Comparative Analysis of Chinese and Indonesian State-Owned Enterprise Reform

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Abstract

Numerous research has pointed to the significant roles of State-Owned Enterprises (SOEs) in driving economic growth in Asia, particularly in the 1980s. Such enterprises have immensely benefited from both state support and legal and natural monopolies, often at the expense of crowding out private sector growth and investment. The 1997-1998 Asian Financial Crisis, however, have exposed many countries to the fact that it can no longer rely solely on SOEs. There has been pressure to reform its SOEs, to improve its competitiveness or even privatize. SOE Reform in China and Indonesia provide interesting case studies, considering their dominance in key sectors, and extent and scope of state influence. SOEs in both countries remain obliged, to this day, to deliver political and social objectives while expected to generate profits. This paper, therefore, aims at performing a comparative analysis of SOE reform in both countries during the period of 2010-2020, with a view of examining governance and financial management changes as consequences and products of reform. Questions to be answered in this paper include: 1) what considerations for reform are; 2) how SOE governance change as consequence of reform; and 3) extent of financial management and operational changes that SOEs experience.

Keywords
Indonesia, China, State Owned Enterprises, Reform, State Corporatism.

1. Introduction
State Owned Enterprises (SOE) significant roles in East Asian countries' development may characterize the 'Asian way' of development (Park 2020, also in Singh and Chen, 2018). SOEs contribute more to Gross Domestic Products (GDP) in Asian countries compared to elsewhere around the world, and in developing Asia, the contribution is 10-40% of GDP, higher than average of Organization of Economic Cooperation and Development (OECD) where SOE is contributing 5% of GDP (World Bank, 2014). Among the countries, in Indonesia and China, SOEs contribute 23-28% percent in China (Zhang, 2019), and have pertinent economic, social, and political roles (Singh and Chen, 2018). SOEs so called dominance does not come without issues. In times of economic difficulties, they may pose additional burden to the State Budget, and their poor performance may be a source of public discontent. There are also concerns that they may crowd out private investment and distort competition (Cevik, 2019; Menong and Ng, 2017). To address such issues, reforms have been rolled out in the two countries, and comparative analysis of reform in the two countries will be able to share a light on the motivation, and whether governance and performance are affected. To perform a comparative analysis, it is important to consider the following questions for Indonesia and China:

1) What are the considerations or reasons for SOE reform?
2) Have there been changes in governance as consequence of reform?
3) What are the major financial management and operational changes within the SOEs?

1.1 Objectives
The research is aimed at providing a comparative analysis of the drivers and determinant factors of reform in two countries where SOE is an important factor in development. The research also aims at contributing to the following analysis:

1) Correlations between political leadership, economic setting, and impetus for SOE reform. The period of 2010 – 2020 presents a unique period where various political economic reasons for reform may be found.
2) Extent of diluted or altered state influence over SOEs as consequence of reform.
3) Impact to SOE performance, whether there are efficiency or competitiveness gains from the reform.

2. Literature Review
SOE reform in general, or in the case of China and Indonesia (ADB, 2020; Nugroho, 2019; Lie, 2021), have been a subject of interest of researchers. Several literature points to the extent of monopolies granted to SOEs, mostly to ensure that national priorities are delivered (Singh and Chen, 2018; Park, 2020) and political promises are met. There have been studies looking on history of reform, how operational performances have been affected (Lin and Zheng, 2020) and impetus for reform (Singh and Chen, 2018). There have been limited literatures, however, carrying out comparative analysis of SOE reform in two countries at 3 (three) different variables: 1) impetus for reform; 2) state control; and 3) impact. This paper, therefore, will contribute to the existing compendium of studies on the subject.

3. Methods
This paper employs qualitative analysis in comparing reform of Indonesian and Chinese SOEs. The paper draws from previous analysis on the subject, which focused on individual countries and regional comparison. Motivational reasons for reform are drawn from desk analysis of articles and journals. To perform comparison on governance and operational changes within SOEs, this research is referring to the OECD Guidelines for Corporate Governance of State-Owned Enterprises, whereby the following categories are used as variables of analysis i.e., 1) how state influence is manifested in governance; 2) whether SOEs still operate in natural monopolies and changes in operations (OECD, 2015). The comparative analysis is focused on the period of 2010 - 2020. The period is selected for several reasons: 1) it is the period whereby both Indonesia and China are experiencing changes in leadership; 2) it is the period where the world is recovering from the 2008-2009 global financial crisis and in 2019-2020 has to deal with the COVID 19 global pandemic.

4. Data Collection
The research draws from government reports from both countries during the period, similar research on SOE reform, and reports produced by OECD, Asian Development Bank (ADB), the International Monetary Fund (IMF) and the World Bank on SOE performance and reform. The research also made references to online media articles.

5. Results and Discussion
The strong roles of SOEs in East Asian economies can be categorized as state corporatism, or some equates the phenomenon with corporate statism. It is defined as a situation whereby the government grants monopolies/facilities to its non-competitive units in return for delivering results for the ruling regime (Schmitter, 1974; Colin and Dore, 1990; Mingsho, 2016). Such manifest of power translates to the need for SOEs to meet sets of priorities, both through direct command or through participatory means (Unger and Chan, 1995). Some of the most advanced East Asian countries have witnessed SOE driven growth, and in China, for instance, SOEs provides significant contribution to generation of jobs, to national output, and growth in assets (Zhang, 2019). Indonesia and China provide interesting comparison, as both are large economies with very different political set up. Indonesia is one of the world's largest democracies while China has a one-party command system.

SOEs in Indonesia and China are mandated to generate profits while at the same time ensure delivery of national (and mostly political) priorities, including generating jobs and providing accessible and affordable goods and services. It is also common to expect the enterprises to help stabilize the economy in times of difficulties (Nugroho, 2019 and Jin et al, 2022).

SOEs have been critical in Indonesia's history, as one of the first moves made after its independence was vast nationalization of Dutch companies (Damke, 1960). Since then, its role has expanded: it has promoted new sectors, influenced the market, and even became the primary engine for growth (Sungkar, 2008). The SOEs have enjoyed both natural and legal monopolies, until the Asian financial crisis of 1997 exposed the need to privatize and reform. Studies revealed that the reform did little to improve SOEs performance. With the election of President Joko Widodo in 2020, reform continues, where poor performing SOEs were forced to restructure, privatized, and even closed (Lie, 2021). China, on the other hand, has a different story. Most of the SOEs are home grown and have served as the Communist Party of China (CPC)'s economic and political instruments. Reforms have taken place since the 1980s, introducing coexistence of corporate and political structure (Wang, 2014).

In the period between 2010 and 2020; both Indonesia and China underwent changes in political leadership. While President Xi Jinping was elected President in 2013, President Joko Widodo was elected in 2014. While SOE reform is not introduced by both Presidents, it was after their election that reform takes a different turn towards greater efficiency. The COVID 19 pandemic has also highlighted the need for SOEs to be flexible and agile: as some received direct orders to immediately change course of their business to help the government in dealing with the health and economic emergency (Leutert and Eaton, 2021; Lie, 2021). While changes in leadership per se do not add impetus for SOE reform, directions of reform were different with the change of helmet in the two countries. President Xi Jinping's vision is for SOEs to drive innovation and research-based economies (Jin et al, 2022), whereas President Joko Widodo emphasizes the need for SOEs to be the catalyst of growth in the infrastructure sector (Nugroho, 2019).

The reforms conducted in both countries during the period has produced changes in state ownership and influence as depicted in Table 1. China, under President Xi Jinping promotes further government – enterprise separation and has changed the SOEs positioning from 'asset managers' into 'capital owners', where global expansion being at the heart of its strategy (Leutert and Eaton, 2021). Political party alignment is assured through direct influence in top executive and executive appointments, where performance contracts are introduced (Lin and Zheng, 2020). On the other hand, Indonesia's state ownership and influence has not significantly changed due to reform within the period of research. In China state control has been exercised differently and there has been a conscious choice by the state to distance itself from SOEs, which is not the case in Indonesia.

Table 1. Summary of State Ownership and Influence over SOEs

Components	**China**	**Indonesia**
Government ownership in SOEs	>25% (average of 40%)	>51%
Control	Direct/indirect	Direct
Central/local ownership	Dependent on size. Small enterprises managed by local	All central government
Supervision	State Owned Assets Supervision and Administration Commission (SASAC)	Ministry of State-Owned Enterprises (MSOE)
Executive Appointments	Direct Influence	Direct/Indirect Influence
Top executive appointments	Political	Mixed
Policy Reference	Communist Party Policy and Regulations	National Medium Term Development Plan
Access to Public Resources	State Budget, Access to Loans, Paid in Capitals	State Budget, Access to Loans, Public Service Obligations, Paid in Capitals
Performance Contracts	Yes	No

Source: authors analysis, from various sources.

SOEs mergers and privatization are parts of SOE reform in both countries. Indonesia managed to reduce the number of SOEs into 107 in 2020 (MSOE, 2020). In China number of SOEs have significantly declined yet assets managed are greater (Lin and Zheng, 2020). While in China performance contracts have been introduced to measure SOE performance, such mechanism is not yet present in Indonesia. It is therefore not possible to perform comparative analysis of SOE performance, particularly efficiency in both countries.

5.1 Numerical Results

As the research is quantitative research, there are no applicable numerical analysis.

5.2 Graphical Results

There are no graphical results from numerical analysis.

5.3 Proposed Improvements

There are no proposed improvements to the analysis.

5.4 Validation

There is no statistical validation which is applicable to this research.

6. Conclusion

The research began with attempting to draw a correlation between changes in leadership, changes in economic setting to the need and immediacy of reform. While in 2010-2020 both Indonesia and China underwent political leadership changes, reform history has begun prior to their election and there had been little correlation with the motivation for reform. The changes in political economic settings, however, had altered the direction and the manner of the reforms. President Xi Jinping had instructed SOEs to be the center of innovation while Indonesian SOEs are expected by President Joko Widodo to propel growth in the infrastructure sector. In China state influence has been diluted, as a supervisory commission is created to monitor performance, and alignment to party policies are ensured through selection of top individuals. In Indonesia this is not the case. The Chinese SOE reform strategy has conceivably contributed to better SOE performance – domestically and internationally, while Indonesia needs to introduce some measurement of performance.

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