

## Conference Paper

# Conflicts Between State and Business in the Nationalization of PT. Inalum

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### Abstract

This study discusses the dispute between state and capitalist class. State consists of local government elite and central government elite. Local elite consists of 10 regents/mayors in Lake Toba region and Asahan River basin, while the central elite are President Susilo Bambang Yudhoyono, Coordinating Minister for the Economy Hatta Rajasa, Minister of State-Owned Enterprises Dahlan Iskan, Minister of Industry MS Hidayat as well as Leaders and Members of Commissions VI & IX of the House of Representatives Republic of Indonesia. Meanwhile the capitalist class is represented by Luhut Binsar Pandjaitan and Association for Mineral Entrepreneur Indonesia (APEMINDO). This research aims to clarify underlying factors of dispute between state and capitalist class in the nationalization of PT. Indonesian Asahan Aluminum (Inalum) which implies to conflict among elites.

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This study uses qualitative method by analyzing research findings with the Theory of State Autonomy proposed by Ralph Miliband and Nicos Poulantzas as the main perspective. While the theory of conflict and consensus by Maswadi Rauf, authority of elite theory by C. Wright Mills, theory of decentralization by Vedi R. Hadiz, theory of oligarch's power by Jeffrey A. Winters, theory of patron-client by James C. Scott, and theory of rent seeking by Anne G. Krueger are applied as supporting perspectives. This research finds that conflict between central and local elites occurs due to struggle over economic resources, especially share ownership of PT. Inalum. Dispute over economic resources in governmental system has resulted in the country's autonomy dysfunction, in this case North Sumatra Provincial Government. It is characterized by the government being instrument that cause rent seeking to grow. Conflict which arise among local elite interfere local governance consolidation. This occurs because the capitalist class is capable to influence policies run by North Sumatra Provincial Government. The dispute is impacted on the provincial government incapable of taking political decisions reasonably. While Central Government with the approval of Commission VI of the House of Representatives conducts political process to reduce capitalist class influence in the nationalization of PT. Inalum by unilaterally give North Sumatra Provincial Government 30% share only.

### OPEN ACCESS

Theoretical implication of this research supports and strengthens Miliband Ralph's theory on state as an instrument of capitalist class and Nicos Poulantzas's theory of relative autonomy state. It especially regards to the state autonomy that is distorted by capitalist class interests i.e. Luhut Pandjaitan. Based on Miliband Ralph's theory on state as an instrument of capitalist class in the context of local elite power in North Sumatra, then the Governor of North Sumatra, 10 regents/mayors in Lake Toba region and Asahan River basin, as well as several other political elites, represent the tool or instrument of the capitalist class, in this case Luhut Pandjaitan, to realize their ambition of enriching economic resources. While President Susilo Bambang Yudhoyono, along with related ministers and parliament, weaken the capitalist class influence in political decision making in order to create a relatively autonomous political decision-making, as it is explained in the theory of Nicos Poulantzas. One thing that has not been addressed by Nicos Poulantzas in state relative autonomy theory is how to cope with global capitalist class distortion or pressure.

**Keywords:** state autonomy, state relative autonomy, capitalist class, political dispute, political elite, oligarchy, rent seeking

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## 1. Introduction

The main problem of this research is conflict between state and capitalist class in the nationalization of PT. Inalum which disturb central and local elite relationship. Local elites are the Governor of North Sumatra, 10 regents/mayors in Lake Toba region and Asahan River basin, which in fact are supported by private elite businessman from North Sumatra, Luhut Binsar Pandjaitan as the leader of PT. Toba Sejahtera and APEMINDO (Association for Mineral Entrepreneur Indonesia) businessmen. While the central elite are the coordinating minister for the economy, minister of industry, minister of finance, minister of state-owned enterprises, chairman of BPKP, Commission VI, and officials related to the nationalization of PT. Inalum. The conflict is originated from local elite desire to participate in share ownership PT. Inalum. The dispute is intensified as Commission VI and Commission XI of the House of Representatives have different opinion on the authority of share giving.

In decentralization era, granting shares from oil and gas sector to the local government is inevitable. Nationalization and shares granting are mandated on Act No. 4 of

2009 about mining and minerals, implemented through the Government Regulation (PP) No. 23 of 2010 and PP No. 24 of 2012. There are two asserting articles which organize the natural resources handling. First is Article 52 which mentions that entire working area that exceeds the maximum limit of 100,000 hectares for minerals and 50,000 hectares for coal (Article 61 of Act No. 4 of 2009) must be returned to the state. Second is Article 117 in Act No. 4 of 2009 which mentions that any expired contract should be terminated. After the end of contract, management should be given to the central government, provincial government or regency/ municipality governments, BUMN (State-owned enterprises), BUMD (Regional-owned enterprises), or national private business corporation.

In fact, the nationalization of PT. Inalum as an initial step in the implementation of Act No. 4 of 2009 policy had caused conflict between central and local governments. It is related to the difference of 60 percent share portion desired by North Sumatra Provincial Government and regency/ municipality government around PT. Inalum. (Interview with North Sumatra Governor Gatot Pujo Nugroho at Bandung on May, 24 2014) While the Commission VI of the House of Representatives and the Central Government agreed to give only 30%.

The issue was started on June 2, 2010 as the Governor of North Sumatra Syamsul Arifin (Pemprov Sumut Bentuk Tim Evaluasi PT. Inalum, Berita Sore online. 2010, July 7. Accessed on June, 12 2014) and the Chairman of PT. Toba Sejahtera, Luhut Binsar Pandjaitan signed a memorandum of understanding (MoU) related with takeover process of PT. Inalum from Japan to the Government of Indonesia. North Sumatra Provincial Government invited 10 regency/ municipality governments in Lake Toba region and Asahan River basin to sign a deal.

Regarding above matter, on June 25, 2010 (Pemprov Sumut Bentuk Tim Evaluasi PT. Inalum, Berita Sore online. 2010, July 7. Accessed on June, 12 2014) North Sumatra Provincial Government sent a letter Number 538.3/5556 to Coordinating Minister for the Economy. The letter contains advices for the government not to extend master of agreement with Japan because it will not give much profit on behalf of Indonesia. On the letter, the local government also suggested Central Government to continue PT. Inalum operation and to take over entire share ownership of the consortium for North Sumatra Provincial Government and 10 regency/ municipality governments in Lake Toba region and Asahan River basin in the form of golden share as source Regional Own-source Revenue (PAD).

However, on June 3, 2011 (Pemerintah Tolak Bahas Saham Inalum Pemda Sumut, Okezone.com. 2011, June 5. Accessed on June, 11 2014), Minister of Industry MS Hidayat

refused North Sumatra Provincial Government proposal. The rejection was delivered by the minister in a closed meeting with PT. Inalum Takeover Implementation Team at the Ministry of Industry office in Jakarta. He said, "The important thing to do at this moment is to concentrate on the takeover process according to master of agreement (MoA). Once it is in the hands of Indonesia, we can later talk about share ownership."

Formed under Kepres RI No. 27 of 2010, the joint teams consist of cross ministry and local government constituent. Local government elements were included in the working group, which consists of Takeover Implementation Team, Steering Team, and team in charge of discussing PT. Inalum development after MoA termination. According to the Head of Regional Body for Planning and Development (Bappeda) of North Sumatra Provincial Government, Late Riadil Lubis who attended the meeting, there has been an agreement on demand shares between North Sumatra Provincial Government and 10 regency / municipality governments in Lake Toba region and Asahan River basin.

However, local governments complained that they were not being involved in the takeover process. Hence, they were disappointed with the performance of the team formed by President Susilo Bambang Yudhoyono. On May 21, 2012 (Pemprov, 10 kab/kota perjuangkan saham inalum, Waspada. 2012, May 22. Accessed on 2014, June 12), Governor of North Sumatra arranged a meeting with ten local regents/ mayors to discuss PT. Inalum takeover process. Central government sent Deputy of the Ministry of Industry, I Gusti Putu Surya Wirawan to the meeting. Related with the disappointments, I Gusti Putu Surya Wirawan said:

*"The Central Government will start PT. Inalum takeover by preparing negotiation process in August 2013. In June or July, the minister will invite related governors and regents/mayors to discuss takeover plan."*

On June 24, 2013 (Muluskan Niat Beli 58 persen Saham Inalum, DPR bentuk Panja, Merdeka.com. 2013, June 25. Accessed on 2014, June 12) the Central Government decided to takeover PT. Inalum after a series of negotiations between the government and PT. Inalum. No less than Rp 7 trillion fund was prepared. Coordinating Minister for the Economy Hatta Rajasa said:

*"Why we strive for (PT. Inalum purchase) of course because, we import great amount of aluminum downstream industry. For example, (to produce) book shelves, filing cabinet, sills frames, and house frames. Such industries use aluminum. Now electric and transmission sills (industries) starts (to use aluminum), and it is predicted that in the future, more industry will do."*

Due to this on June 25, 2013 Commission VI of the House of the Representatives formed a Working Committee (Panja) to smoothen the takeover process.

In regard to the local government proposal to get bigger share portion, on October 17, 2013, Commission VI held a hearing assembly. The commission invited representatives of North Sumatra Provincial Government and of 10 regents/mayors in Lake Toba region and Asahan River basin. At the meeting, Commission VI requested the Governor of North Sumatra to deliver a letter within 1 times 24 hours, addressed to the Government/Chairman of the Asahan Negotiating Team about their desire to be involved in the takeover scheme of 58.8% shares from NAA Japan on October 30, 2013. (Short Report on Hearing of Commission VI of the House of Representatives and North Sumatra Governor, 2013, October 12) In the negotiation process with NAA, the negotiator team did not involve Asahan local governments. Member of Commission VI of the House of Representatives Pitcher Jhonny Saragih (Komisi VI DPR RI Dukung Sumut Peroleh Saham Inalum, Tribun-Medan.com. 2013, October 17. Accessed on 2014, June, 12) said:

*“My heart breaks, knowing that Central Government did not include local government (in the negotiation). If only we know before, we would probably have disbanded the team formed by Mr President with all the authority we have.”*

The statement comes as he responded to what Governor of North Sumatra Gatot Pujo Nugroho stated in the meeting, that he has never been included in the Sub Technical Development Team of PT. Inalum set up by President Susilo Bambang Yudhoyono.

Following the assembly, on October 22, 2013 (Pemerintah dan DPR Sepakat Pengelolaan PT. Inalum Ditangani Kementerian BUMN, www: kemenperin.go.id. 2013, October 10. Accessed on 2013, June 12) a technical meeting was held by Commission VI, with Coordinating Minister for the Economy, Minister of Finance and Minister of State-Owned Enterprises approving the government’s plan to purchase of PT. Inalum.

Commission VI then asked Central Government to decide share ownership in PT. Inalum. Meanwhile, Minister of State-Owned Enterprises Dahlan Iskan (Daerah Boleh Ikut Miliki Inalum, Dahlan: Tapi Jangan Memaksa!, Liputan6.com. 2013, October 13. Accessed on 2013, December 19) asked for the local government to not impose themselves on share ownership, since the share ratio had been determined. According to Dahlan, PT. Inalum acquisition needed a large amount of funds. This was justified by Gatot Pujo Nugroho. He explained that, according to what Minister Dahlan Iskan said, Central Government asked the local to pay for PT. Inalum possession.

Then to acquire the shares, Local-Owned Company and private enterprises formed a joint venture named PT. Toba Sejahtera under the leadership of former Minister of Industry Luhut Binsar Pandjaitan and Association for Mineral Entrepreneur Indonesia (APE-MINDO) (Mereka yang Berebut Inalum, [Vivanews.co.id](http://Vivanews.co.id). 2013, October 23. Accessed on 2013, October 31).

On the initial memorandum of understanding (MoU) between North Sumatra Provincial Government and PT. Toba Sejahtera, if the consortium get 60 % share (Interview with Governor of North Sumatra on 2014, May 24 at Bandung) then 30% (18% of total shares) of it will belongs to the local government and 70% (42% of total shares) for PT. Toba Sejahtera. However, since Commission VI approved to give only 30% share, then the percentage will be divided into 9% share for local government and 21% for private sector.

As the facts described above, there are some underlying interests or factors causing the role of local government to grow in the nationalization of PT. Inalum. First, local elites want to gain Regional Own-source Revenue (PAD) and to ensure electric supply. Local interests are the most important factors in this matter. Secondly, central government elite want a strong autonomy and sovereignty over mines, to raise the government image. Third, capital elite's struggle to acquire high economic value stocks which leads to rent-seeking. Thus, this research seeks to answer to what extent state and capitalist class try to dominate political decision-making in the nationalization of PT. Inalum.

## 2. Theory Framework and Its Implication in the Research

In this research, several theories are used to limit the scope of relevant data. The framework theories are theory of state autonomy, theory of political of elite, theory of patron-client, theory of business-politics, and rent seeking.

State autonomy theory consider a state as autonomous structure. A state has its own logic and interests, which are not necessarily the same or aligned with those of dominant class in the community or all member groups in the government. Meanwhile, Theda Skocpol considers a state as social and economic conflicts arena in which interests collide. State is considered as a specific political arena, because the actors use different means to take part/ involved in the social and economic conflict. (Theda Skocpol, *Negara dan Revolusi Sosial Suatu Analisis Komparatif Tentang Perancis, Rusia dan Cina*).

Generally, in this study, state is not purely neutral in taking decisions as it is required in the state autonomy theory. Therefore, relative state autonomy theory best explains the role of state in overcoming capitalist class pressure in the nationalization of PT. Inalum.

The state acts as social cohesion tool to prevent the system from bankruptcy. Central government's effort to discourage Luhut Pandjaitan hegemony is represented by Minister of Finance Muhamad Chatib Basri (2013-2015) (Sumut protes pembagian saham Inalum, ini kata Dahlan, Sindonews. 2013, October 23. Accessed on 2015, October 22) decision to give only 20% share to North Sumatra Provincial Government. However, Poulantzas's theory of relative autonomy seems to be better put together with his dependence theory as one of structuralist theory. It is needed in order to verify the data clearly, especially in regard to relation of global capitalist and satellite country such as Indonesia.

It is necessary to understand, that when Poulantzas introduced the theory in 1968, there was a cold war between Western and Eastern bloc when global capitalist gained resistance from the communist bloc. In connection with PT. Inalum, the study finds a difference in the pattern of Japan-Indonesia bilateral relationship. In the era of cold war, Indonesia was under Japan's pressure. (Lima PMA Raksasa, Majalah Tempo. 1992, May 2. Accessed on 2015, October 22) However, after the cold war, there were no strong pressure from Japan. (JK Tegur Jepang, Inalum Langsung Untung, Tempo.com. 2013, November 11. Accessed on 2016, April 24)

In fact, PT. Inalum nationalization is an important factor of political campaigns and imagery. By performing asset nationalization, state shows that it has sovereignty over mining resources, unlike stigma given by civil society activists that state is neglectful and absent in case of mining sovereignty. This explains why SBY regime mentioned that state could have nationalized PT. Inalum even without Parliament's permission. (Hatta dan Hidayat Berseberangan Soal Pembelian Inalum, Merdeka.com. 2012, August 4. Accessed on 2016, April 22)

At central level, this research has a strong relevance to Poulantzas theory. However, in regional level, state represents a tool of capitalist class as described by Ralph Miliband. PT. Toba Sejahtera was born after North Sumatra Provincial Government and 10 regencies/cities to signed MoU to participate in PT. Inalum nationalization.

Luhut B Pandjaitan said that because PT. Toba Sejahtera fully provides those funds, hence it will hold 80% of the shares. According to Luhut, share portion may change after three or four years. Soon after the joint venture company launch Initial Public Offering/ IPO, the local government will certainly gain major share.

Thus, despite any regional mechanisms to have majority share, North Sumatra Provincial Government will only be the subordinate of PT. Toba Sejahtra. This will lead to *rent seeking* (Anne O. Krueger, *The Political Economy of the Rent-Seeking Society, The American Economic Review*). This affirms state as an instrument of capitalist class, as it is described by Ralph Miliband.

It is clear that political reform process in Indonesia turns out to cause anomalies in decentralization, as it is mentioned by Vedi R. Hadiz. (Richard Robison & Vedi R. Hadiz, *Reorganizing Power in Indonesia: The Politics of Oligarchy in an Age of Markets*) Ten years after it was started, political reform will regenerate oligarchs. Meitzner (Meitzner, Marcus. *Money, Power, and Ideology: Political Parties in Post-Authoritarian Indonesia*) has explained that oligarchs power in Indonesia were reborn again through political parties. In case of PT. Inalum nationalization, oligarchs can be represented by growing business group led by Luhut Pandjaitan in reformation era.

However, emergence of an oligarchs has resulted in other oligarchs' alert. In case of PT. Inalum nationalization, SBY group acts the other oligarchs. Therefore, Winters' opinion of conflict between oligarchs best represents the phenomenon. It is clear to see that, for President Susilo Bambang Yudhoyono and central elites, giving share to PT. Toba Sejahtra is unfavorable to their group.

Luhut Binsar Pandjaitan as an oligarchy cannot be separated from the role of Aburizal Bakrie (ARB). In the theory of patron and client, Aburizal Bakrie portrays the patron and Luhut as the client. James C. Scott (James C Scott, *Patron-Client Politics and Political Change in Southeast Asia, The American Political Science Review*) mentioned that patron-client relationship equals with profit - loss connection. It can be seen when Golkar gain only few support in the 2014 presidential elections, Luhut was turn into Jokowi. For Luhut, supporting ARB as a president candidate is not profitable. Hence turning his support to Jokowi is a rational act.

The example above strengthens the fact that patrons and client's relationship occurs among capitalist class. Mutual symbiotic relationship is the characteristics, meaning that the relationship should be beneficial for both patron and client. Unprofitable relationship will be ended shortly.

Furthermore, there occurs a shift in the theoretical implications, as it is compared to previous business and political research conducted by Yahya A. Muhaimin. (Yahya A. Muhaimin, *Bisnis dan Politik*). In previous framework, a dominant ruler represents the patron, while capitalist class is the client. Yet in this framework, the relationship of patrons and clients has shifted. Patron role has been taken by the capitalist class, while state (in this case North Sumatra Provincial Government) becomes the client.

Within such framework, Ralph Miliband's theory of state as capitalist class instrument become relevant.

Whereas patrons and client's relationship in a military group as it is argumentated by Anderson and Crouch (Harold Crouch, *Patrimonialism and Military Rule In Indonesia*) is still relevant. Where Luhut Group (Akabri Darat 1970) and SBY Group (Akabri Darat 1973) are different group. Military background should be reviewed to get accurate understanding in patron and client relationship in case of PT. Inalum nationalization.

An approach to classic elite theory presented by Mosca, Pareto (Ronald H. Chilcote, *Teori Perbandingan Politik: Penelusuran Paradigma*) and Michels (S.P Varma, *Teori Politik Modern*) Michels is useful to set basic understanding on the concept of elite as well as to distinguish elite and non-elite group of a society. In this study, Central Government elites are the decision maker. In accordance to Suzanne Keller theory, SBY Group is the determinant elite; whereas Luhut Group is a strong local elite in PT. Inalum nationalization policy.

### 3. Topic Discussion

This research seeks to clarify to what extent does the role of the state in PT. Inalum nationalization. In order to obtain a proper analysis, the conflicts revolved around PT. Inalum nationalization needs to be described. The dispute includes conflict among local and national private elite vs central elite.

Theoretically, central government role in the nationalization of PT. Inalum can be divided into two levels. Firstly, at regional level, according to Miliband's theory, the local government has turned into capitalist instrument which has a strong role in political life. This occurs because the capitalist class dominate the economic life of many people. The capitalist class uses its power to utilize local issues (Luhut Pandjaitan: *Saya Tak Ada Niat Mengontrol Inalum, Saya Tak Serakah*, *Bisnis.com*. 2013, November, 15. Accessed on 2015, October 10), such as regional income and economic growth in the nationalization of PT. Inalum.

However, in the decision-making process at central level, the instrumental theory seems to lose its significance. It is visible due to Central's ignorance on the regional issues they propose. Capitalist involvement is even criticized by the Central elites, ministers, parliament members, and civil society. President Susilo Bambang Yudhoyono, the Coordinating Minister for Economy Hatta Rajasa (2009-2014), and party elites dislike PT. Toba Sejahtera participation in the nationalization process.

Therefore, two analytical theories, i.e. the theory of state relative autonomy and the theory of state, are used in this research. In general, state seems autonomous in taking decisions. Hence, the state autonomy theory can be implemented.

This research tries to analyze whether Indonesian Government really has autonomous state, in compare to the facts and data founded. It turns out that the state autonomy need to be verified again. Because on second period of Yudhoyono leadership (2009-2014), there are two undeniable facts which give pressure to the president. First is oil and gas mining concessions with Exxon Mobil in the Cepu block. Second is delayed contract extension of PT. Freeport mining. So in terms of political decision-making, this research finds an inconsistency with the theory of state autonomy.

Therefore, the alternative theory of state relative autonomy seems to best explain the role of the state in the nationalization of PT. Inalum. Nicos Poulantzas says that capitalist or bourgeois state is not a tool of capitalist class, and assume the functions of a state can be distinguished on the social classes. Thus, under a capitalism system, state functions as a social cohesion tool to prevent the system form bankruptcy.

#### 4. The Roles of PT. Toba Sejahtra and Local Government in North Sumatra

A successful capitalist, according to Caporaso (James A Caporaso and David P. Livine, *Teori-teori Ekonomi Politik (terj)*) obviously has power. The phenomenon refers to capability of PT. Toba Sejahtra to suppress the local Asahan Regency/municipality Governments and North Sumatra Provincial Government. PT. Toba Sejahtra have a key role in the attempt to acquire share portion of PT. Inalum. The ability is the result of political lobbying done by Luhut B Pandjaitan. He is capable of performing the role well as he successfully convinces the North Sumatra Provincial Government and 10 Regencies/ Cities.

It is natural because Luhut is an influential oligarch in Indonesia. With his business power, PT. Toba Sejahtra was able to develop rapidly in 10 years. The company successfully interlaces business network with prominent banking such as BNP Paribas and Deutsche Bank. Having strong access to credit, PT. Toba Sejahtra find no significant difficulty in terms of capital and funding.

According to Winters, oligarch involvement in political activates is dedicated to secure its income. Winters stated that:

*“The core set of political objectives are linked to securing property and preserving wealth and income. (Jeffry A. Winters. Oligarchy)”*

Working pattern of the typical oligarchy is represented in PT. Toba Sejahtra efforts in encouraging nationalization of PT. Inalum. In the process, PT. Toba Sejahtra merges its business and political power to suppress local government.

The above experience apparently obtained from Luhut’s friendship with Bakrie Group businessman. Bakrie Group has provided an example of lobbying ability to international finance institutions. In term of business operations, PT. Toba Sejahtra used similar funding scheme with Bakrie Group. This explains why the theory of patron client is relevant to describe political and business relationships between Luhut (PT. Toba Sejahtra) and Aburizal Bakrie (Bakrie Group).

In the matter of PT. Inalum nationalization, Luhut successfully convince the BNP Paribas and Deutsche Bank to provide funds, despite the fact that funding scheme has risks on national interests. PT. Toba Sejahtra guarantee the share of PT. Inalum to both banks if any problem occurs that make it difficult to pay back the loan. Of course it affects the local government, since share ownership will certainly affect national interest.

In addition, the client-patron relationship above also smoothens business of PT. Toba Sejahtra, as Luhut is a member of DPP Golkar Party Advisory Council. He makes as if it is easy to arrange meetings with President Susilo Bambang Yudhoyono and his ministers. Meanwhile, even Governor Gatot has never met President Susilo Bambang Yudhoyono in connection with PT. Inalum.

However, patron – client relationship of Aburizal Bakrie and Luhut suffers shortcoming. James C. Scott (James C. Scott, Patron-Client Politics and Political Change in South-east Asia, The American Political Science Review) mentioned that patron and client connection represents profit and loss relationship. Soon after Golkar was predicted fail in 2014 general elections, Luhut switched his political support to the promising candidate, Joko Widodo (Jokowi).

## 5. Rivalry between President SBY and Luhut Pandjaitan

To support his efforts, Luhut recruited some of his colleague form Armed Forces Academy (Akabri) 1970 for the managerial posts of PT. Toba Sejahtra. Due to this, he became a new business patron among his colleagues. Alumni association was an important factor of conflict between President SBY and Luhut Pandjaitan. PT. Inalum

nationalization is an example of which President Susilo Bambang Yudhoyono (Akabri alumni of 1973) attempt to eliminate influence of Luhut Pandjaitan. Thus, this study also found that military academy entities create certain fanatic group-identity to involve and to compete in political decisions-making.

The phenomenon triggers an implication of how personal background may affect oligarchs conflict. Whereas oligarchs conflict, in PT. Inalum nationalization, may impacted on economic resources. It is clear that settlement of such conflict will answer the third question, to what extent does a state can cope with any pressure in taking political decisions related with PT. Inalum nationalization.

President Susilo Bambang Yudhoyono distaste toward Luhut is reflected on his refusal on the plan to put Luhut Pandjaitan on PT. Freeport Indonesia managerial post. Luhut Pandjaitan (Luhut Diajak Jim Bob Gabung ke Freeport Tahun 2012, Beritasatu.com. 2015, December 13. Accessed on 2016, April 5) admitted that the Executive Chairman of PT. Freeport-McMoran, James (Jim) Bob Moffett around April 2012 in the United States, had invited him. On the meeting, Jim Bob asked Luhut to join Freeport.

## 6. Central Government Decision

Given the condition of PT. Toba Sejahtera influence on local governments, the Central Government try to minimize the impact by allocating 30% share of PT. Inalum to North Sumatra Provincial Government and 10 Regencies/ Cities surround Asahan.

In a joint technical meeting on October 22, 2013 (DPR RI Restui Pemerintah Beli Inalum, [www://ekon.go.id](http://www.ekon.go.id). 2013, October 24. Accessed on 2013, June 12) the government set final decision on PT. Inalum nationalization. Those invited in the meeting; Commission VI, the Coordinating Minister for the Economy, Minister of Finance, and Minister of State-Owned Enterprises approved the purchase of PT. Inalum. The conclusion (Press Release, Kementerian Perindustrian RI, <http://www.kemenperin.go.id/artikel/7605/Pemerintah-dan-DPR-Sepakat-Pengelolaan-PT-Inalum--Ditangani-Kementerian-BUMN>. Accessed on 2016, March 22) related to share granting is as follows:

*“Commission VI of the House of Representatives received North Sumatra Provincial Government desire along with 10 regencies/ municipality in Lake Toba region and Asahan River basin to participate in share ownership of PT. Inalum (Persero) with the Government of Indonesia retained for a minimum share of 70 percent.”*

Granted maximum share ownership of 30%, lower than 58,8% share targeted, shows lack of local negotiation skill. This leads to Apemindo disappointment which later withdrew from the consortium. Most of local elite were also disappointed by the share percentage.

The Chairman of the Commission C in Assembly at North Sumatra Provincial Level (DPRD Sumut) Isma Fadly Pulungan (Gubsu Harus Negoisasi Ulang Saham Inalum, Inimedanbung.com. 2013, October 27. Accessed on 2016, April 27.) from Golkar Faction urged the Pujo Gatot Nugroho renegotiate with the Central Government to retain more share. According to Isma Fadly Pulungan, DPRD Sumut had formed a special Inalum committee to discuss takeover process of the Asahan project and PT. Inalum which contract with Japan consortium ended in October 2013. Isma Pulungan Fadly said:

*“The governor should not just accept parliament’s decision. We are disappointed with the decision of the House of Representatives that gives only 30 percent share of PT. Inalum to the North Sumatra Province. They should get at least 60 percent share. (Gubsu Harus Negoisasi Ulang Saham Inalum, Inimedanbung.com. 2013, October 27. Accessed on 2016, April 27)”*

According to Isma Fadly Pulungan, Parliament should help the provincial government to buy PT. Inalum share by lending financial capital. Hence, he thinks the Governor of North Sumatra should try harder to get 60% share. By only obtain under 60% share, the governor is considered fail struggling for the local interests. (DPRDSU Kecewa Gubsu Tidak Libatkan Dewan, Mimbar Birokrasi. 2013, October, 23)

The 70:30 percent of share ownership set out by Commission VI disappointed the local government. They assume that the Central Government had ignored their request. The North Sumatra Provincial Government want to get at least 40 percent share. It was conveyed through Governor Gatot Pujo Nugroho (Mereka yang Berebut Inalum, Tahun 1975, Indonesia menguasai 41,13 persen saham, VivaNews.com. 2013, October 25. Accessed on 2016, April 27), statement as follows:

*“Our advice is for the central government to get 60 percent share portion. But, what we are questioning is that, if the Central Government asked for 70 percent, then how much our portion will be? We are not satisfied over this decision.”*

Meanwhile, Minister Dahlan Iskan (Sumut Protes Pembagian Saham Inalum, Ini Kata Dahlan, Sindonews. 2013, October 23. Accessed on 2015, October 22) affirmed that the share division was a compromised result between the Government and Commission VI of the House of Representatives. Dahlan Iskan (Mereka yang Berebut Inalum, Tahun 1975, Indonesia menguasai 41,13 persen saham, op.cit) explained that at first, the

Ministry of Finance proposed 80 : 20 percent share division. Yet, after a thorough discussion it was agreed that the share division would be 70 : 30 percent deal. Dahlan Iskan (Sumut Protes Pembagian Saham Inalum, Ini Kata Dahlan, opcit) said as follows:

*“OK it was the compromise; Ministry of Finance (the Central Government) wanted to get 80 percent share, yet the local government asked for 40 percent. After a negotiation, the deal was 70:30 percent.”*

Central Government affirms its decision by agree giving 30% share for the local government. As it was stated by Minister of Industry MS Hidayat (Pembagian Saham Bukan Prioritas, Bisnis Indonesia. 2013, November 12. Accessed on 2015, November 1) share division agenda is not a priority. The Central Government would instead try to improve PT. Inalum performance it was nationalized.

Answering the Central Government proposal, Governor Gatot Pujo Nugroho (Interview with Governor of North Sumatra Gatot Pujo Nugroho. 2014, May 24 at Bandung) asked for share transfer in the form of golden share (*Golden share is share division without having to deposit capital stock/empty stock. In the model of golden share, local governments routinely get a small amount of profit, which is determined by a certain percentage*). It means that local government will not require to pay in cash. Gatot referred his opinion to what has been agreed by the House of Representatives Commission VI on previous technical meeting with North Sumatra Provincial Government and the Chairman of Coordinative Agency for Investment (BKPM) Mardiasmo.

Responding to the above matter, Vice Chairman of Commission VI Azman Natawijaya (Pemda Sumut Belum Menyampaikan Skema Rencana Pengelolaan Kepada DPR, Jaringnews.com. 2013, October 18. Accessed on 2016, April 27) said as:

*“If (the local government) wants 11 percent share, they can ask the Government for the golden share later. The problem is that the local government has yet to deliver the management plan (of PT. Inalum) to the House of Representatives.”*

Governor Gatot Pujo Nugroho in mid-December 2013 (Gubsu Lobi Komisi XI DPR RI Sumut Tak Mampu Beli Saham Inalum, MedanBisnis.com. 2013, December 24. Accessed on 2015, November 10) had asked the golden share to Minister Dahlan but was rejected. According to Minister Dahlan, golden share is a political and not financial term, therefore he suggested North Sumatra Provincial Government to buy PT. Inalum allocated 30 percent share.

The Central Government's tendency to be dominant is already visible, when the Coordinating Minister for the Economy Hatta Rajasa declined to discuss nationalization

of PT. Inalum with the House of Representatives (Hatta dan Hidayat berseberangan soal pembelian Inalum. Merdeka.com. 2012, August 4. Accessed on 2016, April 22) and North Sumatra Provincial Government (Hatta Rajasa Tolak 2 Permintaan Sumut, Bagi Hasil Perkebunan dan Saham Inalum, Sumut Pos. 2012, December 20. Accessed on 2016, March 31). According to Hatta Rajasa, based on the government's experience of Newmont shares buying, PT. Inalum stock purchase do not require Parliament's approval. Although later, in the process of PT. Inalum nationalization, Parliament is eventually involved.

However, based on the explanation of the Coordinating Minister for the Economy Hatta Rajasa, the Central Government (President Susilo Bambang Yudhoyono) basically want to dominate the decision-making process in the nationalization of PT. Inalum. It is visible from the Hatta Rajasa statement that equates national interest to the Government's decision minus the House of Representatives. Thus, theoretically this issue best describes state autonomy theory.

Therefore, it is reasonable for the government to be dominant by granting 30% share of PT. Inalum to the local government. The Central Government prioritize national interest above local concern. The Central Government knows more than any parties. That is why the debate between parliament and the local government is relatively difficult in discussing share ratio. As it was delivered by the Minister of State-Owned Enterprises Dahlan Iskan (Sumut Protes Pembagian Saham Inalum, Ini Kata Dahlan, Sindonews. 2013, October 23. Accessed on 2015, October 22) that 70 : 30 share proportion is final.

The government's desire to get 80% or 70% shares of PT. Inalum represents the basic function of state, to maintain law and order, as well as to gain capital income for it's continuity. Hence, a state should be independent from any external pressure.

## 7. Conclusion

A state, in this case the local government, is an example of capitalist class instrument. As it is described by Miliband in his book "State in a Capitalist Society" who criticized liberal theory adherent's belief that the modern state is neutral and protect all classes of society. (Ralph Miliband, The State in Capitalist Society) State, in fact, is an instrument or tool of capitalist class to dominate society, utilizing local issue such as to increase regional income, to support economic growth, and so on in order to show that the nationalization of PT. Inalum is significant to North Sumatra.

However, in the decision making at national level, instrumentalist theory seems to lose its significance. It is visible from the neglect of regional interest and capitalists' interests accompanying it. Capitalist involvement is criticized by most of the central elites, ministers and parliament members, as well as civil society. Furthermore, President Susilo Bambang Yudhoyono, Coordinating Minister for the Economy Hatta Rajasa, along with second elite party show less acceptance toward the participation PT. Toba Sejahtra as the representation of capitalist class.

Then based on those data, theory of relative autonomy is best explaining the decision of President Susilo Bambang Yudhoyono related to nationalization of PT. Inalum. It means that by such decision, state has acted as a tool of social cohesion to prevent the capitalist system from bankruptcy, as it is described by Nicos Poulantzas in his theory.

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