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Expanding Statism through Sovereign Investment? Evidence from the Domestic-Focused Indonesia Investment Authority

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Abstrak
Artikel ini membahas tentang sovereign wealth fund (SWF) pertama di Indonesia, yaitu Indonesia Investment Authority (INA) yang berfokus pada investasi domestik. Meski beberapa lembaga investasi negara lain yang dibentuk baru-baru ini juga memprioritaskan investasi domestik, mayoritas SWF di dunia melakukan investasi di luar negara mereka. Tulisan ini mempertanyakan bagaimana memahami pembentukan INA di tengah tren ini. Melalui analisis kualitatif data sekunder, artikel ini berargumen bahwa orientasi domestik, struktur, dan tujuan investasi yang dimiliki INA merefleksikan statisme yang semakin meluas, dimana pemerintah menggunakan lembaga investasi ini untuk mengarahkan modal publik dan swasta ke proyek-proyek nasional. Skema co-investasi yang dijalankan INA memungkinkan aktor-aktor non negara mempertahankan kepemilikan modal, meski di saat yang sama, menyerahkan keputusan arah investasi kepada lembaga ini. Studi ini penting mengingat banyaknya SWF di dunia dengan model bisnis yang semakin beragam, yang menimbulkan kekhawatiran bahwa lembaga ini hanya menjadi instrumen kekuasaan pemerintah.
Kata kunci: investasi, pembangunan, Sovereign Wealth Fund (SWF), statisme

Abstract
This study examined Indonesia's first-ever sovereign wealth fund (SWF), known as the Indonesia Investment Authority (INA), focusing on domestic investment. While some newly established SWFs prioritize domestic markets, most of the traditional sovereign funds invest overseas. This study questions INA's establishment considering this trend. Through qualitative analysis of secondary data, this research argues that INA's domestic orientation, structure, and investment objective reflect a growing trend of expanding statism, whereby the government leverages the sovereign fund to shape public and private capital allocation for national projects. INA's co-investment scheme has enabled non-state actors to maintain their capital ownership while the fund determines investment directions. Given the growing number of SWFs worldwide with varied business models, concerns have emerged that governments may utilize them as instruments of power.
Keywords: investment, development, Sovereign Wealth Fund (SWF), statism

INTRODUCTION

In November 2020, the Indonesian government passed Law of the Republic of Indonesia No. 11 of 2020 on Job Creation, also known as the Omnibus Law. In one chapter, the law outlines 'The Central Government Investment and Easiness for the National Strategic Projects', which mandates the establishment of an entity to manage central government investment. A month later, the government introduced Regulation of the Government of the Republic of Indonesia No. 74 of 2020 on the Investment Management Agency. Later, the agency is named Indonesian Investment Authority (INA) and is labelled as the first-ever Indonesian sovereign wealth fund (SWF).

INA's establishment was by no means surprising, given that there has been a proliferation of SWFs worldwide in the last few years. Given the different definitions of what SWFs are, the exact number of these entities varies. No fewer than 40 new SWFs emerged between 1998 and 2009 (Cohen, 2009), originating from at least 24 countries. Many of these new SWFs were established by developing economies, such as China's Investment Corporation, Mexico's Fondo Mexicano del Petroleo, and Timor Leste's Petroleum Fund. As of the end of 2023, 175 SWFs existed worldwide, accumulating an estimated USD 11.2 trillion in total assets under management (Global SWF, 2024). Out of the total 175 SWFs, 33 belonged to Asian countries, 32 to African countries, 28 to the Middle East and North Africa region, 27 to the North America region, 25 to the European area, 16 to Latin America, and 14 to Oceania. Some scholars have correlated the proliferation with fluctuations in commodity prices (Warde, 2009). In this view, states established SWFs to manage windfall profits, for example, Timor Leste's Petroleum Fund, which was established in 2005 after the country became a petroleum exporter (Triwibowo & Miranda, 2016). This commodity-based fund followed the early SWFs established, such as the Kuwait Investment Authority. Others argued that the proliferation was a trend to which governments were drawn due to the global success of SWFs, despite a lack of assurance regarding their effectiveness in managing excess funds and ensuring transparency (Chwieroth, 2014).

Without disregarding that no SWFs in the world are perfectly similar, INA presents three distinctive features compared to other sovereign funds. To begin with, it does not rely on excess cash from resource rents or surpluses from other economic activities. Instead, it receives capital injections as seed funding and transfer of assets from the government. It also raises funds from various sources, such as other SWFs, pension funds, and private equity firms (Indonesia Investment Authority, 2021). It is a different feature compared to many other SWFs and diverges from one of the crucial points that an SWF is established to manage excess funds. Second, it has a domestic focus, especially in the infrastructure sector in Indonesia (Herdi, 2021). While this focus is not unique, traditional SWFs invest overseas. Overseas investment is commonly related to the attempt to mitigate the effects of excess cash on the domestic economy. Third, unlike other SWFs that typically lean toward passive investment, INA aims to manage the investors' money actively (Santoso, 2021). Passive investment has long been a strategy to mitigate risk and avoid maladministration. Nevertheless, scholars have noted a shift that non-traditional and newly established SWFs look for an active strategy.

INA's features merit further discussion. Why do its features defy most of the common characteristics of an SWF? Does it only follow the global trend? What are the underlying reasons behind these features? How can they be understood? How can variations of models taken by INA be explained? How do the features shape the new reality of the Indonesian political economy of investment? This study seeks to provide answers to these questions. It is expected that answers and evaluations of these questions would inform a better theorization of sovereign investment, especially by developing countries.

LITERATURE REVIEW

While scholars universally consider SWFs to be government-owned vehicles, most hold differing views on two intertwined fronts: the source of funds and the types linked to investment purposes. SWFs are commonly tasked with managing excess cash from commodity exports, current account surpluses, excess foreign currency reserves, or proceeds from privatizations (Cumming et al., 2017). In short, they receive money from surpluses of economic activities that should be managed to prevent over-appreciation of the currency and ultimately harm the export sector. This view inclines toward early SWFs, established to prevent the Dutch Disease from occurring, stabilize the economy, and anticipate economic shocks during depleted commodity supplies. In the latest trend, however, some SWFs are founded based on non-traditional sources of funds, such as intellectual property rents, government seed funding, international borrowings, state's asset restructuring, diaspora funds, remittances, taxes, and canal toll fees (Braunstein & Ali, 2019).

Some scholars also argue that what distinguishes SWFs from government-owned enterprises or other government economic arms is that they utilize excess funds to invest or acquire assets outside their country of origin (Chwieroth, 2014; Glanfrate & Merlin, 2016; Helleiner & Lundblad, 2008; Truman, 2010). This international exposure signifies two crucial traits, i.e., economic and political considerations. First, investing overseas mitigates the potential impacts of liabilities associated with excess funds. Second, from a political perspective, SWFs can carry foreign policy objectives, especially when the home and host countries do not have official diplomatic relations (Wood & Wright, 2015). In this regard, SWFs serve as a political instrument.

The international dimension of SWFs, however, cannot capture the latest trend, i.e., countries earmarking SWFs to spur domestic growth. Recent research categorized these domestic-focused SWFs differently. A US-based public asset analysis firm, SWF Institute, names the domestic-focused SWFs as Strategic Development Sovereign Wealth Funds. The Organization for Economic Cooperation and Development (OECD) proposed a Sovereign Development Fund (SDF). Bruce-Clark and Monk (2017) argued that an SDF is a sub-category of an SWF that invests in domestic assets, including untraded securities and projects, with dual objectives of economic development and financial returns.

Meanwhile, the World Bank utilizes the Strategic Investment Fund (SIF) to define a special-purpose investment vehicle that invests in sectors or regions where private investors do not invest or only do so to a limited extent (Divakaran et al., 2022). Building a more conceptual framework, Gelb et al. (2017) proposed two categories of domestic-focused SWFs based on the type of their investment, i.e., traditional and frontier. Traditional domestic-focused SWFs center their investments on the equity and debt of local companies. Meanwhile, the frontier SWFs share similarities with development or investment banks and tend to invest in tangible assets, either directly or indirectly.

The varied types of SWFs underscore the classical debate on state and market relations. More SWFs correlate with more states' involvement in the outcome of the economy, which, on the one hand, opposes the free-market principle but, on the other hand, represents a preventive measure for economic management and stability. With SWFs becoming an extension of the governments' interest, they enable more structural state interventions in the economy, replacing multinational corporations (MNCs) as the ultimate actors in global investment. MNCs have long been a key player in international investment, partly due to their capital bargaining power and technological capabilities (Fagre & Wells, 1982). Some scholars have also argued that SWFs represent the spread of new forms of state capitalism, particularly in emerging economies (Bremmer, 2009). Sperber (2019) suggested that SWFs represent an intersection between state capital ownership and statism, as they enable the state to direct available capital into the private sector. Helleiner and Lundblad (2008) argued that possessing an SWF would make a state an investor, alongside its traditional role as a regulator. This way, the state mentioned will be an active actor within capital mobility and thus can transform it. The extent of such an influence, nevertheless, will depend on the size of the SWF and the investment norms that guide its behavior (Helleiner & Lundblad, 2008). The bigger the sovereign fund, the more its owner will be able to move the market.

It is worth noting that growing concerns about overlapping political and economic objectives have led to the establishment of a transnational initiative known as the Santiago Principles in 2008. In the initiative, 24 principles were proposed to guide the practice of SWFs. Among the crucial points is "commercial orientation", denoting that SWFs that have become signatories are committed to ensuring that their investments weigh economic, financial, and return-related factors over political motives (International Working Group, 2008). Hence, this mechanism can be a hindrance if a government seeks to prioritize its SWF's political objectives over its economic interests. The initiative is not free from criticism. Scholars and experts have called for a "reformulation" of the Santiago Principles, particularly regarding its self-assessment mechanism for compliance with the commercial orientation (Global SWF, 2023).

This study builds on the two crucial traits of state agency for capital mobility and private sector involvement. The interplays of these two factors explain the extent to which statism has manifested in the Indonesian political economy of investment, where the mechanisms are observable through INA.

RESEARCH METHOD

This study employed a qualitative method, providing more opportunities to focus on the process, understanding, and meaning (Merriam, 2009). Through qualitative inquiry, this research aims to understand INA's emergence and development as a case study in the context of SWFs' proliferation and the various modes of state investment. Nevertheless, assessment of the compatibility of the case with the existing framework and theory would provide an insightful process and understanding. The arguments and findings were based on secondary data from existing literature, the latest books and academic journals discussing sovereign investments, statements from government officials and governmental institutions, laws and regulations, data provided by non-governmental think tanks and research institutions examining foreign and sovereign investment, as well as news coverage from reputable media companies. Following the data collection, an analysis was performed using a historical-critical approach to political economy. This approach allows for an analysis linking the technical-economic features of the Indonesian sovereign wealth fund to the evolving political landscape surrounding investment in the country. The critical perspective was grounded in the view that SWFs, especially of developing countries, could no longer be regarded purely as liberal market instruments devoid of state intervention. Instead, they serve as a strategic tool, enabling governments to pursue national interests. To support this analysis, the statism theory was integrated to examine the state's autonomy and capacity in directing the means of production in response to challenges of capital formation and accumulation in the domestic and international markets.

RESULT AND ANALYSIS

This section presents the findings from an examination of INA, focusing on three key elements: the INA's features within current debates and the conceptualization of sovereign investment, the domestic influences shaping its priorities, and the gap in global funding. Following these findings, an interpretation of INA through a statism lens was proposed.

THE HYBRID FUNCTIONS OF INA

The plan to establish an SWF in Indonesia dates to the early 2000s, after the country's democratic transition. Following the fall of the previous autocratic regime in 1998, Indonesia underwent structural reform in many of its economic institutions. Under the reform, the Ministry of State-Owned Enterprises (SOEs) set a roadmap to restructure over a hundred SOEs through privatization or consolidation under holding companies for streamlined management (Wicaksono, 2008). The restructuring was deemed necessary due to inefficiencies within SOEs and their association with the previous corrupt regime.

In parallel, the government established a state investment unit known as Pusat Investasi Pemerintah (PIP), expected to follow the model of the most prominent SWFs in Southeast Asia, specifically Malaysia's Khazanah Nasional and Singapore's GIC and Temasek Holdings (Febriyanta, 2021). While the initial plan for PIP coincided with the global proliferation of SWFs in the early 2000s, it did not achieve the same success as other SWFs. Limited sources of funding, partly due to its status as a public service body, were the main reasons PIP was prematurely closed and eventually merged with another entity in 2015 (Dewi & Akbar, 2015).

During the first term of President Joko Widodo "Jokowi" (2014-2019), the idea of SOE holding companies resurfaced, with plans for a super holding entity (Ardhian, 2016). Similar to the earlier objective of PIP, the super holding would follow the business model of Khazanah Nasional or Temasek (Ananta, 2019). However, during President Jokowi's second term (2019-2024), this idea was abandoned, likely due to political shifts, including changes in ministerial leadership. Instead, the government introduced the 2020 Omnibus Law, mandating the establishment of a dedicated investment agency. As stated in the Government Regulation No.74 of 2020, INA should aim to "escalate and optimize the long-term investment value to support continuous development" and to "attract both foreign and domestic direct investments".

The domestic orientation characteristic is reinforced by government support. Instead of relying on excess cash from domestic economic activities, INA receives seed funding from the government, totaling IDR 75 trillion (USD 5 billion), including IDR 15 trillion in cash and the rest in assets such as shares in SOEs (Indonesia Investment Authority, 2021). In addition to government funding, INA aims to attract SWFs from other countries, pension funds, and private equity firms for co-investment, particularly in domestic infrastructure projects like toll road construction (Herdi, 2021). Infrastructure has been a national priority, with SOEs receiving capital injections to expand in the economic sector, where private firms face challenges, including commercial viability and regulatory frameworks (PwC, 2016). This emphasis on domestic infrastructure aligns with SWF strategies seen in India's National Investment and Infrastructure Fund (NIIF) and Nigeria's Sovereign Investment Authority Infrastructure Fund (NSIA), partnering with foreign SWFs for domestic infrastructure investment (Nowacki & Monk, 2017).

The consequences of INA's funding sources and arrangements are twofold. First, under the co-investment scheme, INA has actively managed investors' funds through transactions like those employed by private investment firms (Santoso, 2021). This approach sets INA apart from other SWFs, which typically adopt passive investment strategies, delegating fund management to private equity firms. The passive approach is often utilized preventively against maladministration. Some scholars have suggested that SWFs should refrain from active investments unless their managers possess strong financial expertise (Dixon & Monk, 2017) and unless investment decisions remain within the national budgeting process or other accountability frameworks (Bauer, 2017). Second, INA's funding structure and arrangement require it to balance two potentially conflicting investment objectives: advancing national interests while generating commercial returns. These mixed goals, often referred to as a double bottom line (Halland et al., 2016), risk undermining the effectiveness of INA as an investment management mechanism.

At this juncture, INA is best described as an SWF with hybrid functions. It has the mandate to spur domestic economic growth, like the SDF. At the same time, it follows the SIF model, prioritizing sectors where participation faces obstacles. Moreover, INA pursues an active investment strategy, reflecting a broader trend among newly established SWFs. An increasing number of SWFs are aspiring to gain more control and are beginning to make direct equity investments through co-investment arrangements with private equity firms (Bortolotti & Scortecci, 2019).

THE POLITICAL ECONOMY BEHIND INA: THE FAILURE OF DOMESTIC FUNDRAISING

INA's establishment in 2020 aligns with Indonesia's long-standing tradition of economic nationalism and capital accumulation, particularly exercised via SOEs. With the 1945 Constitution stipulating states' control over the crucial economic sector, the strategic role of SOEs has endured across political regimes. Under President Soeharto's New Order, SOEs dominated strategic industries, especially natural resources, manufacturing, infrastructure, and distribution of basic commodities, functioning as rent-seeking instruments that financed development while stabilizing the regime (Robison, 1986). Soeharto's presidency witnessed rapid economic growth, with industries like manufacturing, construction, finance, transportation, and communication, as well as electricity, gas, and water supply, growing by up to 13% on average (Hill & Narjoko, 2010). However, this rapid economic expansion lacked prudence, particularly in the 1990s when technocrats distanced themselves from his policies (Booth, 1998) and corruption was rampant.

Political change and economic crisis have significantly influenced Indonesia's policy direction. In the aftermath of the New Order era, Indonesia had to exercise policies altering SOEs' functions in accordance with economic assistance requirements from the International Monetary Fund (IMF). One key recommendation was to privatize SOEs, enhance good corporate governance, improve transparency, boost efficiency, and generate additional capital for economic revival. Under the IMF bailout prerequisites, Indonesia was required to privatize 12

SOEs (Sungkar, 2008). While privatizations raised funds for the government, public opposition grew as many perceived foreign ownership of national assets as compromising sovereignty (McLeod, 2002).

Indonesia's reliance on SOEs intensified following the 2008 global financial crisis. Faced with economic uncertainty, the country sought to capitalize on soaring commodity prices. In 2009, the country passed a new law on mineral and coal mining, mandating renegotiation of foreign mining contracts for higher royalties and prioritizing SOEs' ownership in foreign divestiture. In oil and gas, the government has strongly favored national firms and rejected appeals for contract extensions from multinational companies (Asmarini, 2018; Cahyafitri, 2015). Beyond resource extraction, SOEs remain serving as financial tools, with, for instance, state-owned banks often allocating over 50% of the net profits to dividends (Septiadi, 2020).

In recent years, more Indonesian firms have successfully raised funds from the capital markets or secured loans. However, rising liabilities have become a growing concern (Citradi, 2021). Amid scrutiny over the financial health of SOEs, the government introduced macroeconomic policies to mitigate risks, most notably the 2014 fuel subsidy reform, aimed at creating fiscal space for development initiatives. The expanded fiscal capacity enabled the government to inject capital into SOEs to support infrastructure development, which was the flagship program of President Jokowi's administration. However, the fuel subsidy reform only provided short-term relief. Volatile commodity prices have necessitated a certain level of indirect subsidy (CNN Indonesia, 2022), reigniting concerns about the government's limited ability to secure funding for development.

Against the backdrop of unsuccessful efforts to broaden funding sources for national projects, INA signifies a fundamental shift in Indonesia's political economy of investment, fostering deeper integration into the global market and altering the traditional trajectory of capital accumulation (Cahyafitri, 2021). Through its co-investment model, INA offers a departure from previous reliance on SOEs' fundraising in the capital and bond markets, as well as other mechanisms such as rents, grants, loans, and other arrangements, which often put fiscal pressure on the state budget. Instead, INA pools funds from investors, who are return-oriented. In this way, the government can maintain and keep public debts off the books.

INA once announced several deals it has secured with global partners (see Table 1). These agreements involve investments in various projects in Indonesia or equity subscriptions in domestic companies, an area where the government often has limited financial capacity to participate. The investments involve both SOEs, which the government either partially or wholly owns, and private firms. Notable examples include an investment in the pharmaceutical state firm Kimia Farma (partially owned by the government) and Belawan Port, a development project spearheaded by PT Pelindo, a 100% government-owned entity. For the private sector, data and announcements on INA's website have listed investment in the private ticket-booking service Traveloka. This latter example reflects INA's broader collaborative approach, as it co-invests alongside major private equity firms such as BlackRock and Orion Capital. While details of the partnership remain unclear, this example highlights INA's strategic engagement with global investment actors, attracting them to invest in companies in Indonesia.

THE POLITICAL ECONOMY BEHIND INA: THE GLOBAL FUNDING GAP

Beyond domestic constraints, INA's focus also displays frustration with the global flow of investment, particularly in the infrastructure sector. According to OECD data, the annual shortfall in infrastructure investments ranged between USD 2.5 trillion and USD 3 trillion globally (OECD, 2020). Most governments struggle to finance infrastructure projects through national budgets. In Indonesia, the medium-term development plan, as cited in the appendix of Government Regulation No. 74 of 2020, estimated that the country would require IDR 6,445 trillion (about USD 400 billion) from 2020 to 2024 to fund infrastructure development. Projections suggest that the national budget could only cover approximately 37% of the required amount.

Table 1. INA's Partners

Partner	Type of partners	Investee or sector of the project
Caisse de dèpôt et placement du Québec (CDPQ)	Pension fund and insurance	Not available
APG Asset Management	Pension fund	
Abu Dhabi Investment Authority (ADIA)	SWF	
Abu Dhabi Growth Fund	Development fund	Not available
China's Silk Road Fund	Development fund	Kimia Farma and Kimia Farma Apotek
DP World	Private company	Belawan port and other seaport facilities
Black Rock	Private equity	Traveloka
Allianz Global Investors	Pension fund	
Orion Capital Asia	Private equity	
Contemporary Amperex Technology	Private company	Green Fund for Electric Vehicle
CMB International Capital Cooperation	Venture capital and private equity	
Swire Pacific	Investment holding company	Health services sector
Asian Development Bank	Development bank	Early retirement of the coal power plant
Development Bank of Japan	Development bank	Not available
SK Plasma	Private company	Pharmaceutical therapies sector
Export-Import Bank of China (CEXIM)	Government entity	Infrastructure, renewable, information, and technology
GDS Services	Private company	Data center
British International Investment	Development fund	Green energy transition
ESR Group	Investment management	Modern logistics and warehouse
Mitsubishi Corporation Urban Development Indonesia	Private company	

Source: Author's compilation from INA's website, 2021 & 2024

THE POLITICAL ECONOMY BEHIND INA: THE GLOBAL FUNDING

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The private sector is expected to fill the funding gap through initiatives and collaborative mechanisms such as public-private partnerships. Among key private investors are pension funds, life insurers, SWFs, and their affiliated entities (Global Infrastructure Association, 2024). Specifically, the total global assets under management by SWFs were estimated to reach USD 11.2 trillion by the end of 2023 (Global SWF, 2024), representing a significant increase from approximately USD 7.1 trillion in 2014 (Peters, 2017). Given these resources, the question is: where has this capital been allocated?

Generally, SWFs invest in three asset types: cash and fixed income, equities, and private markets (Hentov, 2015). The first two categories have traditionally absorbed the largest share of SWFs' investments. A report by Global SWF highlights that most SWFs allocated more than half of their capital to fixed income and treasury assets (FIT) and public equities (see Table 2)(Global SWF, 2024). In 2016, approximately 77% of SWFs' assets under management went into these two categories. In 2021, the trend remained essentially unchanged, with FIT and public equities collectively accounting for 75% of global SWFs' allocations. Liquidity considerations play a critical role in SWFs' preference for these instruments (Peters, 2017). Although less favoured, SWFs have been increasingly investing in private equity firms. These investments offer potentially higher returns, albeit with associated risks. The high returns have gained traction among SWFs, particularly in efforts to diversify portfolios following the 2008 global financial crisis (Nowacki & Monk, 2017).

Private markets received less than 30% of the SWFs' funds, primarily in real estate, infrastructure, and hedge funds. While the real estate and infrastructure sectors provide opportunities for long-term investments (Global SWF, 2022), SWFs have generally avoided allocating significant capital to infrastructure projects, particularly in developing countries, due to political risks, corruption, and institutional limitations (Peters, 2017). Consequently, many countries struggle to attract SWFs' investment despite the growing gap. To address the gap between the source of funds from SWFs and their allocation to the infrastructure sector, some governments, like Indonesia, India, and Nigeria, have established sovereign funds that partner with other SWFs to invest in domestic infrastructure.

Table 2. The Allocation of Global Sovereign Investments

	2016	**2021**
Fixed income and treasuries (FIT)	34%	29%
Public equities	43%	46%
Private equity	10%	12%
Real estate	6%	6%
Infrastructure	5%	6%
Hedge funds	2%	2%

Source: Global SWF (2024)

UNDERSTANDING DEVELOPMENT FINANCING BY INA: AN EXPANDING STATISM?

This section builds on two main arguments. First, INA's model showcases an attempt to address the challenge of financing national development through a sovereign fund. While an increasing number of SWFs have adopted a domestic focus, INA's approach underscores the necessity of managing the possible destabilising effect of global flows of funds against the quality of public investment and the national economic objectives. Further assessment will be necessary in the future. Second, INA's partnerships and investment arrangements mark a new dynamic of statism in Indonesia. INA's funding sources, domestic focus, and active investment approach imply a state mechanism to achieve development goals, allowing statism to expand beyond the traditional scheme of SOEs and redefining the state's role in capital mobility.

State Agency and Capital Mobility

INA is a new instrument in directing available capital, mainly from the international market, to support both national projects and strategic private sectors. As highlighted in the previous section, INA has secured deals with various partners. Through this strategy to attract overseas capital, INA may have facilitated the redistribution of international investment flows. INA has deployed USD 3.2 billion under co-investment schemes with its partners since its inception in 2021, across various sectors, including infrastructure, healthcare, and green energy (Indonesia Investment Authority, 2021). Despite these efforts, INA's investment activities still represent a fraction of the country's total realized one-year investment in 2023, which reached approximately USD 86 billion (Ministry of Communications and Informatics of the Republic of Indonesia, 2024).

The capacity to further shape the global investment market is relative to the SWF size. It is certain that Norway's NBIM, currently the largest SWF in the world by assets (SWF Institute, 2024), will have more influence on the capital market compared to INA. In terms of size, INA's managed assets reached USD 9.4 billion by the end of 2023 (Indonesia Investment Authority, 2024). Given the figure, measuring the impact of INA on Indonesian investment and the global context may need a revisit in the upcoming years when the fund gets more established.

Domestically, the extent of the state's direction in capital mobility is also pertinent to the sovereign investment's objective. As discussed earlier, INA operates under a "double bottom line", balancing its mandate to support national development while ensuring returns for its partners. Although INA is a signatory of the Santiago Principles, questions remain regarding its ability to fully uphold commercial orientation amid the dual objectives. INA's case is particularly complex due to its hybrid characteristics, which blend elements of both SDF and SIF, each of which carries a domestic focus where political influence may not be easily circumvented. For instance, official statements indicate that investment projects involving INA and its partners will receive full government support, including special tax incentives, regulatory facilitations, and expedited permit issuance (Indonesia Investment Authority, 2021). Apart from aggregating investment for development projects, INA is also required to contribute revenue to the government. Based on Government Regulation No. 74 of 2020, INA needs to retain 10% of its profits as reserves. When the reserves reach 50% of their initial capital, INA shall allocate up to 30% of the profits to the government.

Private Sector Involvement

Through investment, INA facilitates the involvement of the private sector in providing certain public services, which are typically a state function. Undeniably, involving the private sector in development projects is not new in Indonesia. With INA, the private sector has more options. The extent of private sector engagement has historically been shaped by varying degrees of economic nationalism amid shifting political dynamics. In the early years following Indonesia's independence in 1945, private sector involvement was minimal due to the ongoing war of independence and decolonization. At that time, national policy prioritized severing ties with foreign interests that might hinder the new country's rights to self-determination, leading to a high-risk business climate in Indonesia, as foreign firms were expropriated and nationalized (Darini & Miftahuddin, 2018). The situation changed following a military takeover in 1965, which ushered in a new regime faced with a nearly collapsed economy. Seeking to save the economy, the new government adopted a more open approach to foreign investments, including private companies with ties to foreign governments. During this period, SOEs played a dominant role, especially in the strategic sector (Bee, 1982; Kasali, 2008). While private businesses were allowed to operate, their success was largely contingent on close ties with political elites (Crouch, 1979). This arrangement ensured that economic activities aligned with national development goals while maintaining government control over key industries.

A significant turning point in Indonesian politics occurred with the *reformasi*, which followed the 1997-1998 Asian Financial Crisis (AFC) and mass demonstrations that led to the collapse of the authoritarian developmental regime. In the 2000s, private sector involvement adopted a cautious liberal approach, striking a balance between economic openness and continued SOE involvement. A public-private partnership (PPP) was one of the approaches paving the way for the private sector's involvement.

Table 3. Private Sector's Involvement in Different Periods of Indonesian Politics

Period	Main objective	Key feature	Private sector's involvement
Post-independence guided economy	• Self-sufficient • Securing economic resources for national defense	• Expropriation of foreign firms (later turned into SOEs) • Centralistic policy making (under Guided Democracy)	No
Stabilization under patron-client (1965-1990s)	• Economic recovery • Development by utilizing national resources or endowment • Securing support from the military for political stability	• Developmentalism • Patron-client networks • Military involvement (in doing business or running SOEs) • SOEs served the beneficiaries of the patron	Yes, but mostly under contracts with preferred SOEs
	• Capital accumulation during commodity booms • Disentanglement of stalled projects • Infrastructure development	• Economic nationalism • Preference for SOEs or subnational government-owned enterprises • SOEs as national champions (especially those in infrastructure) • SWF hybrid (INA) • Political business interlock (e.g., appointment of allies for the SOEs' board)	Yes, possible through: • A more open PPP scheme (2010s) • Investments under or managed by SWF (2021 onwards)

Source: processed by Author (2024)

The PPP scheme has played a significant role in shaping Indonesia's political economy of investment, even before the idea of establishing an SWF. Formally introduced through Presidential Decree No.7 in 1998, its implementation was initially hindered by the country's struggle with the dire impact of the AFC. A more open PPP scheme was later introduced through Presidential Regulation No. 67/2005, focusing on infrastructure projects and enabling deeper collaboration between the government, typically represented by SOEs, and the private sector. This scheme facilitated strategic initiatives such as the construction of numerous power plants (Lestari, 2016). According to figures from the World Bank, 152 infrastructure projects with private participation reached financial close between 1990 and 2023, with a combined investment of USD 75 billion. The infrastructure sub-sector covered airports, electricity, communication and technology, natural gas, ports, roads and railways, disposal facilities, water, and sewage. Out of the total, 13 projects worth 9% of the total investment have been cancelled (World Bank, 2024).

The PPP scheme has contributed to the direction of investment and shaped the practice of statism, in which the state extends its economic direction to infrastructure investment. INA strengthens this configuration by involving previously inaccessible private actors in both domestic and international markets. While welcoming more investors, this arrangement should also be understood considering existing regulations. As outlined in Government Regulation No. 74 of 2020, the mandate of INA to support domestic projects can encompass both brownfield and greenfield plans, including development assets previously undertaken by the government. However, the fund cannot co-invest in sectors affecting the public, such as natural resources and water. This part recognizes the nationalist tendency, highlighting Indonesian politics. The boundary signifies that INA is an example of an approach in sovereign investment that bridges the need for openness toward the global flow of private investment, an established transnational norm, and the protection of the national interest.

CONCLUSION

The rationale behind the establishment of the INA is intertwined with the Indonesian domestic and international political economy of investment. While the idea of INA establishment follows the global trend of SWF proliferation and new forms of domestically oriented sovereign investment, it has encountered disparities in global capital allocation, particularly in the infrastructure sector. The features and arrangements of the INA have enabled the government to act as an actor in capital mobility, allowing it to intervene in the market and direct capital to its intended projects. It significantly differs from previous practices, in which Indonesia relied on SOEs and patron-client networks. While SOEs remain key actors in capital accumulation, the SWF is now a tool enabling capital accumulation from alternative markets, as well as from non-state actors and private entities. In this way, INA facilitates an expanding statism of the Indonesian government.

While the issue of government intervention in the economy is not new in Indonesia, the new arrangements of capital mobilization through INA pose a challenge for the country. Going forward, more research should focus on transparency and accountability issues. In domestic politics, it is necessary to understand the relationships between the INA and ministries or other governmental institutions that also work on investment or infrastructure development. Further studies and examinations will be helpful in assessing whether using alternative investment instruments is effective, especially for developing countries, in circumventing global capital flows while maintaining national interests.

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