies also accumulated huge debts and had not hedged their foreign currency loans.

> In the past every business you touch becomes gold. You think that the things never end. For example in cement, we started with 1 million, then 3 million, become 6 million tons, and then you're dead (Anthony Salim).

> I believe Anthony Salim missed a chance. His financial advisors told him to hedge, but he calculated that it would cost him in the area of US$80-100 million and he considered this too much. Then the crisis came and it turned out he made a mistake. He had taken a lot of credit at the BCA bank in order to save his companies. This was of course against banking regulations (person close to the Salim Group).

> The debts (of the Salim Group) accumulated because they overvalued their assets. There was no proper check on financial institutions – this was for political reasons. It was in nobody's interest to have a functioning system of checks and balances. In general, the rules in Indonesia are not followed, because they can be bent by political connections (international journalist).

But the Salims were not alone in their misery. Anthony Salim, who was appointed by the government to negotiate with private sector creditors, was quoted as saying 'It's as if you're sitting on the Titanic. If Indonesia sinks, all the corporations will sink'.[25] While most Indonesian Salim companies were indeed sinking quickly and approaching insolvency, an even more serious problem for the Salim Group arose: the collapse of BCA, which had become the largest Indonesian privately owned bank. Siti Hardijanti Rukmana (Tutut) and Sigit Haryoyudanto, two of Suharto's children, had a combined 30% stake in BCA, and with Suharto's position under pressure, all kinds of rumours spread in Indonesia. On 14 May, newspapers reported the first mob attacks of BCA branches. The next day, newspapers reported that angry mobs burnt and looted the Salim family home, and many Chinese tried to rush to the airport to flee to Singapore or elsewhere while Jakarta was ablaze. The *New York Times* later reported:

> Rioters had dragged out and slashed a portrait of his [Anthony Salim's] father and spray-painted the words 'Suharto's dog' on the gate. Reluctantly, Mr. Salim caught the next flight to Singapore. 'If your house is already burned, the next thing they would try to do is get the people,' he explained in a rare interview here. 'You don't want to get caught in the middle of something like that'.[26]

Part of the widespread violence and panic was a bank run on BCA by worried customers. For weeks people were lining up to withdraw their money from the bank.[27] On 19 May, after some days of violence, the bank announced that 122 branch offices and 150 ATMs had been destroyed.[28] After days of continued withdrawals, the newspapers reported on 28 May 1998 that BCA was placed under state supervision.[29] The Salim family had, according to the interview with Anthony Salim, as well as news sources, tried hard to rescue and recapitalise the bank. But they did not succeed and handed over BCA to the government for recapitalisation.[30] Other sources tell a different story and claim that Salim had used the bank's money to save other companies:

> When there was a rush on their (BCA) bank, people did not end up withdrawing 53 trillion rupiah. That is a lot of money. Conservatively estimating, maybe 25 trillion. They used the other half to channel into their corporations (former minister).

Within the hostile environment of riots, political chaos, and panic, the Salim Group's management withdrew to Singapore for a few weeks to see how things would transpire from a political perspective. The direct attacks on the Salim family, with their family home torched, made Jakarta too dangerous a place. Although Anthony Salim returned, his father remained in Singapore and never returned to Indonesia after the crisis. As a result of the collapse and nationalisation of the BCA Bank on 28 May 1998 the Salim Group became by far the biggest debtor to the government, owing some US$5 billion. This amount included the pay-back of capital injections into the BCA bank (3 billion US$) and a fine for violating the inter-group lending limits.[31]

As Suharto stepped down, suddenly open criticism of companies previously close to Suharto became possible. As a result of this anti-KKN movement, several recent Salim contracts came under pressure, one of them being the recently signed Jakarta City drinking water project that the Salim Group had embarked on together with France's Suez Lyonnaise des Eaux,– which had clearly benefited from its close relationships with the former Suharto regime.[32] The Salim group was forced to withdraw from the venture. A Salim property project along Jakarta's coast was also cancelled.

Most of the already technically bankrupt Salim companies experienced further setbacks as the demand for products in general in Indonesia dropped. This was particularly true for luxury items such as cars and personal computers. Car sales dropped 83% in 1998 – which meant that companies like Indomobil posted losses and their partner threatened to pull out. Volvo, one of Salim's partners, issued a statement that they were revising their strategy for Indonesia.[33] Other Salim

Table 4.2 *Profits of Selected Salim Companies during the Asian Crisis*

Profit/Loss (US$ million)	*1996*	*1997*
Indocement	235	-130
Indofood	150	-412
Indomobil	46	-139
UIC	18	2

Sources: annual reports. N.B. not corrected for cross-ownership

companies in Indonesia were no better off; their main cash cows Indofood and Indocement also reported losses in 1997 (table 4.2).

First Pacific, the international division of the group, also suffered. Its subsidiary Metro Pacific started to post losses (over a troubled property project in the Philippines) and First Pacific announced a strategy of selling off investments in a variety of companies. It first raised US $2 billion by selling Hagemeyer, a Dutch trading company, and a few other companies.

The sale of Hagemeyer, which was the foothold of the Salim Group in Europe, meant that First Pacific again became a conglomerate completely focused on Asian markets.[34] The money was subsequently used to strengthen its existing businesses and invest in new acquisitions. One of the acquisitions was a majority stake in Philippine Long Distance Telephone (PLDT) for US$749 million (*Financial Times*, 1998a, 1998b).[35] When it became clear that QAF could not buy Indofood, First Pacific came to its rescue and in December 1998, First Pacific acquired a controlling interest in Indofood.[36]

4.4 Indonesian Bank Restructuring Agency

The government had established the Indonesian Bank Restructuring Agency (IBRA) on 27 January 1998 as a consequence of agreements made to obtain IMF assistance.[37] IBRA was to oversee the ailing (but still viable) banks. As of May 1998 this included the formerly Salim-controlled BCA bank, along with most of the Indonesian banking sector. IBRA was supposed to recover the banks' debts, either in cash or in assets. Assets that IBRA received were subsequently sold on to investors or the general public, with the proceeds flowing back to the state.

Unlike the average scruffy Indonesian government institution, this entity had the appearance of an investment bank, with young well-trained staff members and a shiny building. Its employees were mostly from investment banks, whereas its chairmen (it was a revolving door of chairmen in the short period of IBRA's existence) were political figures. IBRA quickly became one of the most powerful institutions in Indonesia as they managed assets worth a third of Indonesia's GDP and most of the large conglomerates were its 'patients'.[38] Its mission as described in the strategic plan for 1999-2004 stated:

> to aid economic recovery through the restructuring of the banking sector and corporate debt, and to maximize the recovery of state funds to reduce pressure on the government budget.[39]

IBRA requested the former owners of those banks under its supervision to inject new funds into their banks, which the Salim Group agreed to do in August 1998.[40] In that same month, the chairman of IBRA revealed that besides having to pay back the liquidity assistance provided by the central bank to keep BCA running, the Salim Group also violated the legal lending limit, for which it also had to pay as well. In total the amount to be paid was agreed to be over US$5 billion. According to Anthony Salim,

> Our approach is: OK, we open up. We don't believe that negotiations should be hide and seek. This is our wealth; now let's negotiate how this is going to solve the problem (Anthony Salim).

IBRA officials who frequently negotiated with him during that period confirm that he laid his cards on the table – but he remained a tough negotiator. Anthony Salim, as well as sources in IBRA, confirmed that he offered a list of his companies, and IBRA was able to choose the most liquid assets. Despite these statements, the majority of the Salim-owned shares in its cashcows such as Indofood and First Pacific, were not surrendered. According to Anthony Salim the reason for this was that the shares were pledged as collateral for certain loans. This may have been true – but in any case, it was very convenient, and it allowed the Salim Group to hold on to a few of its most important companies. According to some IBRA employees, this was 'a political process'. One of them stated:

> Within IBRA Anthony Salim laid down his cards on the table, but it was still a poker game. He is smart. Asks us for our conditions first. We would like to have the liquid assets, like Indofood shares, but it turns out that there is a condition, that if he has less than 51% ownership, his bank loans become immediately payable. Obstacles arise. Instead he offers Indomobil. Anthony Salim is very tough to negotiate with (IBRA employee).

In September, the Salim Group reached an agreement with the government to pay its obligations of US$5 billion by transferring stakes in over 100 companies.[41] Anthony Salim and a few other tycoons arranged the transfer by signing a Master of Settlement and Acquisition Agreement (MSAA) with the government. IBRA employees, who had negotiated with various tycoons at the time, claim that the Salim Group was co-operative and the most professional. The administration of its companies was excellent, which was the reason that the transfer took place in such a short period of time.

> They have centralised financial control, a team of maybe 100 people work on the holding level. When we took over the assets it was easy to get the data, they were easily available at Salim because of their centralised financial system. ... They have grown so big only because of this way of running things (IBRA employee).

> Salim is known to keep very good records, very detailed records. This is the reason why IBRA was able to acquire and dispose of the Salim assets in such a short period of time – it was because of the thoroughness of their data. Besides the case of the sugar plantation, the figures provided by Salim were basically quite accurate (IBRA employee).

In 2000, it appeared that Salim family (and other conglomerate owners) assets surrendered were worth much less than the promised value. Meanwhile, Anthony Salim agreed to pledge more assets.[42] Enemies of the group described it as 'theft'. A former minister interviewed for this study, for example, noted that:

> They transferred companies worth 53 trillion rupiah. But when these assets were audited again, the value of them was only 20 trillion, so we are talking about theft here. But the Salim Group was one of the most co-operative groups. Others were far worse. Now these Salim assets are with the government, with IBRA. What solution they took was also vague. The government's losses were huge. If we had a choice it would be better not to have this type of conglomerates in the future.

In July 2002, it was agreed that the Salim Group had to pay IBRA an extra US$107 million (or 960 billion rupiah) for misrepresenting asset values.[43] These reports as well as the interviews show that their involvement with IBRA was a process of continuous negotiation – a game of give and take played not only at IBRA level, but also at the highest political levels. The Salim Group wanted to have a document stating that they fulfilled their obligations by paying off their debts, the so-called Release & Discharge (R&D) document. According to an IBRA employee:

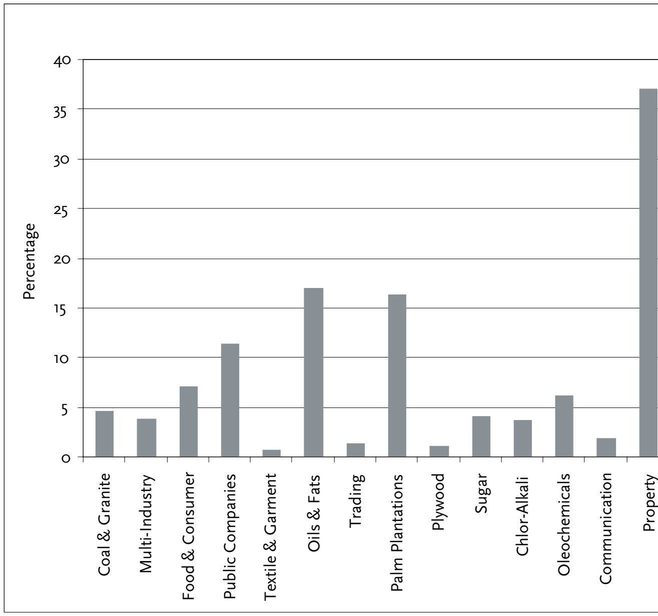
> While the asset disposal was progressing, the Salim Group had in the meantime, on another level, been working towards the R&D document. Surprisingly, the five names on the list to obtain this release and discharge document included two small debtors and Anthony Salim, Sudwikatmono, and Risjad – the three Salim Group owners. There is political activity at another level. Anthony Salim has connections with IBRA chairman and with various ministers, etc. as well (IBRA employee).

Much of what has happened has not been transparent until now, but the interview results show an interesting dual image of the Salim Group. From the side of the former ministers interviewed, the Salim Group is portrayed as immoral because of their attempts to gain as much as they can and to leave their debts behind for the government to pay; while IBRA picture was that of a group of very smart and respected businessmen who were 'squeezed' by politicians because they were the most co-operative.

Following the agreement with the Salim Group, a special company named *PT Holdiko Perkasa* was established under IBRA to receive, manage, and sell the shares and assets of 107 Salim companies on 14 December 1998. Among the transferred shares was a majority stake in the publicly listed company Indomobil (72.63%) and smaller stakes in Indocement (13.2%), Indofood (2.5%), Astra International (24.27%), QAF (20%), and First Pacific (5%). Apart from the 13.2% stake of Indocement held by Holdiko, IBRA owned a further 6.6% and the government was also a shareholder, owning 26% of the company. Therefore, Indocement was then fully controlled by the government. Meanwhile, Salim family managed to maintain control of First Pacific.

The remaining 89% of the value came from private companies. These included palm plantations; oils and fats; sugar; coal and granite; plywood; television; textiles and garments; chlor-alkali; oleochemicals; food and consumer products; trade; multi-industry; and property. The industry composition of these companies in terms of value is shown in figure 4.4.

Figure 4.4 *Salim Assets transferred to Holdiko Perkasa, % of total value*



Source: Holdiko Perkasa Memorandum 1999, p. 7 [44]

4.5 Salim Asset Disposals

BCA Bank was declared solvent by the government on 25 April 2000, and IBRA listed the bank through an initial public offering of 22.5% of IBRA's total shares on the Jakarta Stock Exchange on 31 May 2000.[45] The Salims' stake in the bank had been taken over by the government except for a 7% share while a new management had been installed with the task of restructuring the bank. Surprisingly, a few of the new bank executives came from Indomobil, another Salim company. The result of the IPO – proceeds worth 109 million dollars – was considered disappointing.[46] An IBRA employee remarked:

> The Salim Group was unable to get back Bank Central Asia. Anthony Salim was not allowed to participate in the bidding process because it was too political. Too bad because otherwise the government could have probably gotten a higher price for BCA (IBRA employee).

Under the leadership of Scott Coffey Holdiko Perkasa swiftly started to sell the assets under its management to investors. According to interviews with IBRA employees, the process promised to be relatively quick because of the professional management of the Salim Group, and its adequate financial administration of the companies transferred. After some discussion in the government, it was agreed that the former owners could not buy back their assets for the next two years.

In 1999 and 2000, several disposals took place. In the first quarter of 2001, the total proceeds amounted to approximately US$1 billion. Shares in listed companies were sold and the private companies were disposed of by means of tender processes. The stakes in those companies that were joint ventures with foreign partners were mostly sold to the partners. Several companies were acquired by foreign investors, such as the palm plantations, which were bought by Guthrie from Malaysia and a stake in Astra, the largest Indonesian automotive company, which went to a consortium led by a Singapore company (see table 4.3).

4.6 Leftovers and Asset Shuffles

The strategy of the Salim Group during this period was to focus completely on fire-fighting and dealing with its debt problems with the banks and the Indonesian government. As many companies started to post losses, the growth strategy of 1994-1997 was reversed into one of shrinking, restructuring, and selling.

However, the Salim family did not abandon its debts (as APP, a large listed company belonging to Sinar Mas Group, the second largest Indonesian conglomerate, did) and negotiated as smartly as they could to fulfil the demands of both the government and the creditors. In the process, they handed over large parts of the Salim empire, while they managed to hold on to a few of their most profitable assets in Indonesia (i.e., Indofood) as well as some non-Indonesian companies.

Besides those companies transferred to the government, the Salim Group also tried to sell off their non-core assets outside Indonesia. Apart from Hagemeyer, which has already been mentioned, other assets sold included property and supermarkets in Singapore.[47] The Salim Group had several investments in Singapore. They initially tried to sell a 23% stake in United Industrial Corporation (UIC) to a company named HKR. After that deal fell through, they finally sold the stake to the JG Summit Group from the Philippines for an estimated US$194 million.[48]

Besides selling off their assets, there were also internal changes within the group that were meant to raise money or shift control, for example to bring one Salim company under the control of another, or to merge one Salim company with another. A recurring theme was that

Table 4.3 *Assets Disposals by Holdiko in 1999 and 2000*

Company Name (Shareholding)	*Product*	*Buyer*	*Proceeds*
PT Pacific Indomas Plastics Indonesia (50%)	Polystyrene	Dow Chemical Company (JV Partner)	US$ 4 million
PT Indofood Sukses Makmur (2.5%)	Food	Market Placement	US$ 38 million
PT Standard Toyo Polymer (49.3%)	Polymer	Tosoh Corporation and Mitsui Co. (JV Partners)	US$ 15 million
PT Astra International Tbk. (22%)	Automotive	Cycle & Carriage Consortium	US$ 177 million
Wisma BCA	Property	Keppel Land	US$ 29 million
Karimun Granite (17.25%)	Granite	PT Pendawa Sempurna	US$ 2 million
QAF Ltd (19.44% + 4.76% held by IBRA)	Food & other	Market Placement	US$ 20 million
Salim Oleochemicals Group	Natural fatty alcohol	Bhakti Investama Group consortium	US$ 127 million
Indomilk Group	Dairy products	Bakti Maju Bersama Abadi (JV Partner)	US$ 42 million
PT Indomiwon Citra Inti	MSG	Daesang Corporation (Joint Venture Partner)	US$ 9 million
Mosquito Coil Group (100%)	Mosquito coil	Reckitt Benckiser Plc	US$ 63 million
Salim Palm Plantation	Palm plantation	Gumpulan Guthrie Berhad	US$ 375 million
PT Indocement Tunggal Prakarsa Tbk. (13.2 + 6.6%)	Cement	Market Placement	US$ 63 million
First Pacific Company (5% + 4.9% by IBRA)	Various	Market Placement	US$ 76 million
Total			US$ 1,040 million

Source: Holdiko, 2001. All figures have been converted to US$ using the end-of-year rupiah rate of 2002 [49]

these asset shuffles usually did not succeed because of objections from creditors or minority shareholders. When the Salims tried to transfer Indofood out of the country, it was finally bought by First Pacific, another Salim Group company. The Salim Group sold most of its shares in Indofood to First Pacific at a discount but maintained control (by virtue of their majority shareholding in First Pacific). The sale of the shares was done to transfer Indofood's ownership abroad, but the Group also converted its shares into much-needed cash. Similar transactions of shifting company ownership were planned in Singapore with QAF. In 2000, QAF announced that it would take over Yinfu International Ltd. edible oil refineries (based in Fuqing, China) and Shanghai

Yinfu Oils and Fats Industries Co Ltd. Due to 'certain legal and regulatory issues' the agreement was later annulled.[50]

A number of transactions suggested that the Salim Group was preparing for a comeback. The QAF shares sold by IBRA were bought back and the company remained under Salim control. In May 1999, Indomobil's debts to Bank Central Asia were assumed by the Salim family, by means of issuing bonds to the Salim family which could be exchanged for shares in Indomobil after three years.

Furthermore, Indocement was special because it was the only company in which Liem Sioe Liong maintained a position on the board, which probably indicated that the Salim Group was eager to hold on to this company. By 1998, when Indocement nearly collapsed under its debts, Anthony Salim had already found a partner for the company. Initially, Anthony Salim came to an agreement with the German multinational Heidelberg Cement Group to share ownership, but the government prevented this deal by forcing the Salims to hand over control of their company Indocement. A manager of Heidelberg Cement Group, who purchased shares of Indocement said:

> The government finally told me, we are now in control, and even though we know you have a deal with Anthony Salim, we don't want you to enter into a 50/50 partnership with him, because he is no longer very much liked in Indonesia. Make it a minority share. I told them I needed a local partner with knowledge. So, finally I ended up, against my wishes, buying 65% of the company, with Anthony Salim owning 13% (Heidelberg Cement manager).
>
> I will tell you a story about Indocement. Two days before IBRA opened the bidding, the market was reporting that Heidelberger Cement was interested. And that Heidelberger already had an agreement with Salim in Hong Kong. A back-to-back arrangement. So, we contacted Heidelberger's management and told them that if this was true, they would have to pay a fine. They responded by telling us that they had a 50/50 agreement, where Salim would manage it. I told Heidelberger that cement is not high technology, and that they can manage it themselves. So they cancelled the deal with Salim (former Indonesian minister).

The government also pressured Salim on other fronts as well, especially those businesses considered 'crony' businesses. A European partner said:

> The pressure on the Salim Group became enormous, during that period they feared for their lives. When they had some idea that a Chinese hunt would become reality, they tried to moving everything out of Indonesia. The government was not fond of Salim, and forced them out of our joint venture. ... We did not want to lose the Salim Group's co-operation , and we were unhappy with this development. When you do business in a country like Indonesia you need to find a local champion, who can solve problems when they occur, someone with good ties to the government (Western partner of the Salim Group).

The Asian Crisis forced structural change upon the Salim Group and it ultimately became a smaller and different enterprise. The portfolio ended up consisting of First Pacific, which, in turn, controlled Indofood and PLDT, a major Philippine telecom operator. Moreover, the focus was now completely on Asian markets, in particular Indonesia and Philippines, after it sold off all of its European assets (Hagemeyer).

4.7 Leadership

In the previous chapter I demonstrated that Liem Sioe Liong was in the process of handing over his central leadership role to Anthony Salim. The Asian Crisis accelerated this process because Liem did not return to Indonesia, remaining in Singapore after the May 1998 riots. The very critical negotiations with the Indonesian government were thus handled by Anthony Salim. As is shown in table 4.4, Liem withdrew from all of Salim's boards of executives (except Indocement). Some managers, however, noted that he still played a role in the background, but the decisions – including those involving IBRA – were

Table 4.4 *Board Memberships by Liem Investors and Benny Santoso*

Name	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Andree Halim	3	3	3	3	2	3	3
Anthony Salim	4	5	5	5	5	5	5
Benny Santoso	3	3	3	3	3	2	3
Djuhar Sutanto	1	2	2	2	2	2	2
Franciscus Welirang	1	2	2	3	3	3	3
Ibrahim Risjad	2	3	3	3	3	3	3
Liem Sioe Liong	4	4	4	4	3	1	1
Sudwikatmono	2	3	3	4	3	2	1
Johny Djuhar	1	1	1	1	1	1	1
Tedy Djuhar	2	3	3	3	3	2	2

Source: Board membership database compiled by the author now made by Anthony Salim. When it became necessary to make statements to the press, he would send Benny Santoso instead of appearing himself.

The Salim Group had enjoyed close ties with Suharto prior to the crisis, but these ties evaporate during the crisis. With public sentiment running against any company associated with the previous regime, Anthony Salim manoeuvred carefully in this environment. On the one hand, he co-operated with the new government and met its demands (albeit, after tough negotiations). On the other hand, he never betrayed Suharto in public, despite the fact that everybody was rushing to distance themselves from the Suharto family in late 1998.

The policy of many Chinese in Indonesia to turn more to the outside world, which had been the trend in the period prior to the crisis, was reversed. The Salim family largely disappeared from the news, using Benny Santoso only when it was absolutely necessary to explain sensitive strategies such as the shift in ownership of Indofood to offshore. By adapting to the new situation without abandoning their old friends, the Salim Group chose to maintain a delicate balance – and at some points in time it was uncertain whether Anthony Salim would be arrested or not. The following story was told to me by a Salim manager:

> During the crisis, we received some information that Anthony Salim was going to be arrested and put in jail. So we went to pray in his office. He saw us and asked 'what are you doing?' We said we are praying for you. 'Why?' Because we are afraid that you are going to be arrested. To which he responded, 'If I have to go to jail, I will go, it is my responsibility'. We were surprised, but this was his attitude (Salim Group manager).

At that time, the possibility that the government might completely dismantle the Salim Group with its leaders facing imprisonment was a very real scenario. Anthony Salim himself narrates the story as if the crisis and the new government's policies were a given. Within this framework, he looked for the best solution for his companies.

> We talked to the new, emerging government and asked them several questions: 1. Whether a company like Salim will be allowed to exist in this new environment; 2. Is this going to be a political or commercial and economic solution. If it is a political solution, you can do anything you like, nationalise the companies and put anyone in jail. But we believe it needs to be a commercial solution: the emerging nation will be heavily dependent upon the IMF and the World Bank as well as bilateral support for its economic policies. We believe that that has not changed.

> So, we believe a commercial solution is the one necessary for the economy. Secondly, it is not just us. It's a total financial, monetary, corporate crisis. We are one of the problems, no doubt a big one, but one among many. ... So, we talked to the government, about whether this was going to be a commercial solution. Number 1, we have the capacity to pay you back. Now, if you want cash, I don't have it at this time. Number 2, let's define the rules. It's not my rules regarding the total solution for the banking, monetary, and corporate sectors. So, within the rules, let's talk about how the Salim problem and solution fits in. ... When that was established, they have the product of MSAA, BPPN. So that is the product of the IMF, government (Anthony Salim).[51]

However, other interviews and media sources indicate that the group was clearly in a position to influence at least some environmental factors, so this is only a portion of the story. There were probably plenty of high-level political negotiations behind the scenes, as an earlier agreement with Wahid already indicated. IBRA officials also hinted at negotiations on a higher political level, while at the same time, they indicated that Anthony Salim had focused on the problem and was very pragmatic in his dealings with IBRA.

The new environment had a profound impact on the way the Salim Group operated. Prior to the crisis, visitors would line up to meet Anthony Salim with their business proposals, whereas the office now became very silent. Some IBRA officials thought he had become lonely. The image of a powerful group suddenly changed into that of a troubled group. It must have been hard to swallow.

Indeed, the group's management team (those who headed Indofood, First Pacific, Indomobil, and Indocement) did not abandon the company during this crisis period, trying instead to find a solution to the crisis together. Interviews reveal that some of the management of the companies that were sold (e.g., Indomobil and the palm plantations) joined other Salim companies. As we shall see in the next chapter, however, some of the strategies implemented to save the Salim Group were difficult to deal with for them.

4.8 Summary and Conclusions

Thus, during the crisis period of 1997-2000, the previously favourable political and economic climate turned into an extremely hostile business context for the Salim Group. It suffered from corporate debt, falling stock prices, and an attack on their bank as well as mob violence directed against the family itself.

Because they were surrounded by fires everywhere, the group decided to adopt a strategy of fire-fighting. New investments ceased because within the context of the political and economic crisis the Salim Group's future remained highly uncertain. Anthony Salim's multi-level negotiations allowed the group to survive the crisis, but not without having to hand over many of his assets to the government. Some other assets outside of Indonesia, such as Hagemeyer, were sold to raise capital.

Nevertheless, the group managed to hold onto several important companies, such as First Pacific and Indofood, to its share of UIC, as well as to some smaller private companies. Its structure was altered and First Pacific, now also in control of Indofood in Indonesia and PLDT in the Philippines, became its key asset. The Salim Group tried hard to hold onto its majority shares in all three of these companies. As a result of the changes, the Salim Group was reduced from an international to merely an Asian conglomerate. Anthony Salim was now clearly in charge and his father Liem Sioe Liong had withdrawn from most of his management Salim Group positions (table 4.5).

Table 4.5 *Summary*

Period	*Institutional Environment*	*Strategic Choices*
1997-1999 regime change	- anti-Chinese riots and looting create hostile atmosphere for Chinese business - Suharto's regime falls apart - IMF stops protectionist policies - anti-cronyism	- use connections to survive & help Suharto family - focus on solving the crisis - comply with government demands, sell businesses to pay debts - retirement of Liem