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Debt sustainability and debt management in Indonesia – lessons from China

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Abstract

While Indonesia and China have relatively similar economic histories as low-income countries in the 1960s, China's economic growth and economic transformation has been more successful. The paper examines some of the differences in policy, including Indonesia's used of foreign capital that resulted in the crisis of 1997/98. On the other hand, China used foreign direct investment to build successfully its economy.

China's economic growth results from a gradual micro-first approach. Apart from that, China consistently employed its National Plan to ensure the positive impact of strong government power. Indonesia used a similar approach in the lead up to the 1997/98 crisis but with weak bureaucracy and high levels of corruption.

In addition to the reform approach and government power, we see the divergence of the banking sector in both countries. Chinese has state-owned banking with a specific role to finance national aims. As the banking sector has contributed significantly, the government can minimize debt absorption, mainly for infrastructure. On the other hand, the Indonesian banking sector only does business activities, particularly after the 1997/98 crisis.

China has a substantial tax ratio (above 15%) contributed by the domestic resource-driven economy. A level above 15% is sufficient for a country to fulfil the basic needs of citizens and businesses and put a country on a growth path.

We consider that sound and monetary sector stability also contribute to managing foreign debt. China has a massive foreign reserve that impacts currency stability. On the other hand, China foreign debt is relatively low, representing only 14% of GDP on average.

Key words: Indonesia, debt sustainability, debt management

Contents

1. Background

Indonesia and China have relatively similar economic histories. Both were low-income countries in the 1960s. However, China's economic growth accelerated faster because of the success of the economic transformation. Meanwhile, Indonesia's economy grew at a slower pace after the 1997 monetary crisis. In 1967, the Gross Domestic Product (GDP) per capita of Indonesia and China was not much different, respectively US$53 and US$96. During the period of the oil boom until 1997, Indonesia's GDP per capita was above China’s (World Bank, 2021). Unfortunately, Indonesia's GDP per capita has continued to lag behind China's since the period of the monetary crisis in 1997.

The history of development in Indonesia has gone through three periods of government, namely the old order (1945-1966), the new order (1966-1998) and the reform order (1998-present). In the old order, in the 1960s, the government focused more on strengthening the foundations of government due to political instability. Economic conditions in the New Order were marked by stagnation in output, high poverty and hunger rates, inadequate infrastructure, and hyperinflation of up to 600% (Coleman et al., 2007). During President Soeharto's period, the economic acceleration started in the New Order era with the Five-Year Development Plan (Repelita) program. Repelita I was implemented in 1969-1974, while Repelita VI was not completed due to the 1997 crisis. Each Repelita has its own goals. In Repelita I, for example, development was aimed at meeting basic needs and infrastructure with an emphasis on agriculture (Bappenas, 1974). Indonesian economy expanded averaging 6.7% per year in Soeharto’s era (Thee, 2008).

Various New Order programs raised classic problems because most of the financing originated from debt - particularly external debt with massive corruption. Pausacker (2018) note that Soeharto’s family accumulated between US$15 billion and US$35 billion during 32 years in power. The gap between domestic savings, both public and private, makes foreign debt a necessity. Foreign investment had not yet developed due to investment climate problems. The increase in foreign debt is believed to have triggered the deep impact of the 1997/98 monetary crisis in Indonesia (Daryanto, 2000). In that period, Indonesia adopted a balanced budget policy in which foreign debt acted as a counterweight between planned expenditures and income. Foreign debt is deemed as government revenue in the state budget every year.

During the New Order, the source of Indonesia's loans came from countries and multilateral aid agencies that were members of the Consultative Group for Indonesia/CGI (formerly Inter-Governmental Group on Indonesia/IGGI). With low-interest rates, the grace period and the repayment period of the principal and interest is quite long, so loans from CGI are the primary source of financing.

If observed, the development pattern used by Indonesia before the 1997 economic crisis was more like a micro-first approach than a macro-first approach. The micro-first approach is a transformation that is carried out gradually, partially, based on experience and especially without large-scale privatization. Meanwhile, the macro-first approach or the 'big bang approach' is a transformation in stabilization, price liberalization and privatization (Lin, 2004). These three transformations are seen by some as a prerequisite for a successful transition to a market economy. The concept explains that the transformations are carried out simultaneously or in a short sequence. Indonesia had to use the macro-first approach because it was a prerequisite for obtaining bailout funds as a consequence of the 1997/98 crisis.

Lin and Wang (2008) argued that transformation in China combines three things: structural transformation, economic liberalization, and institutional transition into one "three into one". They suggest China pursued *perestroika* (economic restructuring) but avoided *glasnost* (political openness) to avoid the collapse of the Communist Party. Yuan-Tung (2005) elaborated on several significant initiatives reforms in China. First, the opening-up policy is an important milestone of

Chinese economic reform. This transformation is illustrated by developing four special economic zones aimed at importing high technology, increasing exports, earning foreign exchange, creating jobs, assimilating foreign managerial and entrepreneurial skills and attracting foreign investment. Second, agriculture reform is marked by a change in the farming collective institution system to a household responsibility system (HRS). HRS encourages increased production, thus increasing wages.

Third, the decentralization of the government encourages the promotion of development in the regions. In 1997, the central government control was only 27% of total government expenditure, compared with 51% in 1978. Fourth, in the reform era, the engine of growth in China did not come from SOEs but non-state companies. In 1981-1991, the number of TVE (Township and Village Enterprises), employment, and total output value grew at an annual average of 26.6%, 11.2% and 29.6%, respectively. Fifth, SOEs reform is gradual. In each stage of the reform, the role of government softened, and the SOEs gained more autonomy (Lin, 2004). Finally, financial reform is done carefully. Financial market liberalization began in late 2003 as China's commitment to the WTO to liberalize financial markets at the end of 2006.

We see the differences between Indonesia and China development as a consequence of differences in their approaches: At the beginning of the development period, China and Indonesia conducted the same approach: micro-first. However, China finances the economy with foreign direct investment stimulating productive activities of the real sector. As a result, China can minimize debt in developing its economy. Contrary, Indonesia used foreign capital, mainly in a period of commodity price decline, with several sweeteners such as low-interest rate and long period terms. Consequently, Indonesia was trapped by foreign debt since the beginning of its development phase. Aside from the financial sources, the divergence between China and Indonesia was government power and authority. While China is consistent with reaching the goals of its National Plan, Indonesia was challenged by poor bureaucracy and massive corruption.

2. Indonesia's Policies with Respect to Debt Distress and Comparation Indicators with China

Fiscal discipline is crucial to managing debt sustainability. In Indonesia, fiscal discipline relies on regulations. According to Act No. 17 of 2003, the government should keep the public deficit below 3% of GDP, and the debt to GDP ratio maximizes 60%. In addition to Act No. 17 of 2003, Indonesia has several legal clauses that govern debt procurement to ensure that Indonesia's debt policy can be controlled including (i) Act No. 24 of 2002 Concerning Government Securities; (ii) Law No.1 of 2004 Concerning State Treasury Article 38; (iii) Government Regulation No. 54 of 2008 concerning Procedures for Procurement and Forwarding of Domestic Loans by the Government (iv) Government Regulation No. 10 of 2011 concerning Procedures for Procurement of Foreign Loans and Receipt of Grants. Overall, these regulations require that the issuance of debt must be approved by the representatives' house, where the approval is given for the maximum net value of debt to be issued in one fiscal year.

To meet the financing of the state budget with minimal costs and controlled risks, the government makes a medium-term debt management strategy stipulated by a Decree of the Minister of Finance. The government uses several debt risk indicators that are considered in managing medium-term debt so that both costs and risks can be measured. These indicators include exchange rate risk (foreign currency debt indicators), interest rate risk, refinancing risk or the average time to maturity, and debt maturity risk in one year (Table 1). Overall, these four indicators are measured to explain the balance between optimum cost and controlled risk. The following detailed explanation applies:

First, the foreign currency debt indicator is used to measure the optimization of debt financing from domestic sources and the function of foreign sources as a supplement. The government targets this foreign exchange debt ratio indicator to be a maximum of 32% (period 2021-2024). In 2020 the value of the debt portion denominated in the foreign exchange rate was 33.5% (Kementerian Keuangan, 2021). This figure is already close to the target but still needs to be lowered to control the currency risk of the debt policy.

Second, the Variable Rate (VR) ratio indicator describes interest rate risk. This ratio is measured by comparing debt with floating interest rate to total debt and refixing rate. In the medium term (2021-2024), the government targets a fixed interest rate ratio of at least 80%, or in other words, the maximum portion of the floating interest rate is 20%. The VR portion of the target also illustrates that the strategy in managing debt risk is to prioritize debt with a fixed interest rate. In general, this portion of VR decreased from 14.8% in 2014 to 9.8% in 2019, but along with the impact of Covid-19 on the government budget, the VR ratio increased to 14.14% in 2020. Overall, this VR ratio is still in line with the government's medium-term debt target.

Third, the Average Time to Maturity (ATM) indicator keeps the composition of new debt issuance in line with the target of the medium-term debt portfolio. The government is targeting (2021-2024) to have a minimum ATM value of 8 years. In general, there was a decline in the value of ATMs from 9.75 years in 2014 to 8.46 years in 2020. Although the value of ATM is still above the threshold, the government needs to increase this ratio to control debt risk.

Fourth, indicators of debt maturity in one year, which is used to ensure payment of short-term debt maturity can be met appropriately. To keep debt risk under control, the government targets the maximum debt maturity ratio in 1 year to be 10.5% of total debt. This ratio is generally always achieved by the government, wherein in 2014, the debt maturity in 1 year was 7.7 %, and in 2020 it was 8%.

Table 1: Indonesia's Debt Risk Indicators

	Indicators	2014	2015	2016	2017	2018	2019	2020	Target (2021-2024)
1	**Exchange Rate Risk** *(FX Debt to Total Debt ratio, %)*	43.4	44.6	42.6	41.3	41.0	37.9	33.5	Max 32 %
2	**Interest Rate Risk** *(Variable Rate ratio, %)*	14.8	13.7	12.1	10.6	10.6	9.8	14.1	Max 20%
3	**Refinancing Risk** *(Average Time to Maturity, years)*	9.8	9.4	9.1	8.7	8.4	8.5	8.5	Min 8 years
4	**Debt Maturity Risk** *(In 1 year, %)*	7.7	8.4	6.5	10.0	11.0	8.0	8.0	Max 10.5%

Source: Ministry of Finance, 2021

The government currently assesses that the four main indicators of medium-term debt risk (as described above) are generally still within the target, in spite of some slippage in the case of the risk indicator for foreign currency-denominated debt and the Average Time to Maturity indicator.

At the macro level, indicators of the ratio of the state budget deficit to GDP and the ratio of total debt to GDP are often public issues, although, since the Asian monetary crisis in 1998, Indonesia's state budget deficit has never been more than 3% of GDP. Even during the 1998 crisis, the state budget deficit was at -1.69% of GDP. However, the total ratio of government debt to GDP experienced above 60% of GDP, especially before 2003. In 2000 the ratio of total government debt to GDP reached 87.43% due to the need for debt to recover from the monetary crisis. That condition continued in 2001 and 2002, where the ratio of total government debt to

GDP was 73.7% and 62.33%. In 2003, the ratio of government debt to GDP was reduced to below 60%, precise at 55.64%.

The threshold of fiscal discipline is relaxed due to the pandemic covid-19. According to Act No. 2 of 2020, the state budget deficit might exceed 3% of GDP until 2023. But, there is no change in the act relating to the maximum government debt to GDP ratio. The decision aims to overcome the health crisis and the economic recession with the National Economic Recovery program. As a result of the regulation, the state budget deficit was 6.34% and 5.7% in 2020 and 2021. The debt creation of its deficit relaxation was IDR1.039 trillion and IDR1.006 trillion in 2020 and 2021. The debt to GDP ratio surged to 41.63% in March 2021, mounting from 30.19% in 2019 (before the pandemic Covid-19).

The limitation of the budget deficit ratio below 3% to GDP and the ratio of total government debt below 60% to GDP is actually the Maastricht Treaty as adopted and used by the Euro area countries. In its development, many economies have adopted these limits to assess the sustainability of the public sector. The development of China's budget deficit data shows that China does not use the Maastricht Treaty rules in debt management, and its growth has been more impressive.

In Indonesia, the Maastricht Treaty is a rule that is noteworthy for limiting government debt. Every fiscal year, the government and the house representative should address the threshold level of fiscal deficit stated in the regulation. We see that the government focuses on maintaining fiscal risk to push down the government bond yield that is currently higher than counterpart countries such Malaysia, Phillippines, and Viet Nam.

Another perspective believes that the Maastricht Treaty may demote growth unless the country has a good quality of state of spending. In Indonesia, the structure of government spending is dominated by bureaucratic spending. On the other hand, productive spending, such as capital spending, remains low. Bureaucratic spending plays a relatively minor role in encouraging economic growth compared to capital expenditure, creating jobs. Another problem is the quality of spending. Most of the realization of state expenditures (central and regional) was carried out at the end of the year so that the quality was low. In addition, state spending is full of corruption, which undermines economic growth.

Table 2: The Fiscal Indicators of Indonesia and China

Year	Debt to GDP (%)		Budget Deficit to GDP (%)		Tax Ratio (% of GDP)	
	Indonesia	**China**	**Indonesia**	**China**	**Indonesia**	**China**
2009	26.48	34.57	-1.60	-2.80	11.10	18.50
2010	24.52	33.92	-0.70	-2.50	10.50	19.30
2011	23.10	33.77	-1.10	-1.10	11.20	20.20
2012	22.96	34.39	-1.90	-1.50	11.40	21.30
2013	24.88	37.04	-2.30	-2.10	11.30	21.10
2014	24.68	39.97	-2.25	-1.80	10.90	20.40
2015	27.46	41.49	-2.58	-3.40	10.70	20.10
2016	28.35	48.24	-2.46	-3.80	10.40	18.90
2017	29.40	51.73	-2.51	-3.70	9.90	18.80
2018	29.78	53.85	-1.76	-4.20	10.20	18.90
2019	30.23	57.05	-2.20	-2.80	9.80	17.40
2020	39.40	66.83	-6.09	-3.70	8.30	n.a.

Sources: Trading Economics, IMF, State Taxation Administration of the People's Republic of China, Ministry of Finance Republic of Indonesia, 2021

China's debt to GDP ratio was 66.83% in 2020 while the budget deficit to GDP was 6.09%. Chinese debt to GDP ratio has hit the Maastricht Treaty threshold since 2020 and the budget deficit in 2015. In terms of tax accumulation, China tax ratio (tax revenue to GDP) was 19.54% from 2009 to 2019, while in Indonesia was only 10.48% (2009-2020). The Chinese tax ratio is already above the average standard of tax ratio for developing countries recommended by the World Bank (15% of GDP). The World Bank sees this level as sufficient to fulfil the basic needs of citizens and business. Moreover, the tax ratio of the 15% is an important tipping point to put a country on a path to growth. With a high tax ratio, China's fiscal is relatively sound and contributes to a low government bond yield.

In addition to the Maastricht Treaty indicators, there are several common rules relating to external debt: (i) external debt should be lower than 40% of GNP or 200% of exports; (ii) the ratio of debt service to exports (the debt service ratio) should be no more than 25% (Williamson, 1999). Overall, external debt in China meets these rule better than Indonesia: Indonesia's debt service ratio was 39% in 2019 while in China it was about 9.6%.

The ratio of external debt stock to exports for Indonesia and China were 193% and 73% respoectively in 2019. On the other hand, the ratio of external debt stock to GNI was about 73% and 14% in Indonesia and China. China's foreign reserves to external debt stocks were 147%, while it was only by 31% in Indonesia. Indonesia only had a strong debt indicator for short-term external debt stocks of 11% in 2009, whereas in China was 57%. However, the majority of short-term debt in China was financial institution debt.

The primary balance, another indicator, depicted how to understand the debt dynamic (Fischer and Easterly, 1990). Public debt tends to enlarge when a country has a persistent primary deficit. According to a fiscal reaction function model proposed by Bohn (1998), the debt is the next period is the difference between debt and non-interest spending. Hence, debt in the next period will be higher if the primary surplus is small or in deficit. In the long run, the debt tends to explode as a result of a country experience in the debt trap. China and Indonesia experienced a primary deficit balance respectively of 5% and 0.2% of GDP in 2019.

Pressure on public finance in Indonesia gradually increased since the gap between state revenue and expenditure began to widen. As a result, the deficit of the primary balance hiked and created new debt. The total revenue to GDP was 14.3%, while the expenditure to GDP achieved 16.3% GDP in 2019. The same figure happened in China, but this country has relatively a high taxes ratio to GDP of almost 16% in 2019. In addition, government revenue in China grew faster than in Indonesia by an average of 11% and 7.6%, respectively in between 2011-2019. In particular, tax revenue in China expanded more than 10% on average, whereas it is lower than 10%. Nevertheless, general government external debt growth in China was higher than that of Indonesia.

Table 3: Indonesia and China Debt Soundness Indicators in 2019

	China	Indonesia
External debt stock to exports (%)	73.4	193.8
External debt stock to GNI (%)	14.8	37
Debt service to exports (%)	9.6	39.4
Interest payments to exports (%)	3.3	6.4
Interest payments to GNI (%)	0.7	1.2
Short-term to external debt stocks (%)	57.0	11.1
Reserves to external debt stocks (%)	147.9	31.2

Primary balance to GDP (%)	-5.0	-0.2
Ratio to GDP (%)		
Total revenue	19.2	14.3
Taxes	15.9	11.1
Total expenditure	24.1	16.3
Growth (yoy)*		
Total revenue	11.02	7.64
Taxes	10.40	8.91
Total expenditure	13.07	8.82
General government external debt**	12.9	9.36

Source: Asian Development Bank, 2020, compiled
**average of 2011-2019*
***average of 2012-2019 (data complied from the World Bank)*

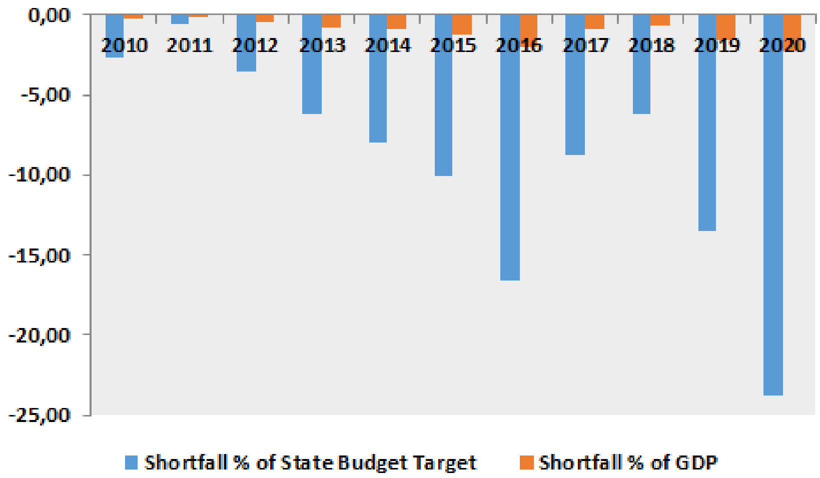
Ministry of Finance (2021) revealed Indonesian tax collecting challenges both from a domestic and global perspective. In the domestic scope, the main problem is lower tax compliance, but the trend increased. In 2015, tax compliance was 60.42%, while in 2016 and 2017 were 60.75% and 72.58% each. In 2018 and 2019, tax compliance was 71.1% and 73.06% (Taxation Directorate General's, 2020). Aside from lower tax compliance, there is a high dependency of non-oil and gas tax revenue on the manufacturing sector achieving 30% yearly. However, the manufacturing sector's output grew minimally which is lower than output growth. In the last two decades, the share of the manufacturing sector has diminished to lower than 20%, with growth below GDP growth (Badan Pusat Statistik, 2021). Consequently, the sustainability of tax income becomes fragile.

Income tax in Indonesia also depends on value-added tax so that its disbursement relies on the household consumption purchasing power. As the inflation rate is relatively high, household consumption tends to decline and impacts value-added tax disbursement. Another factor influencing tax income in Indonesia is the domination of the informal sector in the economy (about 60% of the workforce) because they do not contribute to indirect tax income.

In the global aspect, Indonesian tax revenue is highly dependent on its export performance. Notwithstanding, there are several bottlenecks to maximize tax income of exports in Indonesia. First, exports depend on 13 traditional countries destinations, accounting for 70% of the export total. As the demand of these 13 countries declined, Indonesian export income plunged significantly. Second, the majority of Indonesian export revenue is from the exporting of raw materials such as crude oil, coal, and crude palm oil (CPO). Abimanyu (2016) argues that the oil price largely determines government budget revenue, both tax and non-tax revenue. However, declining oil production in recent years has made it difficult for Indonesia to maintain its state revenue. Apart from that, the crude oil price tends to soften amid the global economic uncertainty, including during the Covid-19 pandemic. As a result, tax revenue becomes unsustainable amid increasing state expenses.

For more than a decade, Indonesian tax revenue has experienced a shortfall meaning that the target failed to meet its target. In 2010-2020, the tax shortfall to the state targets was averaged about 13% yearly. In particular, the tax shortfall reached 23% from the target in 2020. In comparison to the GDP, tax shortfall achieved an average of 1.46% annually during the same period. The highest level of tax shortfall to GDP happened in 2020, which was about 2.25%.

Figure 1: Tax Revenue Shortfall and Its Comparison to the State Budget Target



Source: Author Calculation, 2021 – Ministry of Finance

Amid the shortfall of tax revenue, the state expenses have risen. However, the majority of state expenses relied on routine expenses. The personal expenditure contributed by an average of 25% of the central government budget yearly while the goods expenditure share was average 21% during 2016-2020. Interest payments absorb about 17% of the central government budget, whereas the capital expenditure was merely 12%.

In terms of debt utilization, the fiscal deficit strategy's goal is to encourage economic growth so that an increase in debt must be correlated with an increase in economic growth. In other words, government debt must be productive. Ideally, an increase in the rate of economic growth must occur to balance the realization of an increase in debt. The government debt productivity relies on the data of tax buoyancy. This measurement calculates tax revenue's response or elasticity to economic conditions. The average tax buoyancy in Indonesia over the last decade was only 0.83%. This number explains that 1% of GDP growth only leads to 0.83% of tax revenue growth (DDTC, 2021).

3. Development Financing Outside the Government Budget

In his second term, President Jokowi's administration directed economic policies to prevent Indonesia from the middle-income trap in 2036. To achieve this target, Indonesia must have high economic growth. In the 2020-2024 National Medium-Term Development Plan, the government set the economic growth target for 2020-2024 above 5% through three scenarios. The average economic growth reaches 5.4% per year for the low scenario, while in the medium and high scenario, it is 5.7% and 6%, respectively. In order to meet that target, Indonesia needs about IDR36,595.5 trillion to IDR37,477.6 trillion. The government is expected to contribute about 11.6 to 13.8% of the target, while SOEs' share is about 7.5 to 7.9%. More than 70% of the investment and funding needed are open to public participation, particularly from banking and nonbanking institutions (Bappenas, 2019).

3.1 Maximizing Financial Sector Role

There are several indicators showing the role of the financial sector to support economic development, which is the ratio of the amount of money supply (M2) to GDP (financial deepening) and the ratio of credit to GDP. From these financial sector indicators, the role of the financial sector in Indonesia is lagging behind China. The ratio of M2 to GDP in Indonesia was only 38.8% in 2019, whereas in China was 200.5%. The ratio of domestic credit to Indonesia's GDP was merely 37.75%, while in China it was 164% in 2019.

Financial deepening is significant for Indonesia to support its development, especially infrastructure. Throughout 2020-2024, the need for infrastructure development funds is targeted from the financial market to be 49.98% (Bank Indonesia, 2019). Financial market development consists of the government bond market, corporate bond market, money market, foreign exchange market, stock market, structured product market, and Islamic financial market.

The Ministry of Finance, Bank Indonesia, Financial Services Authority (2019) explained several challenges in developing the government bond market in Indonesia; (i) the role of domestic investors is still limited and still concentrated in Java; (ii) low secondary market liquidity; (iii) variety of Indonesian Government Bond (SBN) instruments and limited derivatives; (iv) transactions that are not fully efficient; and (v) tax provisions are not optimal. Domestic investors' role in tradable government securities tended to increase during the Covid-19 pandemic, associated with a decline in foreign investors. Kementerian Keuangan data (2020) shows that foreigners hold around 22% of the government's total government securities tradable. Initially, the role of foreigners was relatively high, almost 40%. The Indonesian government's increment in government securities was in the banking sector and became the largest tradable government securities holder, up to 35.54%. The role of individual investors in the Indonesian government's tradable Government Securities is still low, below 5%. Following the growing middle class, the share of individual ownership should be increased so Indonesia can gradually lower its dependency on foreign inflows.

There are four characteristics of a deep financial market (Mandiri Institute and Oliver Wyman, 2015). First, an extensive selection of financing instruments for government, corporations, and financial institutions needs financing. Second, it provides investors with a large selection of investment instruments, both in terms of tenor, profit, and risk profiles. Third, a quality market infrastructure can provide ease of timely information to market players. Fourth, it is important to have a variety of instruments of investment to diversify the portfolio and manage risk.

In relation to the development of financing instruments, the Ministry of Finance, together with Bank Indonesia and the Financial Services Authority (2019), has thoughtfully coordinated how to develop and deepen financial markets as a source of state financing. The three institutions have compiled a national strategy for developing and deepening financial markets for 2018-2024. The financial market is expected to be a source of funding for economic activity, a medium for transmitting monetary policy and fiscal policy, and financial system stability. Bank Indonesia, the Ministry of Finance, and the Financial Services Authority (OJK) also have established the Development Financing Coordination Forum through the Financial Market (FK-PPPK). The forum has composed a National Strategy for Financial Market Development and Deepening (SN-PPPK).

3.2 The Banking Sector Role in Indonesia and China

The financial systems in Indonesia and China are both dominated by the banking sector. However, the history and development of banking in the two countries are very different. First, in China, the role of the government is powerful, starting from determining credit allocation to controlling bank competition. As a result of its power in the banking sector, the Chinese government can regulate the distribution of the loans, particularly to the priority sector. In comparison, the banking sector in Indonesia is free from government intervention.

On the one hand, the high level of government intervention in the banking sector in China has significantly contributed to the allocation of financing to priority sectors such as the agricultural sector. As a result, China succeeds in transforming its economy. However, government intervention restricts bank development because they often experience loss.

In Indonesia, the bank is free from government intervention, so the bank only does business to maximize profit. The function of banks as agents of development tends to be eroded. This can be seen from the low allocation of credit to sectors that are important to economic growth, such as agriculture, mining, and the manufacturing industry. These three sectors contribute around 40% to Indonesia's GDP; while the bank credit allocation is only 25%.

Second, the role of foreign banks in China was severely restricted by the law and began to loosen after China joined the WTO. The original position of foreign banks in China was to offer a foreign currency intermediation function and assist foreign investors and manufactures to do business in China. Initially, foreign banks were prohibited from doing business in local currency (Yuan), but since 1996 it has gradually opened. This policy has been relaxed since China joined the WTO.

Third, the central bank as a regulator is different. People's Bank of China has been the central bank since 1983, which formulates and implements monetary policy and regulates financial markets. The central bank in China is not an independent institution in the same way that the Bank Indonesia is seen to be. The Chinese government has substantial control over the expansion of new financial products and decisions regarding lending rates.

Fourth, China has policy banks (China Development Bank, the Export-Import Bank of China and) Agriculture Development Bank of China, state-owned commercial banks, other commercial banks, credit cooperative, foreign financial institutions, and nonbank financial institutions (Geretto and Pauluzzo, 2008). State-owned banks consist of state-owned commercial banks and policy banks (Maswana, 2008). Banking assets in China are dominated by state-owned commercial banks (Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, and China Construction Bank). Their assets account for 60–70% of domestic banking assets.

The bank policy is a product of banking sector reforms in 1994. Banking reform aims to separate commercial banks from policy lending and let policy banks handle state funds assigned to them to promote policy-oriented investment and long-term projects (Joseph, 1997). Policy banks are owned by the central government, whose funding is through the issuance of bonds and receiving a small number of deposits.

The China Development Bank is tasked with encouraging China's economic development by funding projects and significant initiatives in the national development plan and industrial policy. Loans are channeled mainly to construction and renovation projects in the strategic economic sector (medium and long-term projects). The Export-Import Bank of China (China Eximbank) has a role in financing trade (Maswana, 2008). China Eximbank is the primary channel for the government to finance the export, import, and overseas investment projects. Meanwhile, the Agricultural Development Bank of China offers short-term loans to the state agency responsible for procuring agricultural products. It is also responsible for funding projects that help the rural poor and agricultural development projects in general (Lardy, 1998 in Burzynska, 2009).

Agricultural Bank of China initially played a role in providing financing in the agricultural sector and rural sectors. Bank of China originally had a unique role in international transactions such as foreign exchange services and trade credit. China Construction Bank was initially mandated to provide medium and long-term credit for investment. The Industrial and Commercial Bank of China initially played a role in offering working capital loans for the urban industrial and commercial sectors. However, as financial reforms took place, these functions became less clear (Neftci, Ménager-Xu, 2006 in Burzynska, 2009).

Hansakul (2004) explained that the deviation of the initial function of the four banks occurred in 1994 when the Chinese government decided to establish policy banks. The big four currently concentrate on commercial business. Another issue is related to state interference (including the determination of senior management) due to the bank's ownership status, which ultimately affects the bank's operational performance. Meanwhile, another problem is a large number of employees, which may inflate overhead costs.

Indonesia has commercial banks (conventional and sharia) and rural banks. Commercial banks consist of state-owned banks or Persero (majority share dominated by the central government), national private commercial banks, regional development banks (majority share held by the provincial government), and foreign banks. The difference between banks in Indonesia is only in bank ownership. Meanwhile, the function of a bank is no different except for a state-owned bank which often carries out tasks appointed by the government. The rural bank is a bank (conventional or sharia) that does not provide payment services. BPR activities are prohibited from accepting demand deposits, foreign exchange activities, and insurance.

In terms of liquidity, the most considerable portion is owned by national private commercial banks, about 45% of the third-party fund, followed by state-owned banks and regional government banks, which account for 43% and 8.8%, respectively. In terms of distribution, the most considerable portion of loans came from the state-owned banks (44%), followed by private banks with 43%, while the share of regional government banks credit was only 8.8%. In total, state-owned banks and regional government banks contributed more than half of the loans in Indonesia.

The 'Big Four' banks mentioned earlier are one of the big banks in China and globally. According to data compiled from the bank financial reports, the total loans disbursed throughout 2018 were 51 trillion yuan. This amount covers about 28% of M2. In terms of structure, the Industrial and Commercial Bank of China credit role is the highest one, followed by China Construction Bank and China Agriculture Bank. Compared to Indonesia, the amount of credit disbursed by state-owned banks was IDR2,239 trillion in 2018. It includes 38% of the total M2. If calculating credit disbursement by regional government banks, the credit value of state-owned banks and regional government banks will be IDR2,661 trillion or 46.2% of M2.

Table 4: State-Owned Bank Loans in China (2018) and Comparison to M2

	Yuan (million)*	Share (%)
China Construction Bank Corporation	12.337.481	23,96
Bank of China	11.787.683	22,90
Industrial and Commercial Bank of China	15.419.905	29,95
China Agriculture Bank	11.940.685	23,19
Total Credits	51.485.754	
M2	182.674.420	
Ratio of State-Owned Bank Loans to M2 (%)	28,18	

Source: Various Sources from Bank Financial Statements, 2019, compiled

China has state-owned banks with specific business orientations, such as construction banks, industrial banks, and agricultural banks. Meanwhile, in Indonesia, state-owned banks generally do their business in general, not with a specific business orientation. Only a few banks have a particular business line, such as Bank Tabungan Negara for housing loans and Bank Rakyat Indonesia (BRI) focusing on MSME loans. Even though the China state-owned banks have a specific name, their loans do not always reflect their names. For example, in China Construction Bank, the loan portion is dominated by the transportation, storage, and postal services sector (11.33%). The second most significant portion of the credit is disbursed in the manufacturing sector (7.21%) and leasing and commercial services (7.06%). Meanwhile, credit in the construction sector is only 2.07%.

The credit allocation in China Agricultural Bank also shows the same as China Construction Bank. Albeit it is called an agriculture bank, the agricultural sector does not get a large credit allocation from this bank. On the contrary, it goes to the transportation, storage, and postal services sector, followed by the manufacturing industry with 23.1% and 16.9%, respectively. The other most significant portion is in the leasing and commercial services sector at 14.6%.

Table 5: Corporate Loans Distribution of State-Owned Bank of China in 2019 (%)

	China Construction Bank Corporation	China Agriculture Bank 2019	Bank of China Limited	Industrial and Commercial Bank of China
Transportation, storage, and portal services	9.33	12.77	9.93	12.71
Manufacturing	7.21	9.30	12.88	8.62
Leasing and Commercial services	7.06	8.06	-	7.08
Production and supply of electric power, heat, gas and water	5.3	6.63	4.98	5.57
Real Estate	3.74	5.39	8	3.81
Wholesale and retail trade	3.3	2.41	-	2.42
Water, environment and public utility management	2.82	3.97	1.53	5.43
Construction	2.07	1.75	1.96	1.50
Mining	1.38	1.56	2.25	0.99
Information transmission, software, and information technology services	0.48	0.21		-
Education	0.43	-		1.24
Finance	-	1.49	4.34	
Commerce and services	-	-	13.09	
Public utilities			1.15	
Lodging and catering				0.53
Others	3.31	1.59	1.16	1.13
Total Corporate Loan to Total Loan	46.43	55.14	61.27	51.04

Source: Various Sources from Bank Financial Statements, 2019, compiled

For Indonesia and China, efforts to spur economic growth depend heavily on the availability of infrastructure. Amid the limited government funds, the role of the banking sector in supporting infrastructure financing is crucial. In this study, we refer the infrastructure credit category in China to the financing in three sectors: production and supply of power, heat, gas and water; transportation, logistics, and postal services and water; environment and public utility management. In Indonesia, infrastructure credit is referred to electricity, gas, and clean water credits, construction and transportation, warehousing, and communications.

The portion of infrastructure loans in China Construction Bank's loan portfolio reached 21%, while in the Bank of China, Industrial and Commercial Bank of China 15% and 20% respectively for the year of 2019. The total loan from China Agriculture Bank to the infrastructure sector was about 32% of the total lending. In 2019, the portion of infrastructure credit distributed by ‘the big four’ state-owned banks was about 7% of M2. In Indonesia, the contribution of infrastructure lending to total credit was 14.38%. The share of infrastructure credit in state-owned banks credit in 2019 was 10.75%, while at regional government banks it was around 9.2%; private banks 13.97% and foreign banks 16.76%.

Table 6: State-Owned Bank Lending on Infrastructure in 2019

	Yuan Million	Share of Infrastructure Credit on Total Loans (%)
China Construction Bank Corporation	2.616.440	21.21
Bank of China	1.806.564	15.33
Industrial and Commercial Bank of China	3.087.779	20.02
China Agriculture Bank	3.895.093	32.62
Loans to Infrastructure/a	11.405.876	
State-Owned Loans 2019/b	58.659.822	
Banking Loans /c	163.160.000	
a/b	19,44	
a/c	6,99	

Source: Various Sources from Bank Financial Statements, 2019, author calculation

3.3 Generating Innovative Financing

Putri and Putri (2020) explain some government non-budget financing schemes that have been implemented in Indonesia. First, PPP is a cooperation between the government and business entities in providing public service facilities and infrastructure based on risk-sharing between the government and the private sector. Government cooperation with business entities is a form of public-private partnership (PPP) financing. PPP is a collaboration between the public and private sectors in providing public infrastructure that aims to achieve benefits among cooperation partners. The implementation of this partnership is regulated through Presidential Decree No. 38/2015. To support PPP, the Ministry of Finance facilitates project preparation, feasibility support, and infrastructure guarantees. The Ministry of Finance has also introduced cooperative payment schemes such as the Availability Payment (AP) scheme. The incentive for businesses is that the AP scheme offers *zero* risk for business entities because the returns are guaranteed, but construction risk, the operation, and maintenance of the projects are the business entity's responsibility. While many countries have shown that PPPs have not been a good thing and have cost more than if the government-funded the entire project – in Indonesia, sharing of the delivery risk makes the difference, The periodic payment of the PPP AP project is made by the Person in Charge of the Cooperation Project (Penanggung Jawab Proyek Kerjasama/PJPK) based on the availability of infrastructure services under the quality and criteria specified in the PPP agreement. In this scheme, the government's commitment is required to allocate payments in the budget implementation document. The amount of the periodic payment consists of components of construction costs (capital expenditure), operations and maintenance (operating expenditure), and a reasonable profit margin (return on investment-ROI). The focus of the PJPK is the availability of services, but construction risk, the operation, and maintenance of the projects are the business entity's responsibility. Most of the projects are long-term, from planning-paying for service availability.

Second, PINA is responsible for producing creative non-government budget-based financing. These alternative financing sources are coming from: (i) investment either from domestic investment or foreign investment; (ii) funds under management of investment companies; (iii) banking in the form of lending or credit distribution; (iv) capital markets; (v) insurance; (vi) financial institutions; (vii) other financial service institutions, including pawnshops, guarantee institutions, Indonesian export finance institutions, social security, pension, and welfare fund programs.

Third, the government's newest scheme is the establishment of an investment management agency (LPI) or commonly known as the Sovereign Wealth Fund (SWF). The LPI that appears in the Omnibus Job Creation Law is an institution with special authority to manage Central

Government Investment. LPI funds then are directed for joint investment in share ownership or directly into assets or projects. A considerable portion of these funds is allocated to infrastructure (toll roads, airports, seaports, and new metropolitan areas). Other sectors are health, tourism, technology, and other potential sectors. The government has invested a minimum of IDR 15 trillion in SWF. LPI's initial capital could come from cash, state property, state receivables from state-owned enterprises or limited liability companies, and/or state-owned shares in state-owned enterprises or limited liability companies.

4. Productive Debt Strategy: Lessons learned from China

There are several lessons learned on China’s approach to have a productive debt strategy and the factors influencing that condition.

4.1 The Stability of Chinese Macroeconomic

Hu and Khan (1997) revealed the factors driving China's rapid economic growth. Firstly, the implementation of an open-door policy stimulates the development of special economic zones; thus, foreign direct investment (FDI) flow increased. Special economic zones offer incentives for the investor, such as inexpensive skilled labour and special tax break.

Chen (2018) revealed four circumstances showing how FDI promotes economic growth in China:

(i) FDI increase workforce absorption and create employment. As a result, the country's total output accelerates from FDI sources and household consumption. The contribution of FDI to GDP in China was 43.4%, increasing from 18% in 1968.
(ii) A positive relation between FDI flow and China's fixed capital formation increases and then boosts economic growth. In 1978, the share of capital formation on Chinese GDP was 28%, increasing to more than 40% between 2009 and 2019.
(iii) FDI leads to technology transfer and improves human capital through training and research, and collaboration between local and foreign industries. China has maximized FDI flow to increase the productivity and efficiency of domestic Chinese firms.

FDI is a significant way of promoting exports. In line with the surge in FDI in China, exports also increased sharply. According to the World Bank data (2020), the share of export to China's GDP in 1960 was 4.3%, amounting to 18.5% in 2019. Meanwhile, China's exports to world goods exports reached 14.7%, while the US was 8.1% (Nicita and Razo, 2021). Almost all Chinese products can be found in parts of the world, contributing to China's higher national income. In addition, export growth has a strong positive correlation with productivity growth in the domestic industry. Because the world trade competition is getting stronger, China's industries are gradually improving efficiency.

Chen (2018) explained several facts that show how FDI impacts the exports of local companies in China. FDI can reduce the export costs of local companies as a result of knowledge spillovers of foreign companies. Local companies also benefit from the transfer of technology to foreign companies so that they can improve quality and be able to compete with other products. Apart from that, the local company was much more efficient. FDI also provides opportunities for local companies to become more involved in the global value chain so that export activities continue to increase.

Chinese FDI and trade increased significantly so that the country accumulated massive foreign exchange reserves and national savings. Consequently, it makes China's national savings are high enough to support development financing needs. The volume of national savings supports finance development through various investment alternatives to lessen its dependency on foreign debt.

Secondly, the gradual price decontrol stimulated the growth of the private sector, which is the rise of the rural township and village enterprises (TVEs) in the regional economy. Expansion of new private businesses brought competitive forces into the Chinese economy and helped make the economy more efficient during the reform period. The high growth of TVEs is an essential record of how the transformation of the workforce moves from agriculture to the higher-value-added manufacturing industry. Economic efficiency continues to increase in line with the development of TVEs. As is well known, TVEs operate with limited capital, so they are naturally forced to be efficient. The TVEs are very focused on profit-oriented budget constraints, while SOEs focus on social functions that cause inefficient operations. TVEs operate more freely, while SOEs require central and regional bureaucratic intervention.

Wu (2012) concluded that in addition to FDI, another Chinese economic growth determinant in the 1980s and 1990s were the growth of physical capital, infrastructure, labour productivity, human capital. In particular, the picture of China's efforts to increase human capital is depicted by many students abroad. In the provinces scope, Chen and Feng (2000) concluded that private and semi-private enterprises, higher education, and international trade impact positively on regional economic growth. However, state-owned enterprises (SOE) reduced growth rates among the provinces during 1978-1989.

The increase in productivity in the reform period relies on several indicators. First, there was a massive allocation of human resources from the agricultural sector to industry and services. This transformation positively impacts the distribution of labour to sectors that have higher added value, especially manufacturing. This sector was very important in supporting the growth of aggregate productivity. Second, the output of the non-state sector (urban collective sector, rural industry, agriculture, and private and foreign businesses) increased significantly. The most significant growth was in the rural TVEs, which was far from the performance of SOEs.

Concerning debt, Sun (2019) concludes that the factors that influence China's debt structure are GDP growth, borrowing costs, and the financial market's development. The increasing debt-to-GDP ratio may have an impact on decreasing economic growth, although the public debt level and the external debt level are sustainable in China. At the same time, the highly indebted non-financial corporations and the non-financial private sector may experience a severe deleveraging process in the future (for example the experience of Evergrande, FT 2021).

4.2 Tax reform in China generates an increase in tax income

In the structure of state finances, the majority of state revenues are contributed by taxation. In Indonesia, the contribution of tax revenue to total state revenue is around 80%, while the rest comes from non-tax state revenues (PNBP) and grants. It can be said that the higher the tax revenue, the smaller the fiscal deficit so that the government debt is relatively low.

In Indonesia, tax revenue is highly dependent on commodity price developments, while in China, it depends on the strength of the domestic economy. Before the economic reform in 1994, the Chinese primary tax revenue source depended on large capital-intensive firms' taxes (and dividends). These firms were majority-owned by the national government. Besides, tax revenues sources were from high import tariffs and high seigniors because of the rapid growth of the money supply. Although the Chinese had high tax rates, the corruption levels were low (under the table and over the table payment). On the other hand, the firms were reluctant to invest more due to expensive taxes to impact the national tax income achievements. To compensate for high taxation, the government offered a very cheap loan via a state-controlled banking system or directly funding new investment projects (Gordon and Li, 2002).

Decentralization has impacted improving tax revenues in China as local governments have proven to be much more effective than the national government in monitoring and collecting revenue from companies. Because they effectively own these companies and have representatives from local government work within the companies, it is a great source of information to monitor sales and taxable income. The companies in question are Township and village enterprises (TVE's).

TVE is a company legally established and owned by the local government. As the owner, the government appoints managers and may assign other local government employees to supervisory positions within the company. As a result, local governments can easily monitor company profits. The situation was relatively different for private companies where local governments do not have a good reach from monitoring revenues to profits.

Decentralization has impacted improving tax revenues in China as local governments can monitor and collect the tax directly from companies compared to the central government ability. Moreover, as the owner of the TVEs, the local government has an opportunity to access internal information (particularly the financial aspect including monitoring sales) so that it can lessen the tax reduction of the local company. The local government also has the flexibility to appoint firms' managers and also may assign other local government employees to supervisory the company. As a result, local governments can easily monitor company profits and taxes. However, the situation was relatively different for private companies where local governments do not have a good reach from monitoring revenues to profits.

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Some of the impacts of the 1994 tax reforms in China are as follows. First, the government abolished the dual-track system towards a planning system, so it was supported to improve tax administration and information. The favourable implication of abolishing the dual-track system is the growth of local and private companies growing on a large scale into various sectors. That decision has succeeded in creating intense competition in the product market and creating a single market-clearing price. The one-price policy for most goods and services made financial flows more informative for economic decision-making and tax purposes. Previously, the Chinese government used a physical quantity approach to calculate tax revenue. The shift from an accounting system that focuses on documenting the number of inputs and outputs has a positive impact on monitoring the company's financial flows. Thus, tax calculations are more precise. With the better disclosure of public information from accounting reports and bank records, the information obtained by tax officers is richer so that various irregularities can be reduced, especially corruption among tax officials.

Second, as a series of economic reforms, reforms in the banking sector (market-oriented banking system) made the access of the local companies more attractive to commercial banks loan to expand their business. Before the banking reform, the majority of the financial support of firms was from internal resources. Thus, the use of a larger bank increases the potential tax base from the local enterprises.

Third, there is a clear division between local taxes and central taxes. China replaced the tax system with the contract system with *fengshuizhi* or separate taxation of its taxation system. In this new system, it is clearly defined between local and central government revenue sources. The local government collected income taxes and remittance taxes from local companies, taxes on services (other than rail transportation, banking and insurance), property taxes, personal income taxes, and stamp duty. On the side, the central government generate tax from customs, value-added taxes, imports, excise taxes, and profit and remittance taxes from national companies. The new value-added tax on Chinese industrial production, the most significant tax revenue source, is shared between the central government (75%) and local governments (25%).

Fourth, tax reform is carried out by reducing taxes. The profits tax rate fell from 55% to 33% (equivalent to developed countries). Value Added Tax (VAT) rates are set at 17% on most goods and reduced taxes on agricultural, energy and mineral products and inputs to 13%. To enforce the tax, companies must keep receipts for all transactions, both purchases and sales. This evidence provides the government with an additional source of information and control over companies. In VAT, whose value depends on sales, the monitoring is through receipts for purchases made.

4.3 Monetary sector stability

The stability of the monetary sector is vital to maintaining the sustainability of debt. First, the inflation and interest rate. Stable and low inflation positively impacted lower real domestic interest rates and made the government bond yield cheaper. In addition, the higher the inflation, the higher the returns expected by investors. Second, the stability of the domestic currency exchange rate. The stability of the exchange rate determines the sustainability of the debt. When the domestic currency depreciates significantly against foreign currencies, the real value of debt increases both the principal and interest payments. In addition, the depreciation of the domestic currency caused by capital outflows forced the government to increase yields in order to achieve the target auction of debt securities. With a higher yield, the debt burden will increase.

Three, the accumulation of foreign exchange reserves. Foreign reserve is vital in maintaining the sustainability of government debt because it reflects the ability of a country to manage shock debts for foreign debt. The higher the foreign exchange reserves, the turmoil that occurs in the financial market does not significantly affect debt indicators, especially yields. Moreover, foreign exchange reserves are significant for the central bank to intervene in the third market so that exchange rate fluctuations do not cause adverse effects on debt, debt interest instalments and debt ratings.

In general, monetary indicators in China are much sound than those in Indonesia. According to World Bank data (2020), the renminbi exchange rate against US$ was 2.4, while in 2020 was 6.90. During that period, the renminbi exchange rate against US$ only depreciates about US$4.43 (180%). On the other side, the Rupiah exchange rate to US$ depreciated about 9,648% from 1960 to 2020, from Rp149 per US$ to Rp14,582. Although China became the most important export centre globally, its exchange rate relatively depreciated at a lower level. Indonesia has a limited foreign reserve making its domestic currency much more volatile. The share of foreign reserves of Indonesia to GDP was 3.5%, while China had about 9.4 in April 2021.

The potential for debt spikes due to depreciation is mentioned by Eichengreen and Hausmann (1999) as the original sin. The original sin happens because of the inability of a country to borrow abroad in its currency. Hence, maintaining the exchange rate's stability is an integral part of preventing debt from increased risk. According to the Ministry of Finance, about 66% of Indonesia's external debt position was in US$ domination. Particularly in the central government debt, about 44% was in US$ in March 2021.

Another factor impacting debt pressure is debt rating. It is deemed as country risk. When a country is in an investment-grade position, investors' return levels will generally be more competitive. Thus, when Indonesia can maintain its investment-grade level, the yield obtained should be much more efficient. However, even though Indonesia has had an investment-grade level since 2016, most Indonesian government securities' yields are still much more expensive than some ASEAN countries. This expensive yield depicts the shallowness of Indonesia's financial market and inefficient government bonds bargaining. Indonesia is still unable to use the investment-grade position to gain an optimal competitive yield.

5. Conclusion: Lessons from China

This section will elaborate on lessons learned taken from China's economy, particularly on managing its debt. Factors influencing debt, actually, arise from the economic performance that finally impacts of fiscal sector, fiscal deficit and debt. We note several aspects that Indonesia could take note of.

The power of transformation is due to its unique approach, strong governance, and policy consistency.

China uses a micro-first approach in transforming its economy. The economic reform is carried out gradually involving domestic agents. China did not liberalize its economy without preparation. Indonesia took the same approach before the 1997/98 crisis. However, Indonesia financed its economic reform through foreign debt, while China did with foreign direct investment. The differences in the development financing sources put Indonesia and China on a different path of economic development. At the beginning of its development, Indonesia was trapped by foreign debt, a primary factor in a severe monetary crisis impact in 1997/98. Since 1997/98, Indonesia adopted a macro-first approach led by IMF. This approach insists on liberalization and privatization. In reality, Indonesia's domestic economy was too fragile to compete with foreign actors. In addition to their unique approach, the Chinese government has the power and resilience to implement its National Plan. On the contrary, Indonesia experienced poor government bureaucracy with high levels of corruption.

Role of the banking sector

Two lessons can be taken from the role of the banking sector in China in supporting economic transformation. First, the Chinese government regulated the banking sector in such a way that it forced the sector to make a significant contribution to financing the economy, especially the provision of infrastructure. The banking sector naturally functions as an agent of development. Government intervention positively impacts the availability of infrastructure and, of course, debt for infrastructure development.

Second, China has specific banks that play a special role in funding vital sectors in the economy so that the economic sector has ample loans. For example, the China Development Bank encourages China's economic development by funding projects and significant initiatives in the national development plan and industrial policy. On the other hand, Indonesia has more than 100 commercial banks with four government banks. Nevertheless, their function remains the same. They do business to maximize the profit rather than development. The share of banking sector credit in GDP in Indonesia is lower than 50%. Therefore, Indonesia should have a specific bank to support loan distribution for the vital sectors so that public debt is reduced.

High tax income driven by domestic sources

China has a high ratio of tax revenue to GDP, reaching 17.4% in 2019. This level is above the average standard of tax ratio of 15% for developing countries recommended by the World Banks. The level is also sufficient for a country to fulfil the basic needs of citizens and businesses and put a country on a growth path. On the other hand, Indonesia's tax ratio is lower than 10%, increasing its debt gradually. In terms of tax structure, about 30% of China's tax revenue was contributed by value-added taxes/goods while Indonesia tax revenue depended on the commodity-based sector, making them highly vulnerable to volatility. Therefore, Indonesia should reform its tax revenue from the external base driven to domestic base driven.

Sound and monetary sector stability amid a lower foreign debt

China has a solid monetary sector, maintaining debt risks, especially foreign debt. The yuan exchange rate moved steadily because large foreign exchange reserves supported it. China also manages its currency in order to support its exports. This lesson revealed that China regulates its economy to support different aspects. The accumulation of foreign exchange reserves impacts China's significant FDI and exports. On the other hand, China's foreign debt is relatively low (only 14%), so exposure to exchange rate fluctuation is low.

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