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69 Years of Indonesian State Capitalism [1]

Long before Indonesia owned corporations, a corporation governed parts of the archipelago. The Dutch East India Company (*Vereenigde Oostindische Compagnie* or VOC), often described as the world’s first multinational corporation, was established in 1602. Its charter empowered it to enter into treaties, maintain armed forces, wage war, and rule overseas territories. It was a corporation endowed with sovereign powers.

Few places reveal what that meant more starkly than the Banda Islands (pictured above), some 2,500 kilometers northeast of Jakarta and then the center of the global spice trade. In 1621, VOC Governor General Jan Pieterszoon Coen arrived with 15 ships and 1,655 men seeking to monopolize the nutmeg and mace trade.

Under the Treaty of Breda in 1667, the Dutch gave up their claim to New Netherland, including present-day Manhattan, while retaining tiny Run, coveted for its nutmeg and mace.

Three centuries later, the relationship between corporate power and sovereignty would be reversed. Independent Indonesia would exercise sovereign power over Dutch-owned companies. On December 3, 1957, under President Soekarno and amid Indonesia’s struggle with the Netherlands over West Irian, workers took control of Dutch-owned companies. Nationalization followed.

Law No. 86 of 1958 provided the legal basis for nationalization. Although enacted on December 27, 1958, the law took effect retroactively from December 3, 1957. Dutch-owned companies became property of the Indonesian state. The government viewed nationalization as part of its post-independence pursuit of economic sovereignty. Article 33 of the 1945 Constitution reflected the broader principle that important branches of production are controlled by the state, while natural resources are controlled by the state and used for the greatest prosperity of the people.

Modern Indonesian state capitalism grew out of this moment.

The state remained an owner. What changed was the purpose of ownership. Over the next 69 years, Indonesia repeatedly repurposed state ownership as its economic priorities changed and its relationship with the global economy evolved. The institutions through which the state exercised that ownership changed with them.

"Danantara is more than a domestic reorganization of state ownership. Its governance, investment choices, and international partnerships may influence how Indonesia is perceived as an investment destination, economic partner, and increasingly consequential allocator of state capital. "

In the late 1960s, Indonesia opened to foreign investment without retreating from state ownership. Law No. 1 of 1967 provided the legal framework for this shift. Oil revenues in the 1970s helped fuel the expansion of state-owned enterprises (SOEs) across banking, energy, infrastructure, and strategic industries. State ownership became an instrument of industrialization alongside private and foreign capital. No longer used principally to reclaim economic sovereignty from a former colonial power, state ownership was combined with growing participation in the global economy.

The 1997–1998 Asian financial crisis exposed corporate governance failures and accelerated SOE restructuring and privatization. Greater private participation and market discipline accompanied continued state ownership. SOEs became more closely connected to global capital markets. Their governance increasingly mattered not only for domestic economic performance, but also for how Indonesia was perceived by international investors and economic partners.

Under President Joko Widodo, the role of SOEs shifted again. His administration consolidated them into fewer but larger enterprises and increasingly relied on them to finance and develop infrastructure, from toll roads and ports to railways. By 2023, the number of SOEs had fallen sharply, while the SOE portfolio comprised Rp 10,402 trillion in assets and generated Rp 2,933 trillion in revenue. The result was a growing capacity to mobilize capital for development. As SOEs raised capital, entered partnerships, and undertook projects involving foreign investors, state ownership became increasingly intertwined with the country's international affairs.

Indonesian state capitalism is entering another phase. Rather than simply relying on individual SOEs, the state is reorganizing their ownership and management within a new institutional architecture for state capital. Law No. 1 of 2025 established *Badan Pengelola Investasi Daya Anagata Nusantara* (Danantara), a new state investment body with significant responsibilities for SOE management.

How Indonesia organizes and governs state capital increasingly affects its engagement with global investors and markets. Danantara is more than a domestic reorganization of state ownership. Its governance, investment choices, and international partnerships may influence how Indonesia is perceived as an investment destination, economic partner, and increasingly consequential allocator of state capital. In that sense, the institutions governing state ownership are becoming part of Indonesia's economic statecraft.

The historical resonance is hard to miss. In Banda, the corporate form once carried powers of the state. Since independence, Indonesia has turned that relationship in a different direction, using state ownership to pursue economic sovereignty, industrialization, infrastructure development, and now the institutional organization of state capital itself. The continuity of state ownership therefore obscures a deeper transformation. Its purposes and institutions have changed alongside the country's economic priorities and its relationship with the global economy. Once subject to extraordinary foreign corporate power, Indonesia increasingly uses the institutions of state ownership to organize and deploy its own capital.

For much of the 20th century, state capitalism expanded as the state acquired or created SOEs. Their number has shrunk even as the functions of state ownership have expanded. State capitalism can no longer be measured simply by counting SOEs. What increasingly matters is how the state organizes, governs, and deploys the capital it owns.

Four centuries ago, a corporation exercised sovereign powers across the archipelago. In 1957, independent Indonesia brought the enterprises of its former colonial power under state control. Today, the relationship between state and corporation is being redrawn once more.

The question is no longer simply whether the state should own corporations, but how it should exercise that ownership and what its deployment of state capital signals about the country Indonesia seeks to become.
