



## Local Economic Development Concept: A Comparison between Indonesian Village-Owned Enterprises and Chinese Township and Village Enterprises

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### **Abstract**

This research was conducted to understand the concept of local economic development by comparing Township and Village Enterprises (TVE) in China with Village-Owned Enterprises (BUM Desa) in Indonesia. Given that today, local economic development is needed to strengthen the national economy, especially in Indonesia. BUM Desa and TVE are business entities initiated and owned by villages that broadly impact the general public's welfare. According to China's economic history, TVEs became the largest contributor to China's economic revival after the reform in 1978. Meanwhile, Indonesia has also experienced the same thing, namely the economic crisis in 1998 and the 2019 Corona Virus disease (COVID) pandemic, which caused global economic stagnation. This type of research is normative juridical research using a comparative approach, comparative legislation, and conceptual approaches. The results show that there are similarities between Indonesia and China in managing businesses at the village level, which lies in (1) local government participation in providing business opportunities and exports abroad; (2) institutional strengthening; and (3) natural resource management. Meanwhile, the government conditions. Differences lie in: (1) business management model; (2) economic policy direction; and (3) local government conditions.

**Keywords:** *TVE; BUM Desa; Economic Reform; Village; Pancasila*

### **Introduction**

The discourse on strengthening and developing the local economy is one of the interesting things to realize welfare and equitable distribution of natural resources for the community. This is a noble ideal in the life of the nation and state of all countries in the world. The issue of welfare is also intertwined with the development of the quality of human resources in managing and increasing the capacity of human resources to organize and manage sustainable businesses. It is similar to what Hicks said that basically

everyone has a "welfare function," which is the value he places on various items that are important to make him better, or more simply, "happier" (Hicks, 2011).

Regarding the issue of welfare and the fulfillment of basic needs for the community, countries in the world have their concepts for overcoming economic crises that may occur. This is different from one country to another and is influenced by several factors, including economic factors, social and cultural factors to the factors of the government system and ideology adopted by each country. An example is Indonesia and China, each of which has experienced an economic crisis. From a historical perspective, Indonesia experienced an economic crisis in 1998 and 2019 during the Corona Virus disease (COVID) pandemic. Throughout 1998, the rupiah depreciated by more than 70 percent, peaking in July 1998 when the exchange rate reached Rp. 14,700 per US\$. In 1997 GDP grew by 4.7 percent and contracted to minus 13.1 percent in 1998. Inflation, which averaged only 8.1 percent between 1991-1996, rose sharply to 77.6 percent in 1998, mostly from internationally traded goods. This resulted in fundamental changes in the economic, social, political, and cultural order that determined the direction of state life, on the hand, the biggest change in modern Indonesian history, but on in another hand, contributed to the complexity of economic recovery problems (Karmeli & Fatimah, 2008). Then there was a pandemic that caused the global economy to be temporarily paralyzed and experienced stagnation.

Meanwhile, when compared to China, which has also experienced business stagnation due to COVID-19, this country has also experienced similar conditions, namely an economic crisis that led to economic reform and was caused by the conditions of the Chinese government in the Mao Zedong leadership era due to trade isolation from outside. However, it should be noted that China was able to rise by carrying out economic reforms during the leadership of Deng Xiaoping with the aim of China's expansive and hegemonic international political, and economic policy. Hu Jintao realized this goal by launching The Peaceful Rise of China, namely the peaceful rise of China, on December 22, 2005, in the China Peaceful Development Road document (known as heping fazhan in Mandarin) (Wishanti, 2016). One of the elements that made China rise and developed so that it becomes the second largest economy after the United States is by optimizing the role of Township and Village Enterprise (abbreviated as TVE). China also has SOES. However, TVEs have a good track record of improving China's economy compared to the SOEs.

Likewise, Indonesia has a village-scale local economic institution known as BUM Desa. BUM Desa is a business entity characterized by villages. The legal politics of BUM Desa regulation has been dynamized, especially after the enactment of Law Number 11 of 2020 on Job Creation (from now on referred to as the Job Creation Law), which serves as a legal basis for strengthening investment and the economy in Indonesia. Legal arrangements for BUM Desa are contained in Law Number 6 of 2014 on Villages (from now on referred to as the Village Law). Since the enactment of the Village Law, the legitimacy and authority of villages to regulate village needs through community initiatives have increased. A shift also influences this in the paradigm of village development, where initially, the village was only the object of development. However, now the village is the subject of development itself.

On the other hand, villages with the principles of recognition and subsidiarity can regulate the village to the needs and characteristics of the local village. The presence of village-owned enterprises in Indonesia since 2015 has experienced several crucial problems that have caused villages to be unable to realize BUM Desa institutions by the mandate of the Village Law. Problems that arise include the status of legal entities that need to be regulated, the regulation of business management accountability, the quality of human resources in management to the business orientation of village-owned enterprises as work plans and directions. This certainly makes it difficult for village-owned enterprises to develop.

Compared to China's TVES, the potential and business projections of village-owned enterprises are also very strategic to improve and strengthen Indonesia's national economy if managed properly by taking into account the village's potential in managing its business. Considering village-owned enterprises as business entities characterized by the village in Indonesia, ideally, they can be managed like TVEs. TVEs have played an important role since China underwent economic reform in 1978. TVEs are much more efficient than China's state-owned enterprises. TVEs have successfully reduced unemployment in China.

The Chinese central government issued the Rural Regulation of the People's Republic of China in 1990 to delineate control distribution and benefits between TVEs, communities, and the government. This regulation stipulates the ownership rights of TVE assets, the allocation of control rights, and the rules for sharing TVE's after-tax returns. Local governments and local branches of the Communist Party of China support TVEs. It is collectively owned by villagers and operates independently, with the manager chosen by the village government. In 1987, a new policy was made to accelerate economic development in coastal areas by giving 14 cities the status of open areas with tax breaks and easy entry of foreign investors. From 1988 to 1991, the Chinese central government consolidated with local governments to raise capital, optimize technology and absorb raw materials.

Based on this explanation, to provide a comprehensive overview and comparative study of the regulation of local economic institutions between BUM Desa in Indonesia and TVEs China, a comparative study was conducted to determine the methods used by China in optimizing the role of TVEs so that they have a broad impact on China's economic reform globally. In addition, Indonesian BUM Desa can also adapt China's TVE management model by considering the economic system and ideology adopted by Indonesia, namely the populist economic system and the Pancasila economic system.

This research is complementary research to several previous studies similar to this research. Some of these studies are: (1) The Impact of Regional and Institutional Factors on Labor Productive Performance-Evidence from the Township and Village Enterprise Sector in China, which examines the impact of regional and institutional factors on the labor productivity (Zheng, Batuo, & Shepherd, 2017); (2) Rural nonfarm sector and rural residents' income research in China. Township and village enterprises in China: Reform success or evolution of a traditional institution? Which also examines the exploration of the historical continuity of economic and social institutions by using the example of Township-Village Enterprises (TVE) in China to illustrate the continuity (Kruglova, 2020); and (3) Measuring the governance of Village-Owned Enterprises in Indonesia, which examines the identification of governance indicators and captures the governance practices of Village-Owned Enterprises (BUMDesa) (Widiastuti, Putra, Utami, & ..., 2019).

The urgency of this research is as a comparative study of the management of a business entity at the village level in China by optimizing human resources, labor, and managerial skills to bring China to experience rapid economic change. So that with this comparative study, BUM Desa in Indonesia can adapt Chinese TVE business management patterns in the Indonesian context.

## ***Literature Review***

### **China's Successful Economic Reform Through Township and Village Enterprises (TVE)**

China is a country in the East Asian region with the first population in the world, around 1,349,585,838 people; this number has a ratio of 19% of the total world population. With a very dense population, China has a prolonged population problem. However, the economy in China has increased and become an Asian power that threatens the trade of other countries in the world, with an average

growth of 10% in the last 30 years (Geografi.org, 2023). China has an ideology. China's government system began when Mao Zedong ruled the communist revolution. The Communist Party is a party founded by Mao Zedong in 1921. The party has a large number of members worldwide, which is more than 63 million. Even the communist party occupies the qualifications of the largest party in the world. In general, the main points of China's government system can be mentioned as follows (Zulkarnaen, 2019)

- a. The country is a unitary state consisting of 23 provinces.
- b. The form of government is a republic with a communist democratic system.
- c. The head of state is the president, while the head of government is the prime minister. The National People's Congress elects the president for a 5 (five) year term (usually concurrently as party chairman). The president nominates the prime minister (party secretary-general) with the approval of the National People's Congress.
- d. Using a unicameral system, the National People's Congress (Quangquo Renmin Daibao Dahui) has 2,979 members. Its members are representatives from regions, areas, cities, and provinces for a five-year term. This body wields significant power in China, with its members being communist party people.
- e. The National People's Congress is the highest state institution, which acts as the legislative body.
- f. Judicial power consists of the Supreme People's Court, Local People's Courts, and Special People's Courts. It is exercised in a rigid hierarchy by the People's Courts under the leadership of the Supreme Court of China.

China's rise in the industrial sector can be seen from three aspects: decentralization, marketization, and property reform at the enterprise level. Since 1978, China's central government transferred control and ownership of state enterprises to lower levels of government and granted local governments the right, in fiscal contracts or tax farming, to obtain residual revenue from enterprises under their jurisdiction. At the same time, centralization and decentralization have been perennial problems for China's political economy since the 1950s. Post-Mao decentralization significantly changed the relationship between central and local governments and between local governments and their enterprises. More importantly, post-Mao decentralization occurred in parallel with the marketization process that gradually transformed China's industry from a planned system to a market-driven one and created various markets, including markets trading securities field (Peng, 2001).

At the beginning of China's reform in 1978, the Chinese government allowed foreign direct investment in some coastal areas as special economic zones, and multinational companies became exporters. In 1980, China restricted exports and foreign investment to form partnerships with China's domestic industry. Only in the early 1990s did the government re-allowed foreign investors to conduct production and sales processes in the domestic market. Some of the main economic sectors of China are agriculture, manufacturing, mining, textiles, trade, and investment economy. America after China's domestic industries are all which can bring China as the strongest of businesses in clues and villages, which are called Township Village Enterprise (TVE). To understand and know the definition of TVE, it can be studied from two perspectives: First, the definition of TVE in terms of ownership. TVEs originated from Commune-Brigade Enterprises that were formed from Socialist Collectively-Owned Economic Entities since China's economic reform began. According to the Chinese Communist Party (CCP) and the State Council, TVEs are enterprises established by communes, brigades, or the government. In 1989, there was a change in the definition or meaning of TVEs in terms of ownership which allowed individuals to run their business as a trade. Furthermore, in 1996, the Chinese government, through regulations governing TVEs, directed TVEs as rural collective (owned) economic organizations or investments from farmers on a firm scale (Jin, 2017).

Second, in terms of ownership. In 1979, the State Council ordered that CBEs be owned by the Commune, owned by the brigade if established by the brigade and that CBEs be nationalist. These

provisions were ratified in 1984. As for TVE, in 1996, it was requested that at least the capital sector be majority-owned by farmers or rural communities. It was only in 1997 that TVEs were defined as companies owned by rural communities (Jin, 2017).

TVE's presence in China is most developed in the coastal provinces of Guangdong, Fujian, Zhejiang, and Jiangsu. Historically and currently, these provinces have close ties with overseas Chinese capitals in Hong Kong, Taiwan, and Southeast Asia. The development of TVEs in these provinces corresponds to the international division of labor requirements and the considerable comparative advantages in the rural China (Perotti, Sun, & Zou, 1999). For overseas Chinese investors, the attractiveness of TVEs in coastal areas is deeply realized:

- a. a large number of cheap and highly disciplined Chinese rural laborers liberated
- b. by the successful agricultural reform and development of the early 1980s;
- c. various preferential treatments in tax exemptions, currency conversion, and reduced benefits provided by the open-door policy;
- d. flexible and relatively convenient approval procedures for their investment projects in rural communities;
- e. proximity to their base, cultural comfort, and traditional family or kinship networks.

It is also conceivable that (a), (b), and (c) are attractive to other foreign investors (Perotti et al., 1999)

TVE governance structures are better defined and appear to be much more effective. The main suppliers of finance for TVEs are township or village households and outside creditors. Acting in their self-interest, these financing suppliers have all the incentives to ensure their investments will not be appropriated. Alternatively, with adequate governance structures, TVEs will find it easier to get projects financed by outside creditors. The separation of ownership and control or, in more intuitive terms, finance and management, is likely to cause agency problems.

Township and village governments are the de facto owners of TVEs. They have the right to appoint and dismiss managers, make important investment decisions, dispose of assets, and claim a share of net profits (by law, local governments are entitled to 40% of the profits of TVEs they own). Although TVE ownership is officially classified as "collective" (*jiti*), their relationship with the township government is not much different from that between SOEs and the township government.

### **Village-Owned Enterprises as Business Entities Characterized by Village**

Village-scale local economic development is one of the government's strategic efforts to increase community empowerment to manage and utilize natural resources according to community needs. This cannot be separated from the mandate of the Indonesian constitution, Pancasila, and the 1945 Constitution of the Republic of Indonesia (from now on referred to as the 1945 Constitution) to realize the greatest prosperity and welfare for the community, especially for Indonesia. Indonesia adheres to a populist economic system in its economic activities, commonly called the Pancasila economy. The Pancasila Economic System is a concept of economic policy after experiencing a movement like a pendulum clock from left to right, which means that to the right means free to follow market rules, while to the left means experiencing state intervention in the form of centralized planning (Jiuhardi, 2022). Today, the government focuses on developing the financial ecosystem and improving the national economy through village-owned enterprises. This business entity in Indonesia is known as BUM Desa. Since the Village Law's enactment, the village's legitimacy and authority to regulate local needs through community initiatives have been optimized. The shift also influences this in the paradigm of village development, where initially, the village was only the object of development. However, now the village is the subject of

development itself. On the other hand, villages with the principles of recognition and subsidiarity can regulate the village to the needs and characteristics of the local village. The regulation of villages in Indonesia has experienced a significant shift in development when compared to legal arrangements in the past. The Village Law emphasizes a development paradigm aimed at villages that not only act as objects of development but must also act as the subject of development itself. In other words, villages today must be able to identify their needs and improve the quality of their natural resources to determine the direction of future sustainable village improvement. To realize village development, the formulation of the Village Law uses 2 (two) approaches, namely "*Membangun Desa*" and "*Desa Membangun*," which are integrated into Village Development planning. There are several fundamental differences between the concepts of village development and village development, which are generally described in the following table:

Table. 1. Differences in the concept of "membangun desa" dan "desa membangun"

Item/Issue	Membangun desa	Desa membangun
entrance	Rural	Village
Approach	Functional	Locus
Level	Rural development	Local development
Related issues and concepts	Rural-urban linkage market, growth, employment, infrastructure, sectoral areas, etc.	Independence, local wisdom, social capital, democracy, participation, authority, fund allocation, local movement, empowerment, etc.
Level, scale of coverage	Spatial and economic areas that cross village	Within the scale and jurisdiction of the village
Institutional scheme	Local governments conduct planning and implementation supported by special fund allocations. The center provides facilitation, supervision and acceleration.	Regulations establish village -scale authority, institutionalize village planning, fund allocation and local control.
Autorization holder	Local government	Village (Village government and community)
purpose	Reducing backwardness, underdevelopment, poverty, while building prosperity.	1. Making vilages the basis for sustainable livelihoods and community life 2. Making the village the front end, that is close to the community, as well as an independent village.
The role of government	Plan, finance, adnnd implementation	Village facilitation, supervision and capacity building
The role of village	Participation in planning and decision-making	As the main actor (subject) who plans, finances and implements
result	1. Better cross-village infrastructure 2. Growing small towns as growth centers and hubs for rural-urban economic transititon 3. Establishment of forest areas, cllective farming, industry, tourisme, etc.	1. Village governments are the forefront of public service delivery for citizens 2. One village has a superior economic product (one village on product)

Source: processed by a researcher from the book "Desa Membangun," 2014, P. 39. (Eko et al., 2014)

Based on this table, village regulation in the era of the Village Law emphasizes the village government as the spearhead of government administration. It is filled with the optimization of community participation in the village-scale local economic development field. Current local economic development, especially in villages, leads to the optimization of BUM Desa, which on the other hand, is the embodiment of a business entity characterized by the village and also as a legal entity that allows the

village community to increase the role of BUM Desa as a means of increasing independence and original village income. The legal basis for establishing BUM Desa in Indonesia is found in Article 87, paragraph (1) of the Village Law, which states that the Village can establish a Village-Owned Enterprise called BUM Desa. According to Article 1 point 6, BUM Desa is defined as a business entity wholly or partially owned by the Village through direct investment from separated Village assets to manage assets, services, and other businesses for the welfare of the Village community. The regulation of BUM Desa during the Village Law period was further regulated in Government Regulation No. 43/2014 as amended by Government Regulation No. 47/2015 on the Implementation Regulation of Law No. 6/2014 on Villages. In this provision, BUM Desa is regulated in Chapter VIII with several regulatory norms, namely establishment and management organization, capital and village assets, articles of association and by-laws, development of business activities, and establishment of joint BUM Desa. Related to the establishment, management, and management, as well as the dissolution of BUM Desa and BUM Desa Bersama is regulated by the Minister of Villages, Development of Disadvantaged Regions, and Transmigration Regulation No. 4/2015 on the Enterprises. Establishment, Management and Management, and Dissolution of Village-Owned Enterprises.

When viewed from the definition of BUM Desa in the Village Law era, BUM Desa is directed as a business entity characterized by the village. However, how the indicators of a business entity characterized by the village are not implied. However, BUM Desa is regulated as a business entity that can be engaged in public services and a commercial or profit-oriented business entity. In addition, the legal status of BUM Desa is also not regulated. It only states that if BUM Desa has an unclear business unit, the BUM Desa business unit can take the form of a legal entity. The related legal status of BUM Desa has caused several fundamental problems to the establishment, business expansion, and capitalization of BUM Desa. In addition, BUMDesa needs to be stronger as a legal entity, such as a limited liability company, which makes it difficult for BUMDes to obtain capital from banks and cooperation with other parties. Another problem is that BUMDes has been difficult to be independent without the influence of the village head or government. BUMDes management is appointed without a professional recruitment (Kashogi, Rajab, & Bustannudin, 2022)

In response to some of the fundamental problems of BUM Desa and appropriate with the government's priority to create and increase employment by providing convenience, protection, and empowerment to cooperatives and Micro, Small, and Medium Enterprises (SMEs) as well as national industry and trade as an effort to be able to absorb the widest possible Indonesian workforce while still paying attention to balance and progress between regions in the national economic unity, BUM Desa is also one of the regulatory objects of the Job Creation Law.

By the Tenth Section that regulates BUM Desa, the definition of BUM Desa has changed. Article 117 of the Job Creation Law states that the provisions of Article 1 number 6 of the Village Law are changed to BUM Desa is a legal entity established by the village and together with villages to manage businesses, utilize assets, develop investment and productivity, provide services, and provide other types of businesses for the greatest welfare of the Village community. In addition, the Job Creation Law also amends the provisions of Article 87, which essentially inserts two paragraphs in Article 87, which contain the establishment of BUM Desa business units by the needs and objectives, and further BUM Desa arrangements are regulated in a Government Regulation. The Government Regulation intended to regulate BUM Desa in the Job Creation Law is Government Regulation 11 of 2021 concerning Village-Owned Enterprises.

In legal traffic, there are legal subjects and legal objects. The subject of law means the holder of rights and obligations or everything that can obtain rights and obligations from the law, while the object of law is everything that supports or can be utilized by the subject of law. Legal subjects consist of humans or natural legal subjects (*natuurlijkepersoon*) and legal entities (*rechtspersoon*). In connection with

the meaning of a legal entity, it has a position as a supporter of rights and obligations or is often referred to as a *persona ficta* or a person created by law as a person. According to Logemann, a legal entity is a personification or *bestendigheid* (embodiment), the legal rights and obligations of the organization (*orgnisatierecht*), which determines the internal structure (*inneelijkstructuur*) of that personification (Sastrawidjaya, 2005). Meanwhile, Rochmat Soemitro argues that a legal entity or *rechtspersoon* is a body or association with property, rights, and obligations like private persons. (Soemitro, 1993, p. 10) So it can be concluded by the author that a legal entity is a personification, a body or association created by law as a *persona*, forming an association with a property that is separated by having certain objectives in its activities. Legal entities (*rechtspersoon*) also have several characteristics or elements. Chidir Ali said that legal entities, in general, must fulfill 4 (four) main elements, namely:

- a. Wealth is separate from the wealth of other legal subjects;
- b. Has a certain ideal goal that does not conflict with laws and regulations;
- c. Has its interests in legal traffic;
- d. There is a management organization that is organized according to applicable laws and regulations and its own internal regulations (Ali, 1999)

Likewise, what is mentioned by Soenawar Soekowati in Utrecht regarding the elements of a legal entity, namely (Prananingrum, 2014) :

- a. There is a separate wealth separate from the wealth of its members;
- b. The existence of interests that are recognized and protected by law and not the interests of just one or a few people;
- c. The interest must be long (stable);
- d. It must be possible to demonstrate a separate asset that is not only the object of a claim but also the maintenance of the interests of the legal entity separate from the interests of its members.

Thus, when associated with the existence of BUM Desa as a legal entity, it is necessary to ensure that the elements or characteristics of a legal entity are met by BUM Desa, considering that BUM Desa is not only a profit-oriented business entity but also acts as a business entity oriented towards public services for the community. Referring to the Government Regulation on Village-Owned Enterprises, villages can establish BUM Desa by village needs. BUM Desa consists of BUM Desa and Joint BUM Desa, established by a combination of several villages. The objectives of establishing BUM Desa and joint BUM Desa are:

- a. conducting economic business activities through business management, as well as developing investment and economic productivity, and the potential of the Village;
- b. conduct public service activities through the provision of goods and or services as well as the fulfillment of the general needs of the Village community, and manage the Village food barn;
- c. to obtain profit or net income to increase the Village's original income and to develop the maximum benefit of the economic resources of the Village community,
- d. utilization of Village Assets to create added value to Village Assets; and
- e. developing the digital economy ecosystem in the Village.

BUM Desa is based on the spirit of kinship and cooperation to carry out its business activities. This is a manifestation of the economic principles of Pancasila adopted by Indonesia based on a sense of kinship, help, and similarity in the history of the Indonesian nation, which originates from Pancasila as the nation's values and outlook on life. The principle of kinship and cooperation is realized in several principles: professional, open and responsible, participatory, local resource priority, and sustainable.



The above is one of the main characteristics distinguishing BUM Desa from government-owned enterprises in Indonesia, such as BUMD and BUMN. Although regulated as a legal entity, the management of BUM Desa must pay attention to the principles of kinship and cooperation, and its implementation is almost similar to the management of cooperatives. On the other hand, BUM Desa should also combine the principles of good governance, considering that BUM Desa is expected to be a legal and professional business entity that can increase the village's revenue.

The organizational apparatus of the BUM Desa and joint BUM Desa is separate from the Village Government, consisting of village deliberation/inter-village deliberation, an advisor held concurrently by the Village Head, operational executives or directors, and supervisors, as well as employees. All or part of the capital ownership of BUM Desa and/or BUM Desa is owned by the village or jointly by the village as

stated in the BUM Desa and BUM Desa Articles of Association. Related to the capital element, the capital of BUM Desa and/or BUM Desa consists of: (1) village capital participation; (2) village community capital participation; (3) and part of the operating profit determined in the Village Consultative Meeting/Inter-Village Consultative Meeting to increase capital.

### ***Research Methodology and Approach***

This research is normative legal research. Normative juridical means that law is conceptualized as what is written in legislation (law in books) or as rules or norms that are benchmarks for human behavior that are considered appropriate (Amiruddin & Asikin, 2006). The approaches taken in this research are statutory, conceptual, and comparative. The statutory approach analyzes the legal basis for managing Village-Owned Enterprises between Indonesia and China.

The conceptual approach is used to analyze the nature of village-owned enterprises following the country of their formation. A comparative legal approach is used to determine the similarities and differences in legal arrangements for village-owned enterprises in Indonesia and TVEs in China from the perspective of local economic development (LED). This research used primary, secondary, and tertiary legal materials. Then, the legal materials are analyzed descriptively to describe the legal comparison between BUM Desa and TVEs.

### ***Result and Discussion***

#### **Similarities and differences in Management between BUM Desa Indonesia and TVEs China**

The management of an economic institution in the form of a business entity requires proactive business management, considering that the current global economic challenges do not only boil down to economic growth, but prioritize the management of sustainable economic institutions so that in the future, people do not depend on business sustainability on one aspect alone, but can create their own advanced, developing and independent economic ecosystems. Village-owned enterprises in China and Indonesia have their characteristics, inseparable from the support of third parties such as the government, the private sector, and the community. BUM Desa in Indonesia, for example, has regulatory support from the government. This is evident from the Indonesian government's legal policy regulating BUM Desa as a legal entity to facilitate BUM Desa in terms of capital strengthening, business expansion, and escalation with foreign investors. In addition, BUM Desa is currently one of the economic institutions in the village that receives more attention from the central and local or village governments. Given that at the village level, BUM Desa is not the only economic institution that becomes the leverage of the village; previously, there have also been cooperatives, community credit banks, or with other designations, then the Village Credit in Bank, and so on.

Although there are several economic institutions, some of these village economic institutions have yet to contribute to significant economic movements. However, through BUM Desa, the Government of Indonesia is serious and optimistic in its efforts to increase the economic role of BUM Desa as one of the pillars of the national economy besides BUMD and BUMN. On the other hand, if you emulate what the Chinese government has done to organize and manage TVE, it is something that must be done in a synergistic way between government elements, private elements (investors), and the community itself in seeking to produce superior products that can be resold to other countries and have sustainable value and are needed by everyone. It is intertwined with the provisions of the laws of the People's Republic of China stating that TVEs should follow a series of Party policies for rural areas, respect farmers' initiatives, and fully motivate the spirit and creativity of the broad masses of farmers: persistently deepen reforms, perfect operating mechanisms and actively carry out exploration and innovation; adhere to openness to the outside world, actively open up domestic and international markets and strive to expand the space for survival and development, adhere to the spirit of intensive and pioneering efforts and relying on a scientific approach, be good at seizing opportunities and bravely combat difficulties; keep improve self-quality, adhere to on science and technology, cherish knowledge and talents and constantly principle the of departing from reality in light of local deepening of reform conditions and taking the road of development with their characteristics. With the opening up and the development of practice, all localities and relevant departments should continue to summarize the new experience, form new role models, help grassroots level and township and village enterprises establish good leadership, find good paths and adopt good methods (AGRICULTURE, 1997). Several findings by the author explain the differences and similarities between Village-Owned Enterprises between Indonesia and China:

a. Equation:

- 1) Economic institutions or a business entity owned by the Village
- 2) Both cultivate and utilize the natural resources of the village.

b. Differences

- 1) TVE's capital comes from non-governmental organizations; even farmers used to own TVE, so the capital aspect is more Independent. Meanwhile, BUM Desa's capital comes from the community, village funds, and the government budget.
- 2) In the aspect of strengthening the ecosystem of goods and services circulation from TVE, Chinese SOES also play a role in distributing TVE business results so that there is an economic symbiosis of mutualism between SOES and Chinese TVEs. For BUM Desa, it is still trying to create business opportunities and development directions. However, there is no symbiotic mutualism between BUMN and BUMD in Indonesia as in China.
- 3) TVE is oriented towards business exports abroad, supported by regulations and tax relief systems, while BUM Desa optimizes domestic business management. Although several BUM Desa have exported their business products, they still encounter crucial issues such as export taxes, lack of export knowledge, and sustainable business management.
- 4) In terms of investment management from outside countries, China does not only direct investors to invest in business capital but directs the use of local labor (labor-intensive) so that Chinese workers can not only work in foreign companies but also learn and develop the technology.

## **2.1. Optimizing the Management of Village-Owned Enterprises Based on Local Economic Development in the Indonesian Context**

The local economy in the context of Indonesianness cannot be separated from the Indonesian economic philosophy enshrined in Pancasila and the 1945 Constitution of the Republic of Indonesia (from now on referred to as the 1945 Constitution). The values of Pancasila as a guideline and foundation

for the life of the Indonesian nation and homeland are embodied in each precept: The First Precept emphasizes that the Indonesian nation recognizes the existence of God Almighty and expresses its belief and piety. The Second Precept contains human values, which means that humans have equal dignity. The Third Precept contains the values of unity which is the value of Indonesian nationalism. The fourth precept contains the value of democracy led by wisdom in deliberation representation which means that sovereignty is in the hands of the people, and the fifth precept contains the values of social justice in the life of the nation and state.

Pancasila as the ideal foundation and the 1945 NRI Constitution as the constitutional foundation, as well as the thoughts of Mohammad Hatta, is the basic footing or analytical knife that can be formulated to give birth to the Pancasila economic policy model, especially in the process of internalization and Institutionalization to re-ground the values of Pancasila in economic policy (Pusdatin, 2021). The basic principles of the Pancasila economy are in the constitutional foundation, precisely in article 33 of the 1945 Constitution, which is the main joint for implementing the economy in Indonesia. The development of Indonesian economic law, the notion of togetherness, and the principle of kinship embodied in Article 33 of the 1945 Constitution are compelling and must be implemented consistently. The formation of economic legislation refers to Article 33 of the 1945 Constitution, stating: “.. *that the economy is organized as a joint venture on the principle of kinship...*”. This means that economic development must support the economic development of the people, in the sense that the people must participate in the development, not development that will displace the people (Ruslina, 2016).

It is also explained that the Indonesian economic system is the Pancasila economic system or the people's. Indonesia's current People's Economy is a sub-system of the Pancasila Economy. The Pancasila Economic system emphasizes the five precepts, namely moral, humane, nationalist, and democratic, and then the Popular Economic system emphasizes the fourth precept, namely democracy. (Mubyarto, 2002). In the Popular Economy system, the community plays an important role in actively participating in every activity in the economic sector. In contrast, the government shapes a democratic and fair economic climate for the development and sustainability of the industrial and business world (Styaningrum, 2021). In the business world, especially in Indonesia, Village-Owned Enterprises are a manifestation of the realization of the mandate of the Indonesian constitution regarding the implementation of a pro-people economy. BUM Desa is a village-scale local economic base oriented towards business professionalism and benefits the general public.

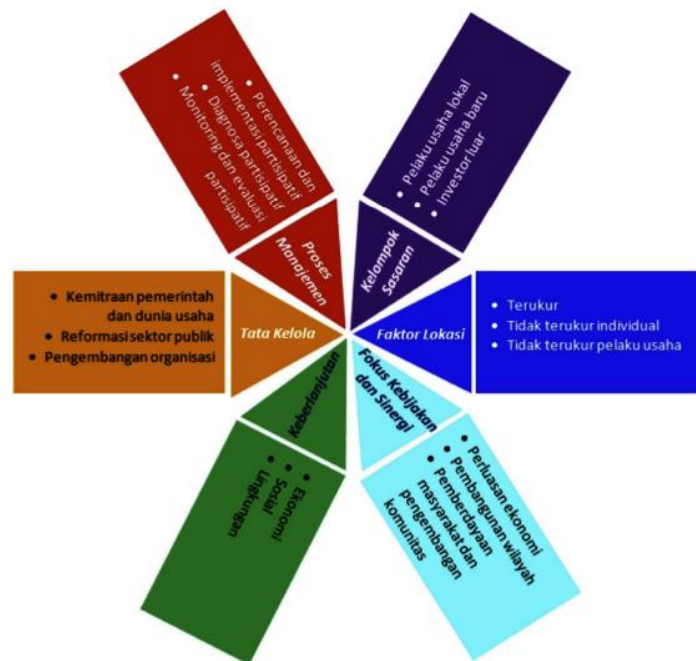
Talking about the development of the village's local economy must, of course, be carried out considering the challenges and opportunities of utilizing the village's natural resources that are right on target for the independence and progress of the village community. Local economic development is an effort to develop the regional economy based on the potential, social, economic, and cultural conditions of the community by utilizing stakeholder collaboration, both government, business/private sector, community organizations, and local communities in order to create sustainability of welfare and benefits for the next generation afterward (Suman et al., 2019). According to Brekley, local economic development is the process by which local governments and community organizations engage to encourage, stimulate, nurture, and sustain business activities to create jobs (Sishayadi & Wahed, 2020). Meanwhile, Munir also argues that local economic development is a process that tries to formulate development institutions in the region, improve human resource capabilities to create better products, and foster industry and business activities on a local scale. So, regional development is seen as an effort of local government and the community to build economic opportunities suitable for human resources and optimize the use of natural resources and institutions locally (Munir & Fitanto, 2008). It is an approach that provides opportunities for the community to play a role and take the initiative in determining and processing local resources, both human and natural resources, to create an economical chain (Wijijayanti, Agustina, Winarno, Istanti, & Dharma, 2020).

The implementation of local economic development has historically changed the approach. First, the traditional approach that emphasizes attracting investment to the industrial sector focuses on providing subsidies, lowering taxes, and providing subsidized infrastructure. Second is an approach focusing on knowledge-based development to foster an economic environment with educational and technological infrastructure development measures. Third, an approach that focuses on creating a good quality of life and the smooth flow of information so that the quality of a region's physical, social, and scientific infrastructure has an important role in local economic development (Manan & Della Nabila, 2019).

The local economic development strategy has components that are divided into groups and help resemble a polygon or hexagon; it is called a hexagon of local economic development (LED). The LED hexagonal is an analytical tool to describe and measure local economic development in a region. There are 3 (three) main component groups, namely (Manan & Della Nabila, 2019):

- a. Key instruments consist of target groups and location factors.
- b. Innovative factors, consisting of the continuity and focus of policies and sustainable development.
- c. Key issues consist of governance and management processes.

Figure 1. The Hexagon of Local Economic Development



Source: ireyogya.org

Referring to the hexagon of LED, it will be further elaborated regarding the analysis of China's TVE and Indonesia's BUM Desa through the table below.

Table 2. Comparison of BUM Desa and TVE China from the perspective of Local Economic Development

Heksagon LED	TVE China	BUM Desa Indonesia
<b>A Key Instrument for Local Economic Development</b>		
<p>Target group, wich consist of:</p> <ol style="list-style-type: none"> <li>1.Local business</li> <li>2.New business actors</li> <li>3.Outside investor</li> </ol>	<p>Chin's TVE in fact an economic driving engine other than SOEs, but its management is also inseparable from economic reform and post-Mao political conditions. So the target component has been fulfilled as a whole. Business actors synergize with foreign investors who invest in China trough labor-insentive. This causes the Chinese workforce to not only work but also can learn some new thecnology from investor.</p>	<p>The management of BUM Desa Indonesia has paid attention to several components of the target group as evidenced by the strengthening of BUM Desa institutions for management organizations (BUM Desa administrators) and for the community to develop BUMDesa business results that are in accordance with village characteristics. BUM Desa has also prepared for export-based business expansion through natural crafts, agriculture, trade to the tourism sector.</p>
<p>Location Factor, consisting of:</p> <ol style="list-style-type: none"> <li>1.measurable</li> <li>2.not individually measurable</li> <li>3.Not measurable business actors</li> </ol>	<p>TVE is very developed following China's policy towards enforcing licensing facilities and strengthening areas based on industry, manufacturing, agriculture to trade.</p>	<p>In this component, especially for BUM Desa, efforts are still being made by the government to create a business climate and ecosystem that comes from strengthening human resources related to the use of technology and business governance and creating a skilled (measured) workforce. Then, government support through regulations on ease of doing business greatly clouded the existence of BUM Desa. the government is also expanding the business chain by collaborating between BUM Desa to create superior village products (not measurable for business actors). Regarding the location factor that is not measurable for individuals, it still needs to be improved.</p>
<b>Local Economic Development Innovative Factors</b>		
<p>Synergy &amp; Policy Focus, consisting of:</p> <ol style="list-style-type: none"> <li>1.economic expansion</li> <li>2.regional development</li> <li>3.community empowerment and community development</li> </ol>	<p>Post Mao, that is, in the era of Deng Xiao Ping's leadership, he had a visionary policy direction. This also has a very significant impact on China's economy so that it is called economic reform. During the Deng era, China was open to foreign investors, so CBE/TVE also developed.</p>	<p>Regarding economic expansion and regional development, this is in line with the development of BUM Desa, bearing in mind that BUM Desa is an economic institution with the status of a legal entity, so its business arrangements have been adapted to business regulations in Indonesia which are oriented towards national economic growth.</p>
<p>Sustainable Development, consisting of:</p> <ol style="list-style-type: none"> <li>1.economy</li> </ol>	<p>The 1978 economic reform marked the era of China's rise. In addition, the social and economic sectors are also growing, such as infrastructure</p>	<p>BUM Desa business products through the BUMDesa business unit are not only profit-oriented, but also service-oriented to the community.</p>

2.social 3.environment	development, increasing competitive product quality and inviting foreign technology to enter China.	
<b>Important Issues of Local Economic Development</b>		
Governance/Government, consisting of:  1. partnership between the government and the business world 2. public sector reform 3. organizational development	The governance/ governance component has also influenced the progress of TVE, including synergy between SOEs and TVE to supply business results, export tax relief from the government and also from the development side of the TVE organization which was originally from CBE.	BUM Desa arrangements in Indonesia have been adapted to the needs of global economic competition, starting from regulations regarding legal status, collaboration in business management with village communities to strengthening BUM Desa management.
Process Management	Based on agency theory, TVE also experiences two crucial issues, namely ownership and property rights.	The management of the BUM Desa is independent of the village administration, but the Village Head still serves concurrently as an adviser to the BUM Desa. Based on agency theory, it is feared that BUM Desa cannot be fully independent in managing their business due to the interests of village government elements.

Source: author's analysis, personally processed from several sources, 2023.

Based on the results of the comparative analysis according to the elements of the concept of local economic development, it can be concluded that to optimize the potential possessed by an area, or in this case, rural, it requires synergy between government elements in terms of policy and formulation of pro-business regulations. Then, synergy with foreign and local investors is useful for accelerating technology and information use and establishing a sense of kinship between communities in managing Village-Owned Enterprises, especially in Indonesia. Given that Indonesia has abundant natural resources, its utilization and management must also be used for the majority of the welfare of the community, not individuals. On the other hand, as a legal entity that has a dualist business orientation (profit-oriented and public interest), its management should also be carried out independently in accordance to establish BUM Desa and village characteristics, the possibility of problems related to management due to differences between principals and agents should be avoided as much as possible.

### Conclusion

Learning from the rise of China's economy, which made China the second strongest after the United States, is certainly challenging. China has TVE, while Indonesia also has BUM Desa, but the two economic institutions that originated from villages have their characteristics and elements. In addition, on the other hand, the factors of the government system and Ideology adopted by each country also affect the strengthening and development of village-owned enterprises to prosper the people. Local economic development is very important to be used as an instrument and indicator of how massive collaboration strengthens the local-based economy by synergizing between the government, the community, and store investors.

Several important things can be emulated from China's TVE management, namely: (1) elements of regulatory support and light tax relief for BUM Desa to activate business results that are not only local

but it is possible to send business results abroad; (2) elements of strengthening human resources by improving the quality of business entity leadership management; (3) separating the interests of the principal (village head) and agent (BUM Desa management) from government politics in the village, considering that the Village Head in Indonesia acts *ex officio* as an advisor to BUM Desa; and (4) strengthening the vision and mission by BUM Desa members and village communities to commit to advancing BUM Desa as an economic pillar in addition to BUMD and BUMN in Indonesia.

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