

**SELECTIVE, GRADUAL, AND PARTIAL PRIVATIZATION OF
STATE OWNED ENTERPRISES IN INDONESIA:
ANALYSES FROM MACRO AND MICRO PERSPECTIVES**

By

Bin Nahadi

Dissertation Submitted

To

**Graduate School of Asia Pacific Studies
Ritsumeikan Asia Pacific University**

**In Partial Fulfillment of the Requirements for the Degree of
Doctor of Philosophy**

Abstract

Despite their huge role and contribution to the economy, the Indonesian State Owned Enterprises (SOEs) have been considered suboptimal in their performance. Privatization as a strategy is among the key efforts that have been relentlessly made by the government to increase the performance of SOEs. Privatization has been very strategic as a principal economic policy of the government with very broad objectives, both at the macroeconomic and microeconomic level. Nevertheless, the government has been facing huge challenges in its efforts to ensure a successful implementation of privatization policies. These include constraints relating to finance, politics, and social and technical contexts that constitute critical determining factors for the success of privatization in Indonesian. In this regard, a unique strategy of privatization is inevitably needed. Although the trend of privatization at the global level has been intensified in recent decades, the government of Indonesia has maintained a conservative policy of privatization strategy.

This study aims: 1) to find out which privatization strategy that has been pursued by the government and the rationale of implementing the selected strategy, 2) to assess the effectiveness of the pursued strategy in accomplishing the objectives of privatization both at macroeconomic and microeconomic level, 3) to examine the determinants of the success or failure of the pursued strategy both at macroeconomic and microeconomic level.

Using a combination of quantitative and qualitative analytical methods, this study has come out with the following key findings. Firstly, instead of implementing massive, fast, and full privatization the government of Indonesia has consistently pursued a selective, gradual, and partial privatization. This privatization strategy is believed to have greater expected economic

benefits than aggregate socio-economic and political costs of pursuing the strategy. Secondly, the pursued strategy successfully brings about favorable impact at macroeconomic level. Privatization plays a very critical role in promoting the development of capital market, improving financial contribution to state budget, being one of the effective sources of deficit financing, and maintaining high level of employment in the SOEs. At this level, the selection of firms to be privatized, the method of privatization employed, the pace with which privatization is pursued, and the political process to be undertaken are believed to be determining factors for the success of the strategy.

Thirdly, unlike what mainstream theories propose and what most empirical studies report, partial privatization is found to satisfactorily bring about positive impact on the performance of firms despite the absence of two success factors of privatization as believed by mainstream views, i.e. transfer of control and the presence of well-established capital market. The impact can be seen in the short term and even it is much stronger in the long term. The study reveals that the government governance in the form of improved monitoring through reduced political engagement and enhanced incentive system through stock-based remuneration scheme plays a significant role in the success of partial privatization. Despite its relative marginal contribution compared to the contribution of other factors, the role of capital market governance shows increasing importance in the long term following the development of stock market. Lastly, product market competition also plays very critical role through its direct impact on improved monitoring and performance incentive; also through its relation to financial market and government governance.

Keywords: partial privatization, state-owned enterprises, government governance, capital market governance, product market competition, Indonesia