Key Features of Indonesia's State Capitalism Under Jokowi

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How to Cite: Kim, K. (2022). Key Features of Indonesia's State Capitalism Under Jokowi. *Journal of ASEAN Studies, 10*(2), 207−226. https:/doi.org/10.21512/jas.v10i2.9075

Abstract

State capitalism has been expanding rapidly since President Joko Widodo came into power in 2014. During the past decade, the absolute size of state-owned entities has grown notably, and many have acted as 'agents of development' in charge of conducting government-led projects, especially in the area of physical infrastructure. While this trend and characteristics are reminiscent of the previous surge of state capitalism under Suharto before the 1997 Asian financial crisis, there also exist significant differences. First, state capitalism is surging in an economy that has been liberalised to a significant degree compared to the past. Furthermore, state capitalism is expanding along with the government's efforts to improve the business environment for the private sector through market liberalisation. In the case of state-led infrastructure development, it is legitimised by emphasising the importance of improving connectivity in vitalising the private sector. Second, state capitalism is surging in the context of political democracy, as opposed to authoritarianism. Therefore, the mobilisation and management of state-owned entities and the side effects of those efforts are closely scrutinised by various stakeholders. The government needs to respond to their criticisms if it wishes to continue using state capitalism as an important engine for economic development.

Keywords: state capitalism, state enterprises, infrastructure, democracy, market liberalisation

Introduction

Using the case of Indonesia, this conceptual paper highlights three outstanding features of the recent resurgence of state capitalism and contributes to the 'varieties of state capitalism' literature. Firstly, the paper highlights that state capitalism has been revived to implement Indonesia's national development strategy. The 'new state capitalism' literature has been

Journal of ASEAN Studies, Vol. 10, No. 2 (2022), pp. 207−226

ISSN 2338-1361 print / ISSN 2338-1353 electronic

Received: 13th October 2022/ Revised: 15th December 2022/ Accepted: 15th December 2022

overwhelmingly focused on state-owned entities' international operations (Alami & Dixon, 2020a; Bremmer, 2010; Cuervo-Cazurra, 2018; Babic, Garcia-Bernardo, & Heemskerk, 2020; Kowalski & Perepechay, 2015; Kurlanzick, 2016). However, the recent expansion of state capitalism in Indonesia has primarily been driven by the government's strategy of mobilizing state-owned entities to implement domestic development projects.

Secondly, Indonesia's case demonstrates that state capitalism has been emerging in the context of market liberalization under the Jokowi government. Existing literature has highlighted the entities in which the government and private investors hold equity (Bruton et al., 2015; Musacchio & Lazzarini, 2014; OECD, 2016). These partially state-owned entities have been created by the government's sales of a proportion of equity in wholly state-owned entities, the government's acquisition of shares in privately owned entities, or the government's establishment of joint ventures along with private investors. While partial state ownership in state entities has also been found in Indonesia, other characteristics demonstrate the integration of state-owned entities and the market economy. Many developing countries have liberalized their economies over recent decades, and state-owned entities have selectively embraced market institutions in their operations. This paper discusses the characteristics of state-owned entities, where they have been adapted to and entangled with market forces, as is the case in Indonesia.

Finally, state capitalism is expanding in a democratic setting in Indonesia. State capitalism's resurgence has often been understood as centralized, with authoritarian states using state-owned entities to achieve government goals (Carney, 2015; Carney, 2018). However, in democratic countries, many more stakeholders are involved in expanding and mobilizing state-owned entities. In this sense, state capitalism is restrained as numerous actors and organizations play the check-and-balance role (Kim 2021).

This conceptual paper is organized in several sections that: 1) provide a brief history of Indonesia's state capitalism during the period prior to the recent resurgence; and 2) highlight how Indonesia's recent state capitalism (a) fits into Indonesia's development strategy, (b) is integrated with the forces of market economy, and (c) is discussed in democratic Indonesia with an emphasis on its side effects, respectively.

A Short History of Indonesian State Capitalism

This section analyses the evolution state-owned sector's endurance and adaptation over a long period and highlights how state-owned entities have played a central role in the economy, particularly prior to market opening, which accelerated from the late 1990s in Indonesia.

Indonesia's state-owned sector was established following the country's independence. Article 33 of the 1945 Constitution, which states that 'Branches of production that are important to the state, and that affect the public's necessities of life, are to be controlled by the state', gave the basis upon which the government legitimized its economic role (Butt &

Lindsey, 2008). However, the decade after independence saw the sector expand slowly as the cash-strapped government gradually began to nationalize and establish new state enterprises (Pangestu & Habir, 1989). The call for the government to play a central role in economic development intensified during the 1950s after attempts to invigorate the indigenous private sector had failed to produce notable outcomes ("Socialism and Private Business", 1965; Thee, 2012). However, the vitalization of state capitalism was not possible without sufficient capital.

The state-owned sector expanded in a transformative way during the following decades using two mechanisms. Firstly, the deterioration of diplomatic relations with Western countries led the Indonesian government, with its strong anti-colonial stance and socialist aspirations to take over foreign companies. The Sukarno government expropriated over 700 Dutch companies in the late 1950s following conflict over the sovereignty of Western New Guinea. This government also seized a number of British and American companies during the mid-1960s, when there was conflict with Malaysia's Western allies over the formation of the Malaysian Federation. As a result, the government became a major corporate owner across diverse economic sectors, such as estate crop plantations, trading, and banking (Lindblad, 2008). Secondly, the Suharto government recycled commodities revenue during the 1970s oil boom to strengthen the state-owned sector to implement import substitution industrialisation. The expansion of the state-owned sector and various protectionist measures were catalysed by a strong nationalistic mood, which was often displayed in aggressive demonstrations against ethnic Chinese capitalists. During the period, state oil company Pertamina provided financial resources to develop infrastructure and industrial sectors, including steel, chemicals, utilities, and engineering (Robison, 1986).

Between mass nationalization and the 1997 Asian financial crisis, the state-owned sector played an essential role in the economic and political scene, and there has not been a serious attempt to dismantle it (Gonzalo, Pina, & Torres, 2003; Hill, 2000). State enterprises were key tools in the statist economic regime, emphasizing self-sufficiency and industrialization (McKendrick, 1992; Robison, 1986). Even during periods of economic difficulties, in which Indonesia leaned towards liberalization, such as in the second half of the 1960s and the decade following the mid-1980s, there continued to be protectionist elements in the economic policy regime, providing a conducive environment for the survival of the state-owned sector (Fane, 1999).

During the late-1990s, Indonesia faced the most significant economic crisis in its modern history. A three-decade-old authoritarian regime collapsed with the economy, and liberalization accelerated under the auspices of IMF. Regulations in diverse policy areas, including trade, investment, and business operations, were unwound significantly over the following decade (Marks & Rahardja, 2012; Pangestu, Rahardja, & Ing, 2015). While complete sales of state enterprises were rare due to nationalistic political challenges, the state-owned sector became the target of the liberalization program and experienced partial privatization, marketization, and corporate governance reform (Republic of Indonesia, 2015; OECD, 2010). Partial privatization of state enterprises was often conducted by partially listing their shares in the domestic stock market. As these state enterprises came under the monitoring of the financial market and were pressured to satisfy financial investors and regulators, their governance underwent significant reform (Kim, 2019). Profit generation, as opposed to development contribution, became the primary goal of many state enterprises, the performance of which was mainly measured in terms of tax and dividend payments to the government (Rakhman, 2018; Wicaksono, 2008). Although the speed of reform in the state-owned sector varied over time and across entities, there was a significant restructuring of state enterprises' governance and operation in tandem with general economic liberalization during the 2000s.

In sum, Indonesia's state-owned sector proliferated during the 1960s–1970s, when state-owned entities were considered by the government agents that could be mobilized to implement economic projects in numerous sectors, often deemed strategic. This period was followed by the phase of market opening during the 1990s–2000s when the sector paid stronger attention to profitability. Though the implementation of ambitious privatization failed because of political disagreement, many state-owned entities' priorities shifted away from national development contributions. By the mid-2010s, the Indonesian government continued to hold an extensive portfolio of state-owned entities, many of which were regarded as agents of raising state budget revenue.

State Capitalism's New Development Missions

Indonesia's privatization during liberalization occurred gradually due to financial and political challenges, mainly involving the partial sales of state enterprises. As a result, the Joko Widodo (popularly known as Jokowi) government could use numerous state enterprises of significant sizes as tools in its development strategy. As of 2019, there were 113 state enterprises under the Ministry of State Enterprises and four state enterprises under the Ministry of Finance, of which the government had majority ownership (Republik Indonesia, 2020b). State enterprises operate in quasi-monopoly utilities and infrastructure sectors. Many state enterprises are leaders in a range of liberalized sectors, including banking, construction, and mining. There are state-owned manufacturing firms in commercial sectors, such as cement and steel production, and strategic sectors, such as defense industries. State enterprises under the Ministry of Finance have provided targeted financing for infrastructure, renewable energy, and mortgages. Under the Jokowi administration, many state enterprises have seen their priority shift from profit generation to development contribution and grown significantly with government support. State enterprises' combined assets increased 12,4% on an annual average from 4,580 trillion rupiahs in 2014 to 9,242 trillion rupiahs in 2020 (Figure 1). State enterprises' assets as a share of gross domestic product (GDP) also increased rapidly from 43% in 2014 to 60% in 2020 (Republik Indonesia, 2015; Republik Indonesia, 2021).

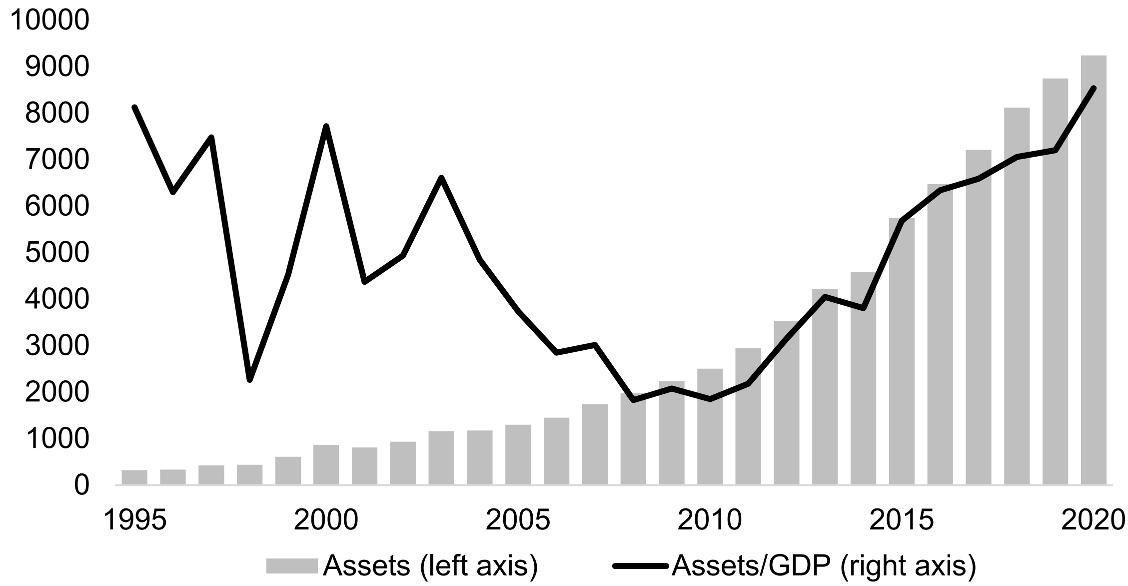

Figure 1 Indonesian state enterprises' assets

Source: Ministry of Finance (various issues)

Stretching the scope of the state-owned sector, government-owned funds with developmental missions have also grown under Jokowi. The most notable cases were the Indonesia Endowment Fund for Education (LPDP) and the State Asset Management Agency (LMAN). LPDP, the assets of which increased from 18 trillion rupiahs in 2014 to 54 trillion rupiahs in 2019, acts as a sovereign wealth fund and has begun to diversify financial investment into, for example, state enterprises' bonds (LPDP 2015, 2020; Republik Indonesia, 2020a). LMAN, initially created to manage the state's underutilized assets, was transformed into a land bank that would provide direct or bridging funding for land acquisition in infrastructure projects. As of November 2020, this institution had provided funding for 83 National Strategic Projects, amounting to 62 trillion rupiahs, with a large share flowing into state enterprises (Habibah, 2020). Furthermore, state-owned development financiers with the core mission of accelerating infrastructure development have expanded notably. The assets of Sarana Multi Infrastruktur (SMI) increased from 9 trillion rupiahs in 2014 to 76 trillion rupiahs in 2019 (SMI, 2019; SMI, 2020). In 2019, SMI's financing was concentrated in infrastructure segments promoted by the Jokowi government, such as toll roads (51% of the total), electricity (20%), and other transportation (16%). SMI also holds a 30% stake in Indonesia Infrastructure Finance, a long-term financier co-owned by International Finance Corporation, Asian Development Bank, Deutsche Investitions-und Entwicklungsgesellschaft, and Sumitomo Mitsui Banking Corporation. The government also established a sovereign wealth fund called the Indonesia Investment Authority in 2021. To stimulate national development, the fund received an initial capital of 15 trillion rupiahs, followed by a five-fold expansion of money to 75 trillion rupiahs.

This expansion of state capitalism was motivated by Indonesia's development challenges when Jokowi came into office in 2014. The Indonesian economy's growth trajectory has been stable for over a decade, even during the global financial crisis. However, with economic growth rates of approximately 5%, Indonesia was considered to lack dynamism compared to other emerging economies (Resosudarmo & Abdurohman, 2018). This medium-paced growth, combined with worsening inequality, did not provide adequate opportunities for many people. In this context, the natural resource sector's uncertain future after the commodities boom and feeble manufacturing competitiveness became a significant policy issue. There was concern surrounding the possibility of premature deindustrialization and the collapse of the domestic mining sector, which would have had negative consequences for the job market (Asian Development Bank, 2019; Garnaut, 2015). Many electorates and businesses considered weak infrastructure as Indonesia's main challenge. During the decade until Jokowi's inauguration, the government had limited fiscal space to increase capital investment due to increased energy subsidies, and private infrastructure investment stayed small ("Meeting Asia's infrastructure", 2017; McCawley, 2015).

The Jokowi government argued that the previous administrations' passive approaches, particularly in infrastructure, were inadequate in solving development challenges. After limited success with a strategy focusing on regulatory reform during the previous decade, expecting private investment to pour into and lead development projects appeared unrealistic (Davidson, 2015). The government also faced the 2003 fiscal rule, constraining investment capacity by limiting annual fiscal deficits to 3% of the GDP (Blöndal, Hawkesworth, & Choi, 2009). Therefore, the administration devised a plan to expand investment beyond its fiscal space by using state enterprises that could leverage significantly with government guarantees. Strong support for economic nationalism in the political arena has also offered a favorable environment for stimulating state capitalism (Wicaksana, 2019). Under pressure to achieve visible outcomes before the 2019 re-election, the Jokowi government used state enterprises to drive development projects.

The Jokowi government assisted state enterprises in stimulating their development contribution. One major policy was the expansion of the state capital injection, partly facilitated by a decline in international energy prices, which, in turn, allowed energy subsidies to shrink. Capital injections into state enterprises increased more than five-fold from 25 trillion rupiahs in 2010–2014 to 146 trillion rupiahs in 2015–2019. LPDP and LMAN, the state development financiers, also received capital injections of 36 trillion rupiahs and 93 trillion rupiahs, respectively, in 2015–2019 (Republik Indonesia, 2020a). Moreover, the government encouraged state banks and specialized state-owned financiers to fund state enterprises. Other support measures for state enterprises included tax incentives for asset revaluation and decreasing dividend ratios.

Jokowi's developmental state capitalism focused on infrastructure expansion. The administration's support was focused on state enterprises in the infrastructure-related sectors, which received 80% of the total capital injection in 2015–2019 and benefited from a significant increase in public infrastructure investment and state financial institutions' funding. There continued to be regulatory and technical challenges, but there was a path-breaking change in the speed of project implementation, particularly in the transportation sector (KPPIP, 2020). For example, due to active construction by state enterprises such as Waskita Karya and Hutama Karya, the length of toll roads built under Jokowi exceeded the length built during the four decades before he came into office (Soemarno, 2019). The rail system within and between urban centers began to expand, often led by state-owned Kereta Api Indonesia (Shatkin, 2019).

The government also strengthened state control over natural commodities assets. The foreign divestment requirement in the 2014 Mining Law was implemented with the state mining enterprise Inalum acting as the primary acquirer. Inalum became a significant shareholder of leading foreign miners in Indonesia, such as Freeport Indonesia and Vale Indonesia. Before the acquisitions, the government designated Inalum as a sectoral holding company and transferred state-owned shares in other mining companies to Inalum. This reorganization expanded Inalum's balance sheet, enabling easier access to funding (Inalum, 2020). In the energy sector, state oil company Pertamina took over operatorship of some of Indonesia's most significant oil and gas blocks, including Mahakam and Rokan, from foreign companies. Pertamina has also been made a sectoral holding company to strengthen its financing capacity (Pertamina, 2020).

Within the two significant pillars of infrastructure development and resource nationalization, there has been a cross-cutting goal of industrialization. The acceleration of infrastructure development aimed to provide a more efficiently connected and resourced environment for manufacturing firms. The government also used the infrastructure boom to foster state manufacturing firms. Semen Indonesia, a state-owned cement producer, profited from the increase in demand and made a large leap by acquiring the third largest player (Semen Indonesia 2020). State enterprises producing transportation equipment, such as trains, benefited from the boom (Republik Indonesia, 2020b). In the commodities sector, state enterprises were assigned to developing downstream businesses and adding value to natural resources. Pertamina, responsible for 90% of Indonesia's existing refining capacity in 2019, has been orienting investment to achieve the goal of doubling crude processing capacity to 2 million barrels per day by 2025 (Pertamina, 2020). State mining companies have been expanding investment to build their processing and refining capacity and taking advantage of their large nickel reserves to participate in the electric vehicle battery industry (Inalum, 2020).

State Capitalism's Adaptation to Market Forces

Indonesia has seen a rapid expansion in state capitalism since the mid-2010s, as many state-owned entities have been mobilized to implement numerous development projects. The Jokowi government aimed to use state-owned entities as enablers after past governments had faced limitations of relying on market forces for pushing forward development projects. Jokowi's strategy was successful, and he went on to win the presidential election in 2019, giving him five more years to carry out his ambitious development projects, especially in the infrastructure sector. Somewhat surprisingly, though, this period also witnessed the active support and integration of market forces in managing the economy and even the state-owned sector (Figure 2).

Firstly, the Jokowi administration has repeatedly underscored the importance of enhancing the environment for private businesses and entrepreneurs and spent significant bureaucratic energy into moving up its position in the World Bank's Ease of Doing Business (EoDB) index. As a result of a number of reform policies, Indonesia's ranking increased from approximately 120th during the previous administration to 73rd in 2020. The drivers behind this shift were infrastructure development and 'economic policy packages' aimed at stimulating investment. These packages' main goals were to harmonize regulations and simplify bureaucratic processes, including plans to deregulate 255 rules (Investor Relations Unit 2020a). Furthermore, there were measures to open the economy to foreign investors (PwC Indonesia, 2018). The second Jokowi administration has maintained the goal of achieving 40th on the EoDB ranking and pushed forward a 'job creation' omnibus law ("Presiden Jokowi minta kemudahan", 2020). Among the omnibus law's diverse goals, the focus has been on enhancing the investment and business environment, with related articles accounting for approximately half of the entire bill (Investor Relations Unit, 2020b). Interestingly, state-led infrastructure development is also often presented as essential to enhancing the business environment.

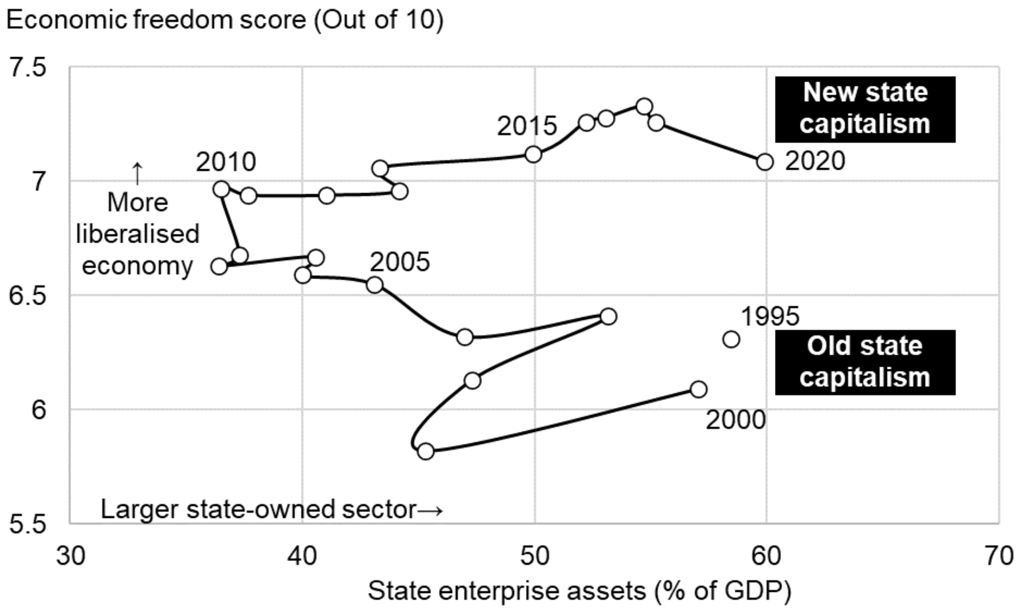

Figure 2 Indonesian state enterprises' assets and economic freedom index

Source: Fraser Institute (various issues); Ministry of Finance, Indonesia (various issues)

Secondly, the Indonesian government has legitimized its mobilization of state-owned entities by arguing for the limited fiscal space to conduct numerous development projects directly. The resurgence of state capitalism under Jokowi follows a period of significant financial market uncertainty, during which Indonesia was identified as one of the 'fragile five' countries with weak fiscal and current account positions in 2013 as the United States central bank signalled the slowdown of monetary expansion and international capital left 'emerging' countries (Basri, 2017). Furthermore, in Indonesia, government spending is constrained by the fiscal rule, which caps the annual fiscal deficit at 3% of GDP, and breaking this rule can have serious political consequences. This policy means that increasing government investment beyond readjusting the budget structure is difficult in the short term. Discretionary government spending is further constrained because certain shares of the budget are legally required to be spent on health and education (Blöndal et al., 2009). Under these circumstances, the Jokowi government's decision to leverage state enterprises to raise funding and link them to state-owned financiers allowed a significant public investment spree without destabilizing the fiscal situation (Investor Relations Unit, 2020b). The state-owned sector's capital expenditure more than doubled from 221 trillion rupiahs in 2015 to 448 trillion rupiahs in 2018.

Thirdly, Indonesia's government has sought to strengthen the relationship between state-owned entities and private companies, particularly in strategic sectors. For example, the nationalization of Freeport Indonesia has often been viewed as a state enterprise 'taking over' a private firm. However, it may also be interpreted as a public-private mechanism for sharing risks. After the Indonesian government invested 3.85 billion dollars in acquiring Freeport Indonesia's shares, the company is 51% state-owned and 49% private-owned and is pursuing a plan to strengthen downstream businesses, which involves significant patience ("Completion of PT Freeport", 2019). The second Jokowi administration has also attempted to benefit from emerging industries by creating a partnership between state enterprises and private firms. Indonesia Battery Corporation, an alliance between state enterprises, has been negotiating with global electric vehicle battery industry firms to establish an integrated value chain in Indonesia (Harsono, 2020). Finarya, a state-owned alliance offering electronic money services (LinkAja), has received 100 million dollars from a Singaporean multinational ride-hailing company Grab, seeking opportunities in the growing financial technology sector (Eloksari, 2020). A state enterprise subsidiary, Telkomsel, has invested 450 million dollars in the Indonesian private company Gojek to benefit from the expanding ride-hailing market (Singh, 2021). Finally, Indonesia's sovereign wealth fund, Indonesian Investment Authority, aims to attract investment worth 225 trillion rupiahs from some of the largest international institutional investors to stimulate development projects (Akhlas, 2020).

Finally, the Indonesian government has been sourcing key bureaucrats to run state-owned entities from the private sector. Jokowi has chosen candidates with strong business backgrounds to lead the Ministry of State Enterprises and promote state-centered development projects. The Minister chosen during the first administration was Rini Soemarno, who had worked in the business sector for over two decades. Soemarno's most notable experience was her time at Astra International, a leading conglomerate in Indonesia, between 1989 and 2000, where she was appointed Finance Director and subsequently

President Director. Soemarno played a role in the company's initial public offering in 1990 and survival during the Asian financial crisis. The Minister of State Enterprises during the second administration was Erick Thohir, who is even more strongly rooted in the business world than his predecessor. Thohir's father is one of the 'co-founders' of Astra International, and his brother is the founder and principal shareholder of the leading mining company Adaro Energy. Moreover, Thohir himself is a renowned businessperson who owns the media company Mahaka Media. The Indonesian government perhaps regarded personnel with private sector experience as most appropriate for achieving the dual goal of profit-making and development contribution. While development contribution has gained greater importance, profit-making has not been overlooked by ministers from private sector backgrounds.

State Capitalism Meets Democracy

Sustaining state capitalism under democracy is not simple. There have been many recent cases, such as those in Brazil and Malaysia, where the mobilization of state-owned entities has been interrupted, facing economic, political, and societal issues. The remaining section of this paper discusses the questions raised regarding reviving state capitalism under Jokowi by various stakeholders in a democracy and how the government has attempted to justify and legitimize the resurgence of state capitalism (Figure 3).

Firstly, questions have been raised about the rapidly increasing debt levels of the state-owned sector. In particular, state enterprises in the utilities and construction sector have seen their debt expand significantly when conducting large-scale infrastructure projects (Salna & Dahrul, 2020). Over this period, state-owned financial companies have participated in funding these state enterprises and experienced an increase in debts. The government agrees that state enterprises' financial health requires close monitoring but argues that the current situation is neither unreasonable nor threatening. If looking at state enterprises as a whole, this issue is not a significant risk, at least in the short term.

The expansion of public debt is inevitable in financing development projects, the benefits of which are reaped in the long term. Because government spending is limited by the fiscal rule that caps annual fiscal deficits at 3% of the GDP, the government has mobilized state enterprises to implement debt-financed development projects. Compared to other developing countries, Indonesia's fiscal situation is relatively strong, which can cushion the effects if state enterprises struggle with short-term liquidity and refinancing risks. On an individual basis, many of the largest state enterprises continue to have a stable financial profile, and investor confidence is holding up. There are, of course, many state enterprises with poor performance, though most of these are small and unlikely to cause systematic risks. In response to criticism of the expanding debt, the Ministry of Finance has continued monitoring and sharing the risk profile based on the macro stress test model (Republik Indonesia, 2020a).

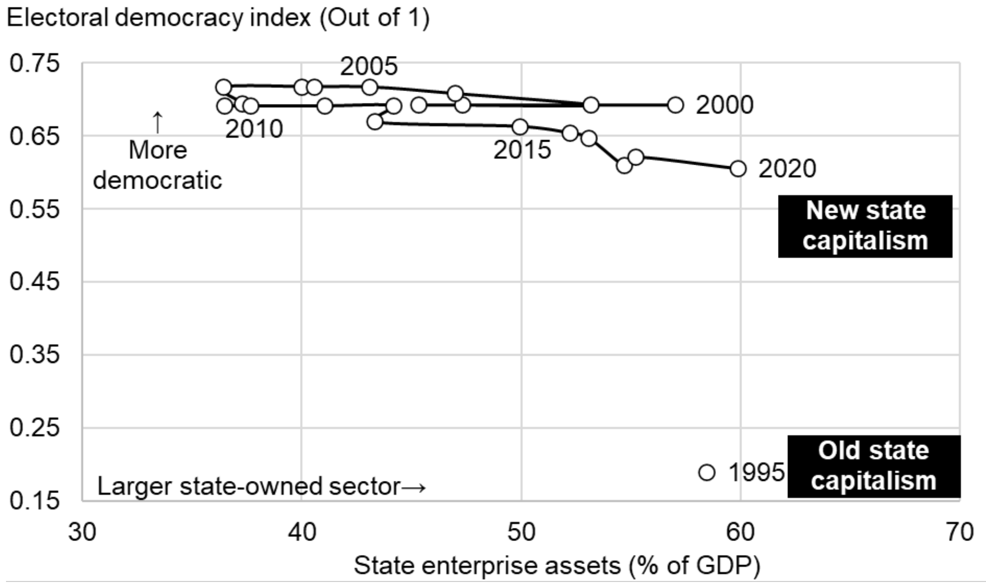

Figure 3 Indonesian state enterprises' assets and electoral democracy index

Source: Ministry of Finance, Indonesia (various issues); V-Dem Institute (various issues)

Criticisms have been made on the methods used to reorganize state enterprises (Kim, 2018). Since the mid-2010s, the primary reorganization has involved creating sectoral holding companies. Over the past five years, holding companies have been designated and established in the mining, energy, pharmaceutical, and insurance sectors. The government plans to create further holding companies across other sectors, such as tourism and infrastructure. The government has also created sub-level holding companies by combining state enterprises' subsidiaries in the same sector. Sub-level holding companies in the Islamic banking and hospital sectors have been established. The government argues that holding company structures are the most effective method of creating synergy as stronger firms can help weaker firms in the rationalization process and find sources for expanding investment by leveraging enlarged assets. Simultaneously, the government has halted privatization altogether. The government's sole focus on creating holding companies has been criticized. Experts have argued that holding companies may have beneficial effects in some sectors but not in all, meaning each sector needs a tailored reorganization method that considers several aspects. Furthermore, the critiques have highlighted that the negative consequences may outweigh the positive effects as weaker firms could pull down healthier firms in the same holding company. Some experts have also pointed out that while looking neater in terms of the corporate arrangement, holding companies may hinder corporate governance as subsidiaries can hide under a new umbrella structure.

The government has begun to respond to this criticism. The Ministry of State Enterprises has abandoned the long-term goal of creating a super-holding company, which has been deemed unrealistic and its effects uncertain (Rahman, 2019b). The ministry is also taking measures to enhance the internal structure of holding companies. For example, energy holding company Pertamina has started to organize its numerous subsidiaries by creating sub-sectoral holding companies (Pertamina, 2021). Furthermore, the ministry has been considering revising government regulation 41 of 2003 to gain greater capacity and autonomy in implementing diverse reorganization methods, including liquidation, mergers, and spin-offs (Rahman, 2019a).

There have also been concerns about how deep and far state enterprises will go. Over the past five years, there has been a notable expansion of state enterprises' market share across several economic sectors. The state bank's share in Indonesia's total loans increased from 34% in 2014 to 42% in 2020. The market share of Semen Indonesia in the cement industry increased from 39% in 2018 to 53% in 2019 after acquiring Holcim Indonesia, the third-largest producer in the country (Semen Indonesia, 2020). Another increase in market share through mergers and acquisitions is that of Inalum. Inalum's market share in the mining sector expanded following its acquisition of a stake in Freeport Indonesia and Vale Indonesia (Inalum, 2020). It is also clear that state enterprises' market share has increased significantly in the construction sector, with their order books expanding at a breakneck speed. State enterprises are expanding market shares in their traditional areas and actively entering new emerging sectors. For instance, mining companies Inalum and Antam, energy company Pertamina, and electricity company PLN have created Indonesia Battery Corporation to enter the growing electric vehicle battery industry (Tani, 2021b). A number of state enterprises have co-invested in Finarya to create the financial technology platform LinkAja, which provides electronic money services (Silviana, 2022). Private firms have complained about state enterprises' growing market shares, highlighting that this expansion would harm the investment environment (Prabowo, 2019).

In return, the government argues that market share expansion is a feature only of select business areas it deems as strategic, such as finance, mining, and infrastructure-related sectors. The government's involvement plays a role in fixing market failures and protecting strategic assets in these sectors. Simultaneously, the government highlights that a growing market share partly reflects state enterprises' competitiveness. It also argues that state enterprises are devising plans to enter new industries to be in an advantageous bargaining position before powerful foreign companies enter the country to tap into the extensive resources and market. For instance, the Indonesian Battery Corporation is currently negotiating with Chinese and Korean companies seeking to establish electric vehicle-related manufacturing bases in Indonesia (Ministry of Investment 2021). Furthermore, Finarya recently invited Singapore's Grab to become a shareholder (Tani, 2021a). In contrast, the government's direct entry into new sectors in which major domestic players already exist has been infrequent. For example, while there has been speculation that the government may enter the ride-hailing services and compete against Indonesia's Gojek, the government stated that it was only a rumor.

Another issue raised in democratic Indonesia is the linkage between corruption and state capitalism. Corruption cases are numerous and range from petty misconduct to deeply rooted fraud. For example, there have been accusations of PLN's officials receiving graft in relation to Riau coal-fired power plant and Petral's previous boss receiving bribes related to oil imports (Asmarini 2015; Siddiq, 2018). The corruption case that has perhaps gained the most attention has been that of Garuda Airline's boss smuggling a Harley-Davidson motorbike and Brompton bicycles from France using the company's Airbus A330 ("Direksi Garuda penyelundup", 2019). There have also been significant corruption cases, so they shook the companies foundation. There has been the mismanagement of funds at Asabri and Jiwasraya, which have caused losses of 22,8 trillion rupiahs and 16,8 trillion rupiahs, respectively (Prasetyo, 2021). Allegedly, there has been large-scale financial market manipulation and money laundering at these state-owned financial companies. The government has acknowledged this corruption problem but has suggested that immoral individuals have caused it. Furthermore, it has been suggested that a long list of unveiled corruption cases is evidence of Indonesia's strong monitoring institutions.

There have also been concerns about nepotism in the state-owned sector. During the first and second terms, many commissioner positions have been given to the president's supporters. Critiques have highlighted that some of the individuals that occupy these posts do not have relevant experience or capabilities. At the same time, the Ministry of State Enterprises continuously receives "recommendations" for state enterprises' high-ranking positions from various lawmakers and bureaucrats who want their slice of the pie. Proponents have argued that the inclusion of the president's supporters reflects diversity on boards and that supporters are essential agents able to translate the government's goals into state enterprises' actions (Sudrajat, 2017; Hamdani, 2020; Purnomo, 2020).

Another concern is the business background of the Minister of State Enterprises, Erick Thohir. The government and supporters have highlighted that Thohir's connection to the business world is essential as state enterprises seek to adopt more effective management systems and strengthen cooperation with private businesses. The government and supporters have also argued that Thohir's weak political affiliation is a strength. The view on political connection is questionable; the business-politics boundary is fluid in Indonesia, and many people from the business world are directly and indirectly embedded in the political world. Thohir may not be loyal to certain political parties, though he became a politician, in a broad sense, when he led the President's re-election campaign team in 2019. There is also concern about Thohir's connection to Indonesia's business groups. He is considered one of the prominent figures in Indonesia's business world. His acquaintances, including his brother, are some of the wealthiest capitalists in Indonesia, owning large conglomerates. Several civil organizations have highlighted how the capital city relocation project and the recently-adopted omnibus law could benefit the country's largest companies connected to politicians (Johansyah, 2020; Fraksi Rakyat Indonesia, 2020).

Conclusions

Indonesia has experienced a rapid expansion of state capitalism since the mid-2010s, as the Jokowi government's development strategy has heavily relied on state-owned entities, particularly in the infrastructure and mining sectors. However, state capitalism's resurgence has not translated into the government decidedly turning its back on the market. The government has legitimized the expansion of state capitalism by arguing that it is necessary to enhance the business environment, particularly in infrastructure, and maintain a stable fiscal environment. The government has also sought to embrace market mechanisms by encouraging collaboration between state-owned entities and private businesses and using management talent from the private sector.

The concerns raised by numerous stakeholders during the resurgence of state capitalism have reflected the obstacles that the government has faced in mobilizing state-owned entities in a democratic context. Stakeholders have questioned financial stability, reorganization method, business scope, corruption, and nepotism. There have been productive discussions on economic issues surrounding state capitalism. Balancing fiscal stability and development project implementation, devising a suitable reorganization method, and determining state enterprises' appropriate business scope would require continuing the discussion between the government and stakeholders. However, the government's justifications for and responses to concerns surrounding corruption and potential nepotism have, so far, been limited. As seen in countries such as Brazil and Malaysia, the public's dissatisfaction with, or even anger towards, these issues and the political backlash that follows may seriously disrupt the course of developmental state capitalism.

About The Authors

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