



# **De-industrialization, Re-industrialization and the Resurgence of State Capitalism: The Case of Indonesia**

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*Transforming economies – for better jobs  
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# Key questions and research outline

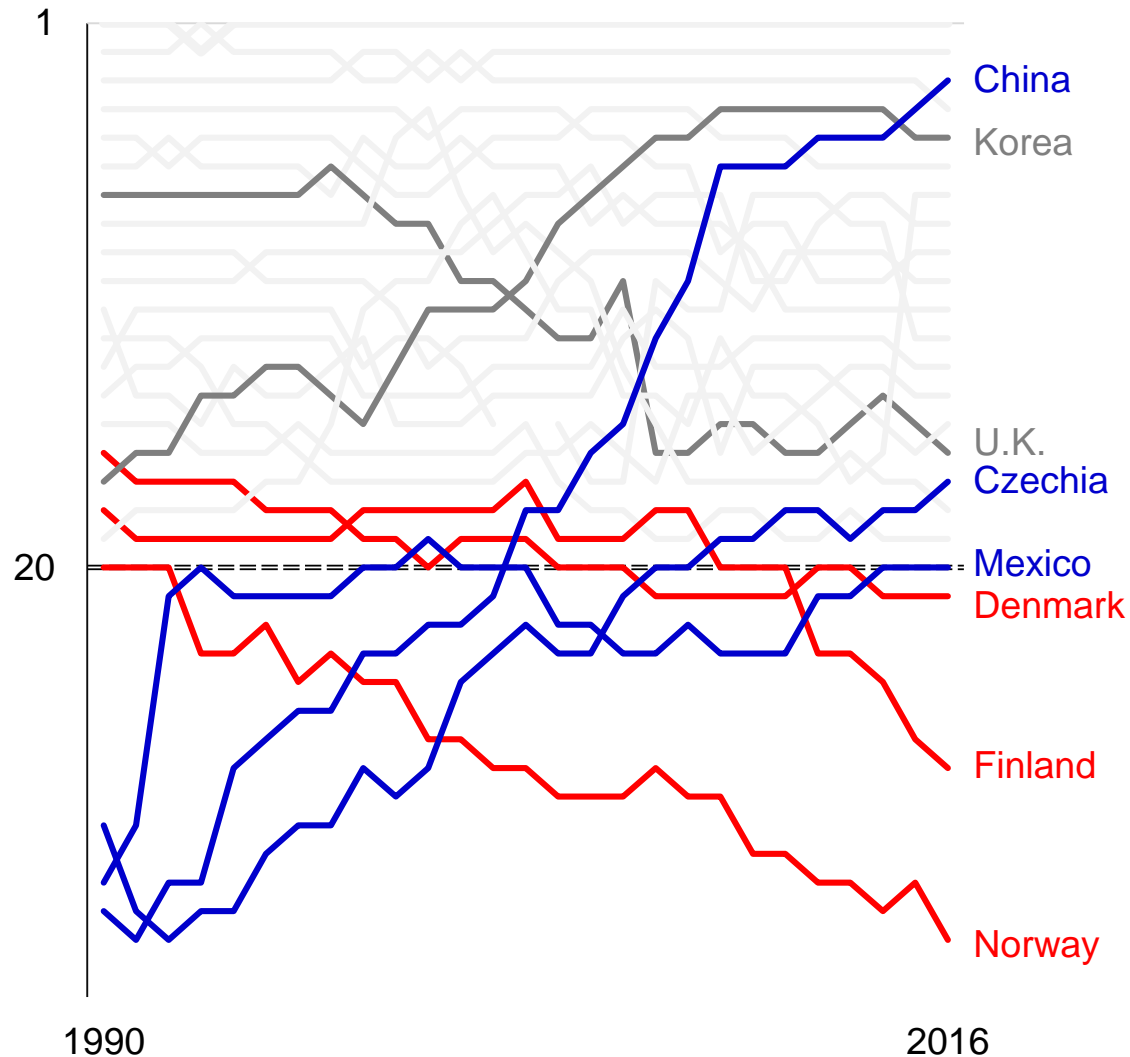
- How significant is the ‘industrial upgrading’ challenge?
  - The key driver of ‘manufacturing gap’: Advanced countries ‘extending the ladder’
- What policy tools do developing countries have?
  - Focus on state-owned entities as policy tools

Goals	Key challenges	Leading state-owned entities
Value adding & Technological upgrading	Knowledge externalities	State enterprises in strategic industries
Development financing	Capital market imperfections	State financial institutions
Infrastructure provision	Investment environment	State infrastructure companies, science institutions
Investment coordination	Coordination failure	State holding companies, state financial institutions

- Aim: To demonstrate association between weak growth-enhancing structural transformation & resurgence of state capitalism
- Case study: Indonesia’s SOE strategy under Jokowi (2014-2019)

# Manufacturing premier league

Competitive industrial performance index: rank



## Note

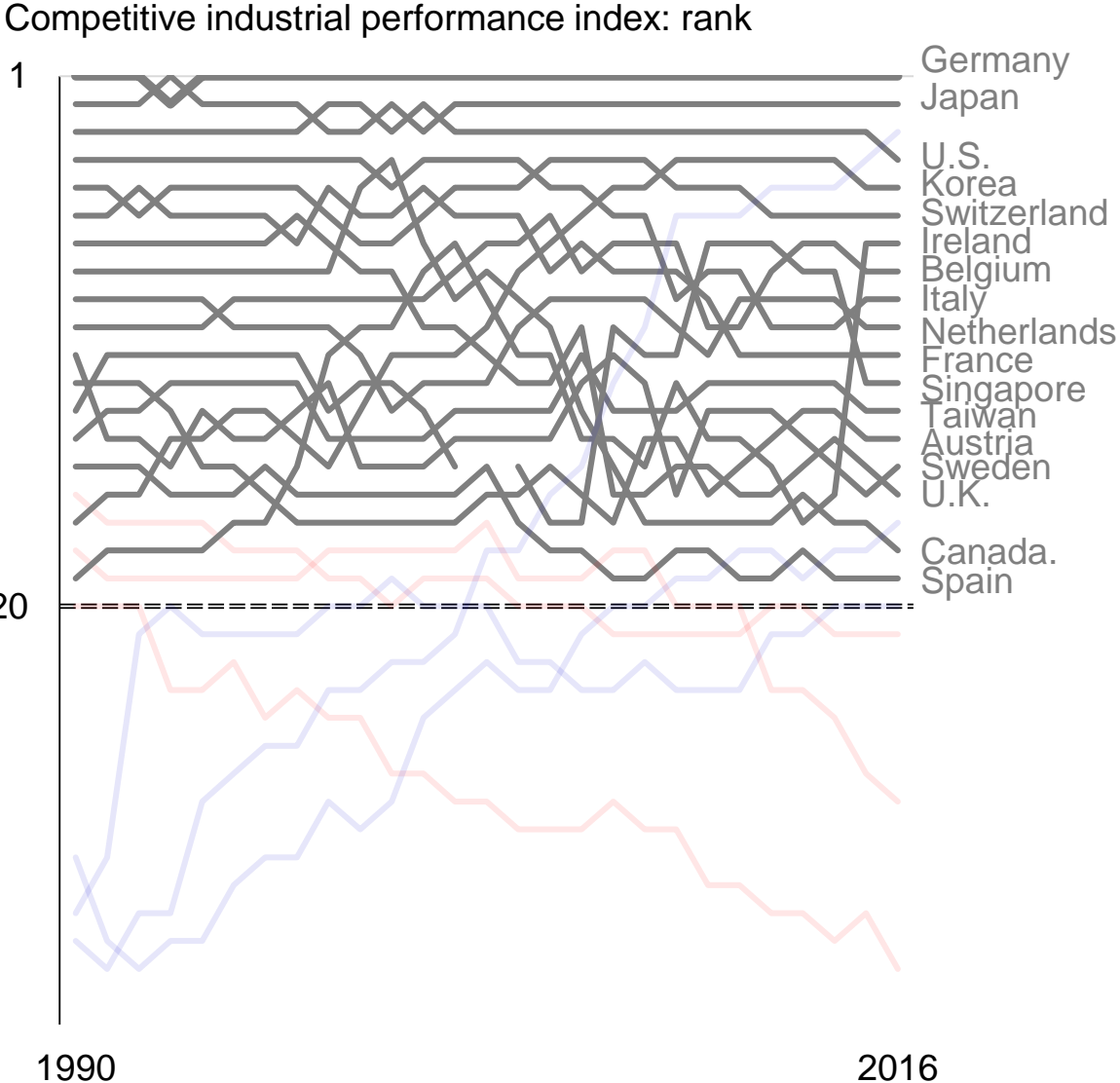
*CIP index is composed of*

- (i) manufacturing value added per capita*
- (ii) manufacturing exports per capita*
- (iii) share of manufacturing value added in total GDP*
- (iv) share of manufactured exports in total exports*
- (v) share of medium- and high-tech manufacturing value added in total manufacturing value added*
- (vi) share of medium- and high-tech manufactured exports in total manufactured exports*
- (vii) share in world manufacturing value added*
- (viii) share in world manufactured exports*

## Source

*UNIDO Statistics Data Portal*

# Manufacturing premier league: Same old same old



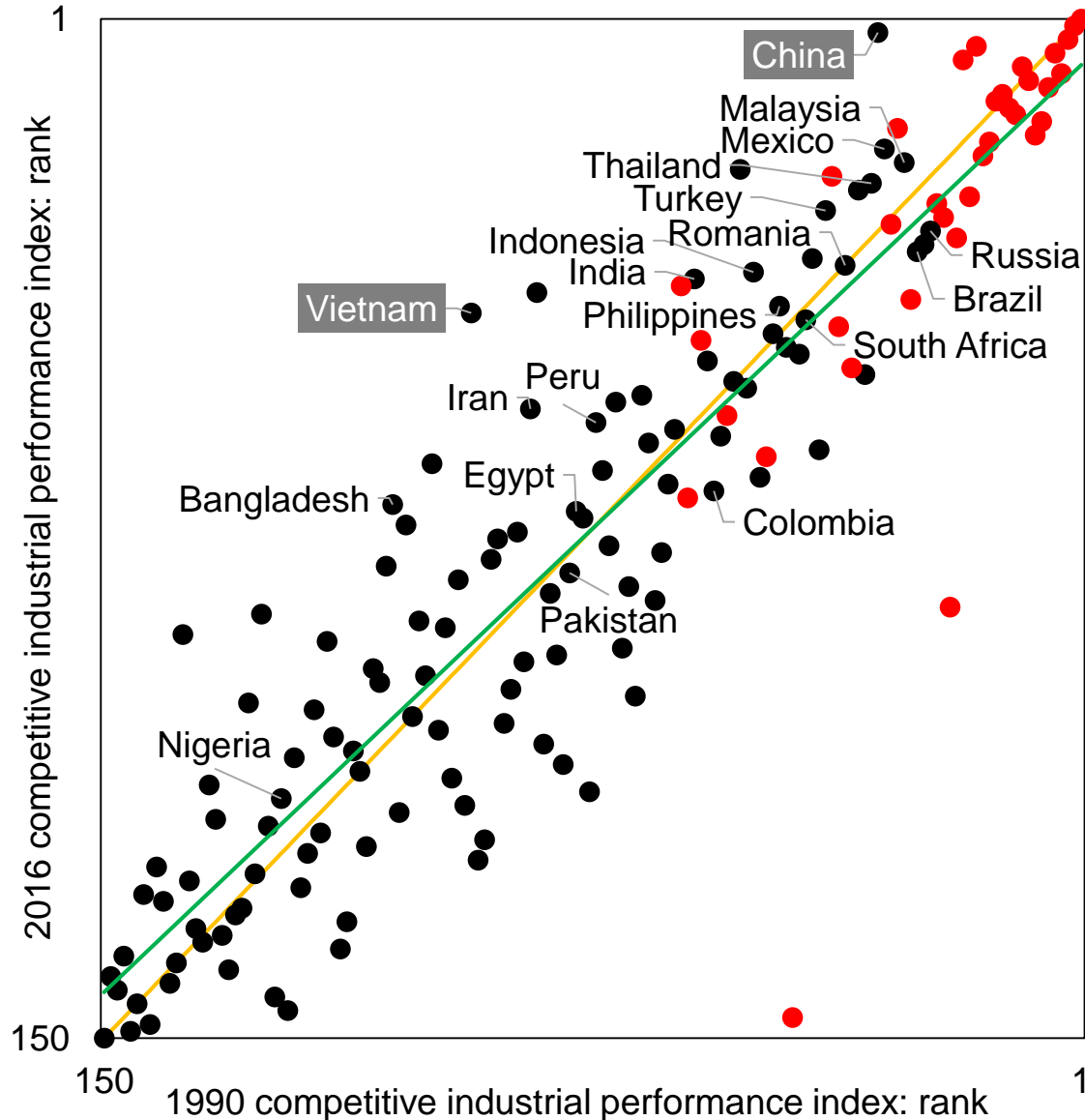
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**Source**

*UNIDO Statistics Data Portal*

# Most developing countries are stuck



## Legend

- Developing countries
- Advanced countries
- 45-degree line
- Line of best fit

Name 20 largest middle-income countries

## Note

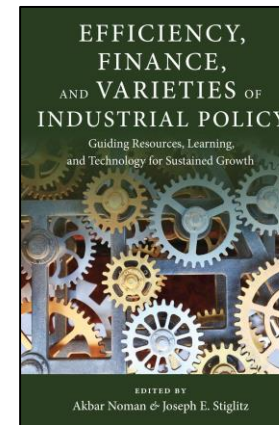
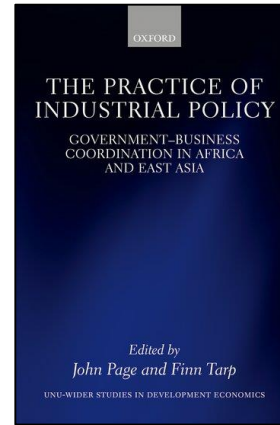
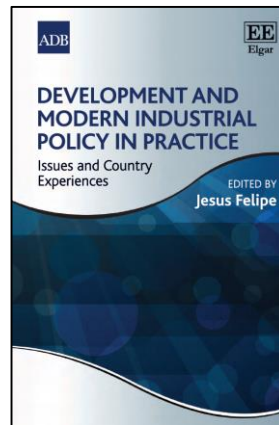
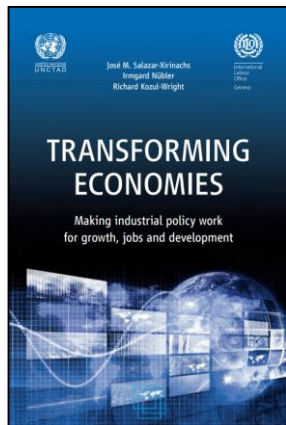
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## Source

UNIDO Statistics Data Portal

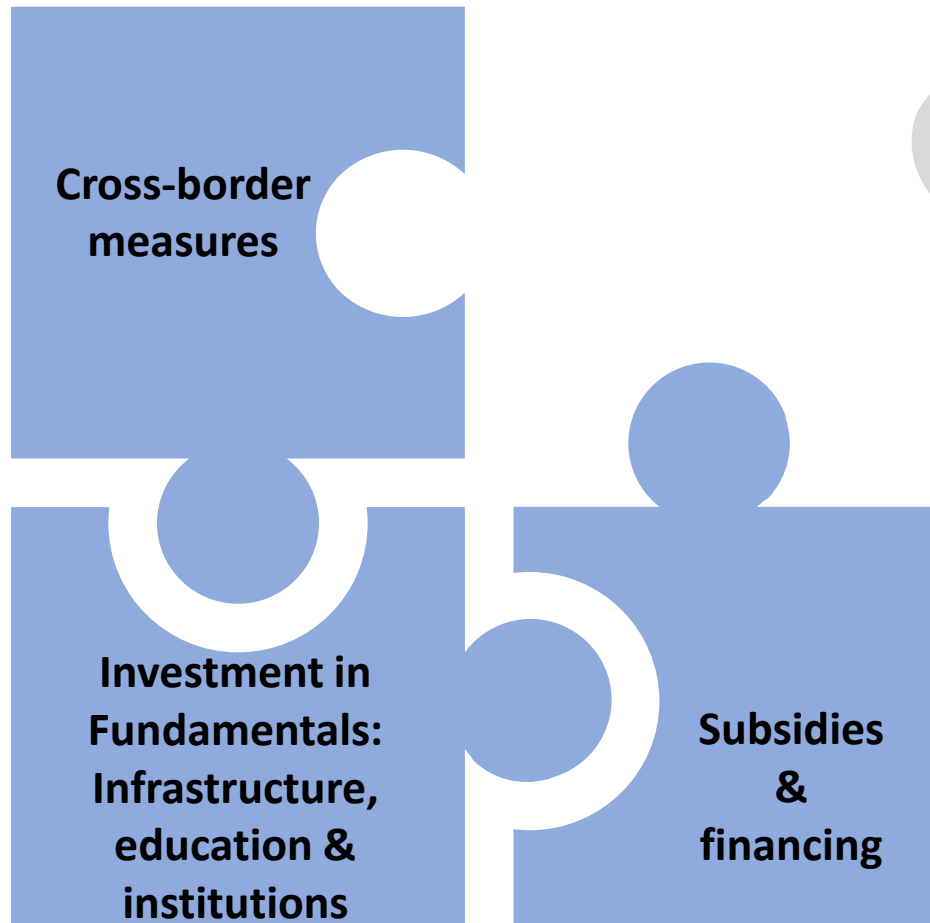
# Revival of interest in industrial policies

- 1990s: Shrinking policy space (“kicking away the ladder”)
  - WTO-GATT, TRIMS, GATS, TRIPS
- 2000s: Leeway and loopholes but lack of enthusiasm
  - “The rhetoric of latecomer countries had become largely liberal and even the most obvious deviants from liberalism had no explicit alternative vision to guide their policymaking, so strong was the global influence of North Atlantic behavioural norms” (Amsden & Hikino 2000, 165)
  - “Policy space is an empty concept in the absence of a co-ordinated plan to use it” (DiCaprio 2010, 408)
- 2010s: Post-crisis stimulus; End of commodities boom; Fear of premature de-industrialization
  - Strong emphasis on jobs
  - How to do industrial policies well: Policy sequence/combination; Institutional/public-private coordination

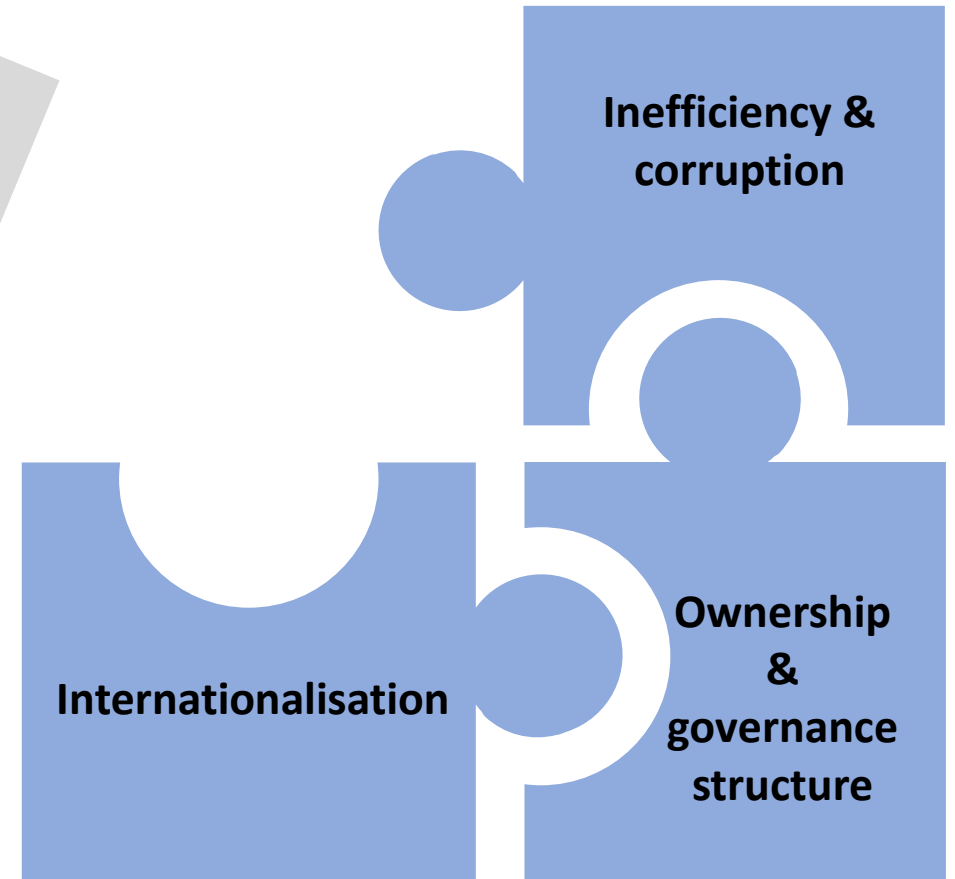


# State-owned entities as policy tools

## Industrial policy literature



## State capitalism literature



# State-owned entities: Alive and well

	GDP, 2017 (\$ bn)	SOE share, 2017 (%)			
		<i>Asset</i>	<i>Operating revenue</i>	<i>Net income</i>	<i>Average</i>
China	12.24	74.7	83.5	74.9	77.7
India	2.60	57.1	45.1	13.1	38.4
Brazil	2.06	32.8	27.5	18.6	26.3
Russia	1.58	77.4	59.4	60.1	65.6
Mexico	1.15	0.0	0.0	0.0	0.0
Indonesia	1.02	47.5	32.1	37.4	39.0
Turkey	0.85	16.3	2.9	9.3	9.5
Thailand	0.46	14.5	37.6	28.9	27.0
Iran	0.44	14.2	26.7	52.5	31.1
Nigeria	0.38	0.0	0.0	0.0	0.0
South Africa	0.35	0.4	1.3	0.7	0.8
Malaysia	0.31	49.0	45.7	47.9	47.5
Philippines	0.31	0.0	0.0	0.0	0.0
Colombia	0.31	12.9	21.3	31.8	22.0
Pakistan	0.30	19.9	13.7	24.2	19.3
Bangladesh	0.25	7.8	4.4	4.5	5.6
Egypt	0.24	13.7	14.2	19.9	15.9
Vietnam	0.22	40.9	41.8	40.2	41.0
Romania	0.21	16.8	26.2	27.2	23.4
Peru	0.21	6.9	9.7	7.4	8.0
Average	-	25.1	24.7	24.9	24.9

- State-owned enterprises
  - Utilities
  - Natural resources
  - Manufacturing
  - Construction
  - 
  -
- State financial institutions
  - Commercial banks & development banks
  - Pension & insurance companies
  - Sovereign investment funds

## Notes

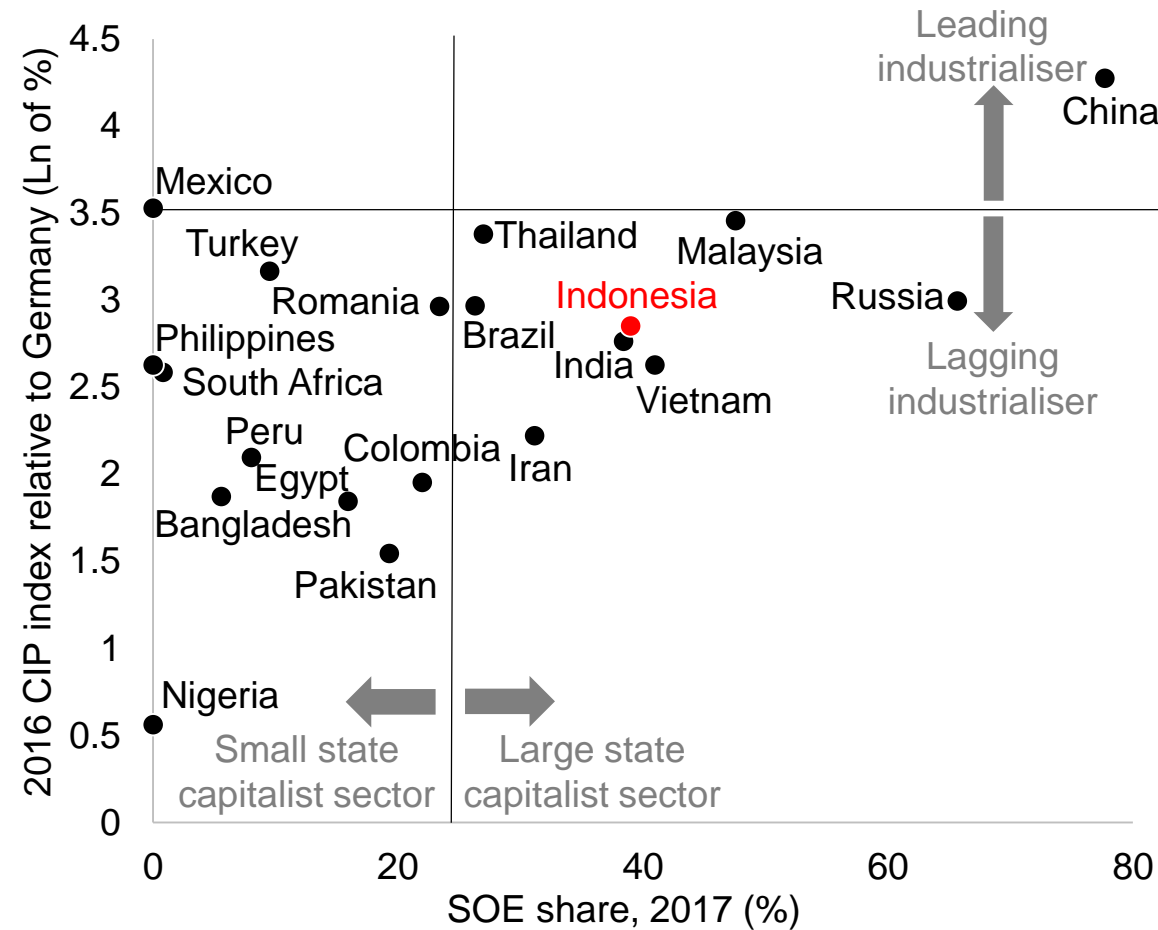
- (i) Share of SOEs in the country's 100 largest publicly listed companies.  
 (ii) SOEs are companies whose ultimate owner type is 'public authority, state, or government' and the ultimate owner is defined as the company's largest shareholder with at least 25.01% of ownership at every step of the ownership path.

## Source

World Bank WDI; Osiris



# What roles can state-owned entities play in stimulating industrialization?

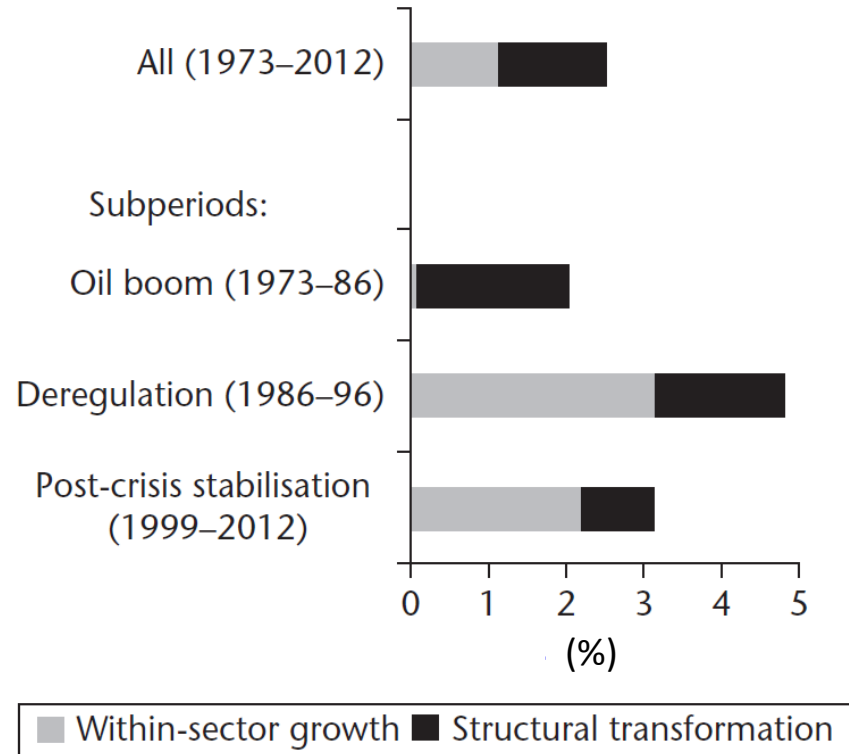


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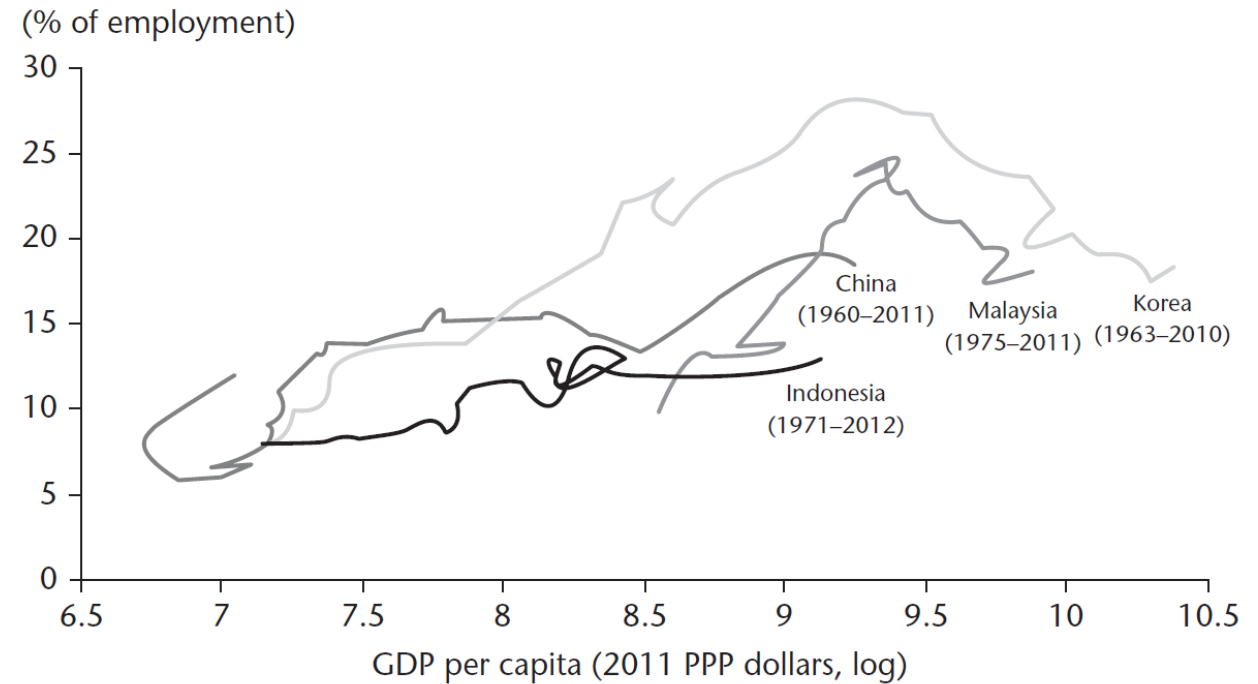
Osiris and UNIDO Statistics Data Portal

# Indonesia's structural change: At a crossroads

Decomposition of labour productivity growth



Manufacturing employment share



## Source

Kim, K., Sumner, A., & Yusuf, A. (2019). *Is structural transformation-led economic growth immiserizing or inclusive? The case of Indonesia*. In P. Shaffer, R. Kanbur & R. Sandbrook (Eds.), *Immiserizing growth: When growth fails the poor* (pp. 226–249). Oxford: Oxford University Press.

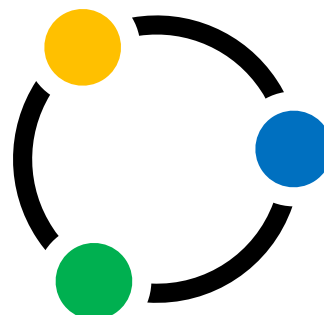
# Indonesia's state-owned entities: Overview

## Fully state-owned enterprises

Name	Industry
PLN	Electric utilities
Pertamina	Oil & gas
Taspen	Insurance
Pupuk Indonesia	Fertiliser manufacturing
Perkebuna Nusantara	Plantation
Pelindo	Port management
Angkasa Pura	Airport management
KAI	Railway management
Inalum	Metals & mining
Dirgantara Indonesia	Airplane manufacturing
PAL Indonesia	Shipbuilding
INKA	Train manufacturing
:	:
:	:
<b>Total: 85 in 2016</b>	

## Development financiers

Name	Industry
Sarana Multi Infrastruktur	Infrastructure financing
Indonesia Eximbank	Export financing
Sarana Multigriya Financial	Mortgage financing
Penjaminan Infrastruktur Indonesia	Infrastructure guarantee
Geo Dipa Energy	Geothermal power financing



## Majority (51%<) state-owned enterprises

Name	Government ownership (%)	Positions in industries
Bank Mandiri (2017)	60	Largest listed bank in terms of assets
Bank Rakyat Indonesia (2017)	57	Second largest listed bank in terms of assets
Bank Negara Indonesia (2017)	60	Fourth largest listed bank in terms of assets
Bank Tabungan Negara (2017)	60	Sixth largest listed bank in terms of assets
Telkom Indonesia (2017)	52	99% MS in fixed line business and 48% MS in mobile broadband business
Perusahaan Gas Negara (2017)	57	73% MS in pipeline-distributed natural gas trading
Waskita Karya (2017)	66	Largest listed construction company in terms of assets
Jasa Marga (2017)	70	61% MS in toll road operation
Krakatau Steel (2017)	80	44% MS in hot rolled coils sales and 28% MS in cold rolled coils sales
Garuda Indonesia (2017)	61	42% MS in domestic flights and 27% MS in international flights
Semen Indonesia (2017)	51	42% MS in cement sales
Pembangunan Perumahan (2017)	51	Second largest listed construction company in terms of assets
Wijaya Karya (2017)	65	Third largest listed construction company in terms of assets
Aneka Tambang (2017)	65	Largest nickel ore, ferronickel, and bauxite miner (2014)
Adhi Karya (2017)	51	Fourth largest listed construction company in terms of assets
Bukit Asam (2017)	71	Sixth largest coal miner (2014)
Timah (2017)	65	Largest tin metal miner (2014)
Kimia Farma (2017)	90	2.5% MS in pharmaceutical industry
Semen Baturaja (2017)	76	2.5% MS in cement sales (2015)
Indofarma (2017)	81	Not available

Note: MS stands for market share.

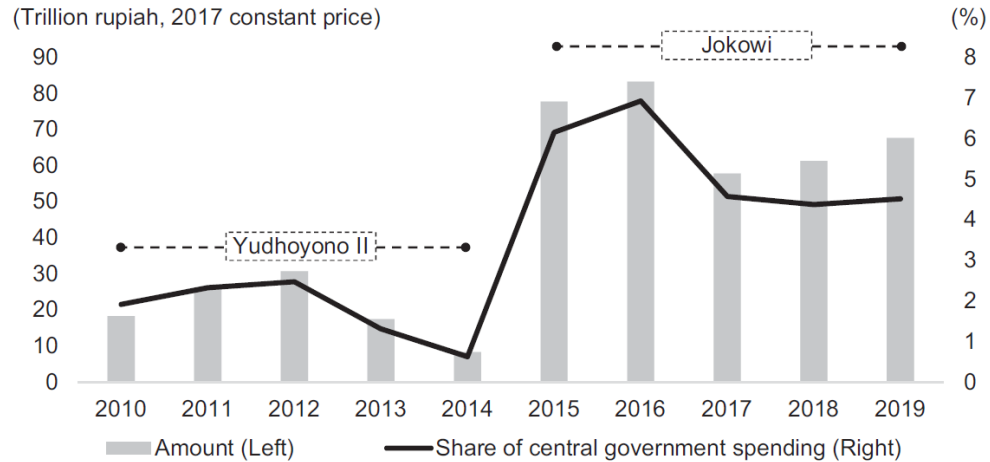
**Total: 33 in 2016**

## Source

Kim, K. (2019). Using partially state-owned enterprises for development in Indonesia. *Asia Pacific Business Review*, Advanced online publication.

# Strengthening state capitalism in Indonesia

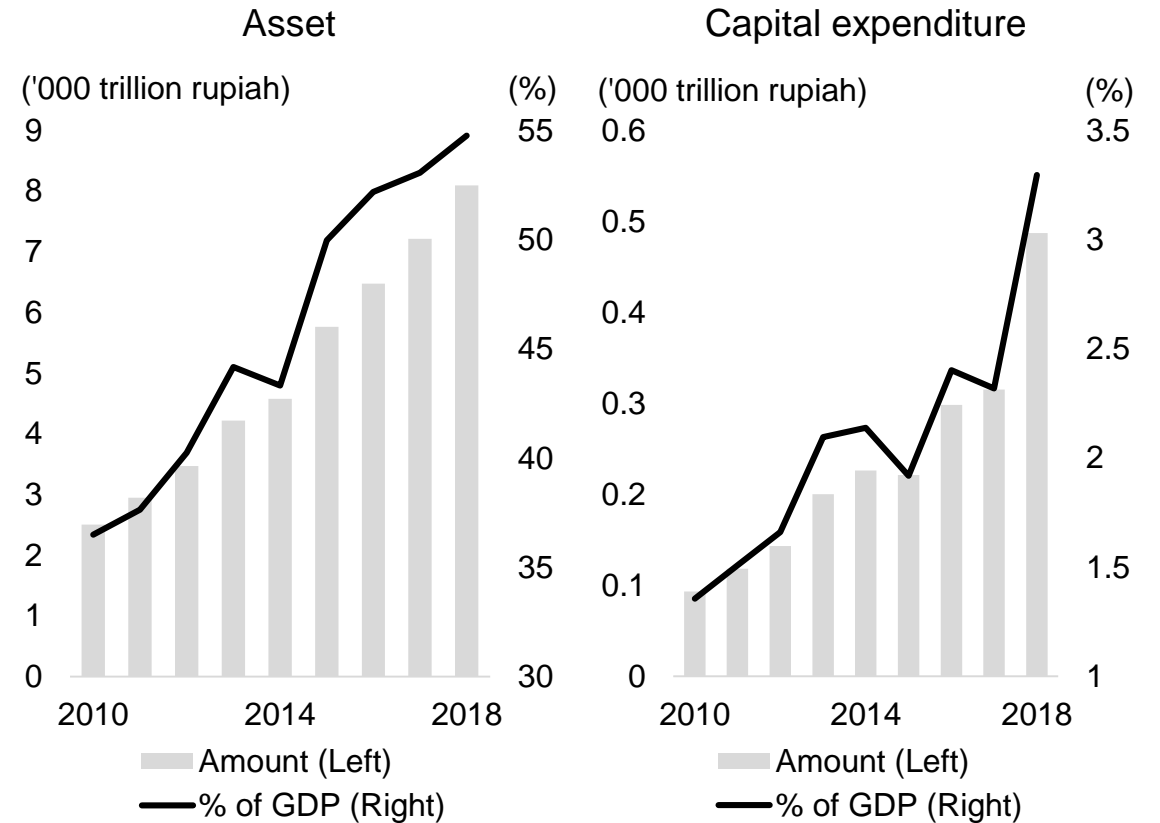
## State capital injection into state-owned entities



### Other support tools

- Providing tax incentives for fixed asset revaluation
- Lowering dividend ratios
- Directing state financial institutions' loans
- Establishing holding companies
- Encouraging inter-SOE cooperation
- Allocating government projects
- Creating demand through procurement

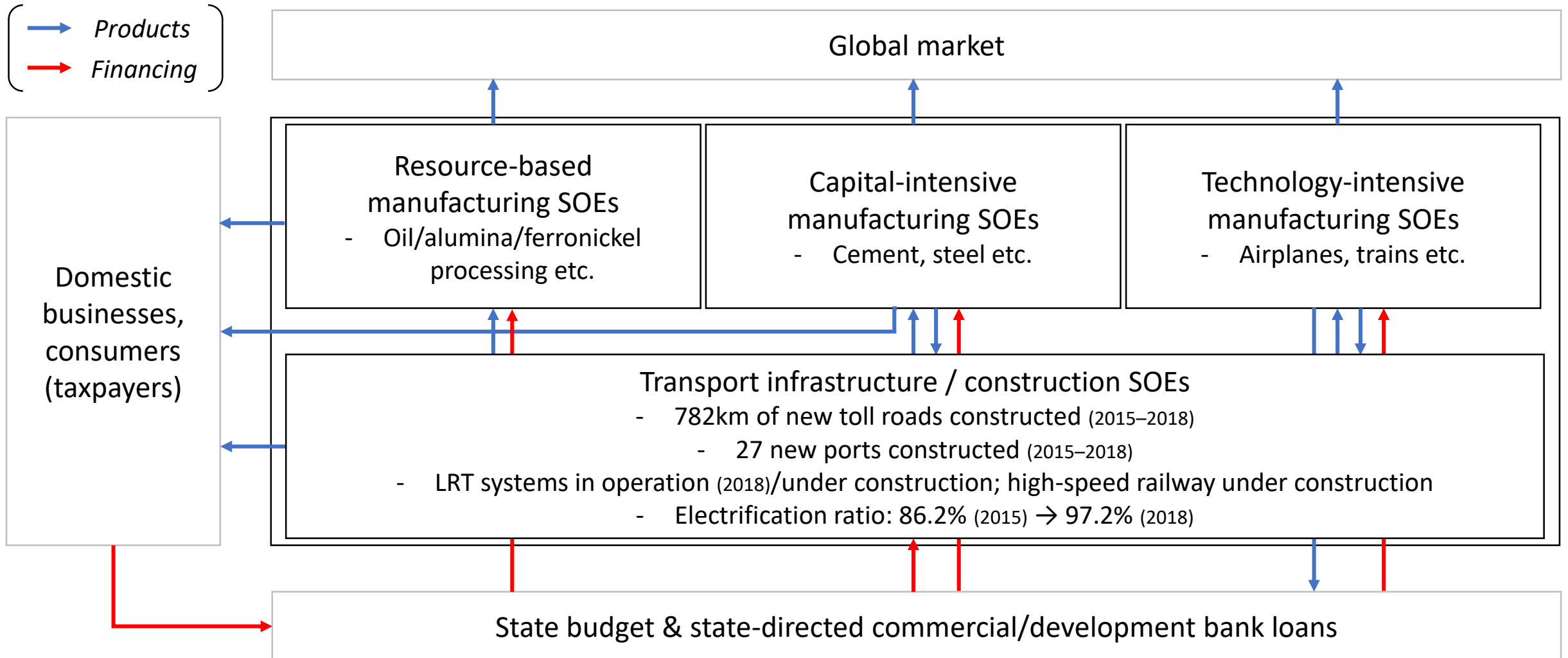
## Performance of state-owned enterprises



### Source

Kim, K. (2019). *The state as a patient capitalist: Growth and transformation of Indonesia's development financiers*. *The Pacific Review*, Advanced online publication.  
 Kim, K. (Forthcoming). *The state's return in the Indonesian economy: Deregulation, democratisation, and development space*. *Journal of Contemporary Asia*.

# Indonesia's SOE strategy (2015-2019) to stimulate re-industrialization

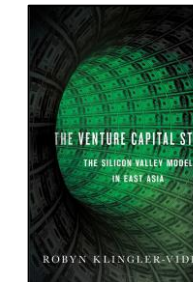
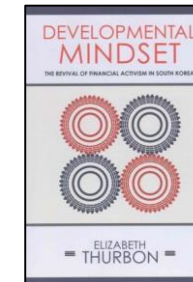
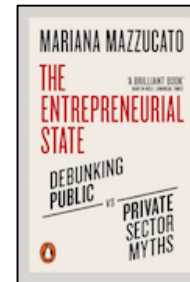


# Will it succeed?

- Potential problems
  - Corruption
  - Confusion caused by multiple goals
  - Increasing debt and soft budget constraint
  - Weak innovative capacity
  - Weak management capacity
  - Weak bureaucratic capacity
  - Weak performance monitoring system

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- So do nothing?  
or try to overcome the obstacles?
  - “Entrepreneurial” state (Mazzucato 2011)
  - “National security” state (Weiss 2014)
  - “Financial activist” state (Thurbon 2016)
  - “Venture capital” state (Klingler-Vidra 2018)



- And maybe with some luck and more time...

“... it is difficult to disentangle bad luck from bad policies... Other examples such as the aircraft industry in Indonesia in the past do not provide sufficient evidence against TIP. Perhaps Indonesia was hit with bad luck with the Asian crisis of 1998 and could have emulated the success of EMBRAER in Brazil if given more time.” (Cherif & Hasanov 2019, 64)



# Developmental role of state-owned entities: Areas of further research

*Reciprocal control mechanism:  
Incentives and monitoring*

*Political drivers/difficulties:  
State capitalism under democracy*

*Relationship with the private sector:  
Crowding out or crowding in?*

*Global norms and views of  
international financial institutions*



# Thank you



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