

The Politics of Economic Development in Indonesia

Contending perspectives

Edited by

Ian Chalmers and Vedi R. Hadiz

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The politics of economic development in Indonesia

Indonesia's economy has boomed in the three decades since President Soeharto came to power. Many now regard Indonesia as one of the world's great economic success stories. But economic change has not come easily, and has given rise to intense debates within Indonesia about the ideals and goals of development.

Translating key speeches and articles by leading Indonesian figures, Ian Chalmers and Vedi R. Hadiz present and analyse trends in economic thinking during this period. They outline three streams of thought advanced by contending political forces which have long influenced policy making: economic nationalism; economic liberalism; and economic populism. Tracing their evolution, this volume demonstrates that Indonesia's recent economic success has been accompanied by a growing diversity of views about Indonesia's future. These views will vie for dominance as Soeharto's presidency inevitably comes to an end.

Despite increased Western interest in Indonesia's economy, domestic interpretations of its development experience remain largely unknown outside Indonesia and have rarely been available in English. *The Politics of Economic Development in Indonesia* offers a unique insight into domestic policy debates, allowing Indonesians to present a range of perspectives on development to a wider audience and giving outsiders a greater understanding of the future direction of the Indonesian economy.

Ian Chalmers is lecturer in Southeast Asian Politics and Indonesian Studies, Curtin University, Australia. **Vedi R. Hadiz** is research fellow, Asia Research Centre, Murdoch University, Australia.

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For Karla and Aisha, Lina and Ratna

Notes on the authors¹

Sritua Arief (b. 1938), economist. Arief received a masters degree from Cornell University and a PhD in economics from the University of Hull in the UK. The author of several works critical of New Order economic policy, he has been on the Board of Trustees of the Jakarta-based LSP (The Institute of Development Studies), chairman of a private research group, Sritua Arief Associates, and the director of a bank in West Sumatra.

R. H. Slamet Bratanata (now deceased), engineer and business consultant. A Director-General in the Ministry of Basic Industries and Mining in the early 1960s, he became Minister of Mines in the Ampera cabinet (1966–1967). An outspoken critic of BAPPENAS economic thinking throughout the 1970s, Bratanata subsequently became involved in opposition politics. He was closely associated with the so-called 'Petition of 50' group of prominent dissidents who, in 1980, criticised the President for deviating from the ideals of *Pancasila*.

Arief Budiman (b. 1941), sociologist and political activist. Initially an essayist and cultural figure, he was part of the 1960s student movement that helped establish the New Order. By the early 1970s, however, Budiman had become one of the New Order's most outspoken critics. Though his undergraduate degree at the University of Indonesia was in psychology, he did postgraduate work in sociology at Harvard, where he received a PhD in 1981. Until recently based at the *Universitas Kristen Satyawacana* in Salatiga, he remains a prominent government critic.

Sumitro Djojohadikusumo (b. 1917), economist. Considered the doyen of Indonesian economists, he received a PhD in economics at the *Economische Hogeschool* in Rotterdam in 1942. Linked with the former PSI (Indonesian Socialist Party), he held numerous official positions in the 1940s and 1950s, the most important being Minister of Trade and

Industry (1950–1951) and Minister of Finance (1952–1953 and 1955–1956). He was forced into the political wilderness (and exile) in the late 1950s for supporting the unsuccessful rebel government, PRRI (*Pemerintah Revolusioner Republik Indonesia*). A close Soeharto associate, he became Minister of Trade (1968–1973) and of Research and Technology (1973–1978). Now the chair of a consultancy firm, he remains an influential adviser to the President.

B. J. Habibie (b. 1936), engineer and politician. Regarded as the main proponent of the high-tech approach to development, he was educated in Germany where he received a doctorate in engineering in 1965. A specialist in aircraft construction, he rose to become vice-president of the aircraft producer, *Messerschmitt Boelkow Blohm GmbH*, in Hamburg (1974–1978). Habibie is said to have been asked by Soeharto himself to return to Indonesia, after which he became head of the Advanced Technology Division of the state oil monopoly, Pertamina. He was appointed Minister of State for Research and Technology in 1978, a position he still holds, chairman of the country's main technology research body, BPPT (*Badan Pengkajian dan Penerapan Teknologi*), and chairs various state corporations involved in high-technology industries. He was instrumental in developing Indonesia's fledgling aircraft industry. In 1990 he became chairman of ICMI, the 'Association of Muslim Intellectuals'.

Hamengkubowono IX (1912–88), Sultan of Yogyakarta. He became Sultan in 1940 after studying Indology in Leiden, The Netherlands. At the outbreak of the Indonesian Revolution in 1945, he demonstrated his support for the fledgling Republic by placing his domains under its jurisdiction. He also held various positions in government, both before and after the transfer of sovereignty to Indonesian hands. In 1949–1950 and again in 1952–1953 the Sultan served as Minister of Defence; in 1963 he became head of the State Audit Board. Together with Soeharto and Adam Malik (former Foreign Minister and Vice-President), he was a key figure in the early years of the New Order, holding the positions of Deputy Prime Minister for Economics, Finance and Development in 1966, and the Vice-Presidency in 1973–78.

Hartarto, engineer. Minister of Industries, 1983–1993. From 1993 Coordinating Minister for Industries and Trade, and since 1995 Coordinating Minister for Production and Industry.

Soedjono Hoemardani (b. 1919, now deceased), soldier and presidential aide. An army officer with an economic-logistics background, he rose to become a close adviser to Soeharto in the early New Order period.

A member of the influential group of ASPRI, 'personal assistants' to the President, led by Ali Moertopo, and of the security organisation, OPSUS. Hoemardhani was renowned as a Javanese mystic. A board member of the think-tank CSIS (Center for Strategic and International Studies), he was appointed in 1978 to the Central Board of Golkar. He also held the key position of Inspector-General of Development.

Indonesia Raya, a respected liberal newspaper published by Mochtar Lubis, the writer and journalist who was a well-known critic of both the Old and New Orders. Closely associated with liberal intellectuals, it was banned in 1974 – along with numerous other publications – for its reportage of the MALARI riots.

ISEI, '*Ikatan Sarjana Ekonomi Indonesia*' (Association of Indonesian Economists). Professional organisation of Indonesian economists. Holds annual conferences during which the pressing development issues of the day are discussed by leading members of the profession.

ITB Student Council, '*Dewan Mahasiswa Institut Teknologi Bandung*' (Bandung Institute of Technology Student Council). ITB is the oldest and most highly respected tertiary-level school of engineering (among its alumni, former President Sukarno). Its student body was among the most vocal and active throughout the 1960s and 1970s, and it retains a reputation for producing outspoken student critics.

KADIN, '*Kamar Dagang dan Industri*' (Chamber of Commerce and Industry). Formed in 1967, it soon became the only officially recognised channel of communication between government and business. Initially, KADIN's leading figures were military figures in state-owned enterprises, as well as politically connected *pribumi* business people. Its chairmen, until the early 1980s, were senior military officers. While the organisation has continued to be dominated by well-connected *pribumi* entrepreneurs, recently some leading Chinese businessmen have also come to play a more prominent role. KADIN's legal status as the umbrella business organisation of the New Order was enhanced in 1987 through legislation. Its chairman in the mid-1990s is successful *pribumi* entrepreneur, Aburizal Bakrie.

Ginandjar Kartasasmita (b. 1941), engineer. Regarded as one of the main advocates of a development strategy emphasising state protection for domestic industry. A former airforce officer, in the 1960s and 1970s he held various administrative positions in the state apparatus, most often associated with the influential State Secretariat that emerged as a key economic policy-making centre in the 1980s. Ginandjar was

appointed assistant Minister of State for the Administration of Non-Department Institutions in 1978, and Junior Minister for the Promotion of Domestic Products in 1983. In 1985 he became Chairman of the Investment Coordinating Board, BKPM, and in 1988–1993 served as Minister of Mines and Energy. In 1993 he became the first non-economic technocrat to head BAPPENAS, the National Development Planning Body.

Kwik Kian Gie (b. 1935), economic affairs commentator and politician. Educated at the University of Indonesia and the *Nederlandsche Economische Hogeschool* in Rotterdam, where he received a degree in economics in 1963. In the 1970s and 1980s Kwik headed several of his own businesses, including an electronics retailing firm and a company for importing cloves. He has been a leading figure in the business management school sponsored by many of Indonesia's top Chinese business figures, Yayasan Prasetya Mulya. He now heads the research section of the PDI (Indonesian Democratic Party).

Todung Mulya Lubis (b. 1949), lawyer and human rights activist. Chairman of the Indonesian Legal Aid Foundation in the 1980s, he was educated at the University of Indonesia, the University of Texas, and the University of California at Berkeley. In 1990 he received a PhD in law from the latter, with a dissertation on the concept and application of human rights in Indonesia. He is currently chairman of YAPUSHAM, a Non-Government Organisation (NGO) specifically involved in the study of issues of human rights.

Ali Moertopo (1924–1984), soldier and politician. His career in the army began with his involvement in the war for independence in 1945–1949. A personal assistant to Soeharto, he was one of the most important figures in establishing the institutional framework of the New Order, largely due to his role as head of OPSUS, a special operations unit linked to the army. Rising to the rank of Lieutenant General, in 1975 he was appointed chairman of the state intelligence coordinating body, BAKIN. He was also honorary chairman of the board of directors of the Centre of Strategic and International Studies (CSIS), a mainly Chinese and Catholic-based think-tank. Moertopo was Minister of Information in 1978–1983, after which he was appointed to the Supreme Advisory Council.

Amir M. S. (b. 1932), businessman. He studied at the Social, Economic and Political Faculty of the National University, Jakarta, from 1954 to 1959. Later, he was the Director of a private *pribumi*-owned company engaged in trade and shipping.

Mubyarto (b. 1938), economist. Professor of Economics at Gadjah Mada University, Yogyakarta, from where he received his undergraduate degree. In 1965 he gained a PhD from Iowa State University in the USA. A leading figure at Gadjah Mada's pioneering 'Rural Development Studies Centre', he is now a senior official in BAPPENAS, the development planning body, and a leading figure of ICMI, the Association of Muslim Intellectuals.

Fadel Muhammad (b. 1952), businessman. A former activist at the Bandung Institute of Technology (ITB), from where he graduated in 1978 with a degree in engineering, he has been the chief director of the Bukaka group of companies since 1990. A symbol of pribumi business success in the New Order, he has been the recipient of awards from the Indonesian government for his efforts to promote small, indigenous businesses.

Hasyim Ning (1916–1995), businessman. Having participated in the revolutionary war of independence and retiring from the army as a lieutenant-colonel, he soon became one of the major entrepreneurs of the 1950s. A *pribumi*, his major interest was in automobiles, having established distributors such as PT Djakarta Motor Company and PT Indonesia Republic Motor. Though he continued to flourish during the New Order and diversified into such businesses as banking, he was clearly superseded in the 1970s by well-connected Chinese businesses.

Widjojo Nitisastro (b. 1927), economist. Perhaps the principle architect of early New Order economic policy, he was head of Soeharto's team of Presidential Economic Advisers in 1966. Initially a career academic, he served as Minister of State for National Development Planning (1971–1973), head of Bappenas (1973–1983), as well as Coordinating Minister for Economics and Industry (1973–1983). Educated at the Faculty of Economics of the University of Indonesia and the University of California at Berkeley, from where he received his PhD in 1961, he remains one of President Soeharto's closest economic advisers.

Mari Pangestu (b. 1956), economist. Pangestu received her doctorate in economics from the University of California at Davis in 1986. She also worked there as a teaching assistant in international trade and a research assistant in applied micro- and macroeconomic policy. Currently a researcher at the Centre of Strategic and International Studies in Jakarta, she is also a well-known commentator and columnist on economic affairs.

Jusuf Panglaykim (1922–1986), economist. Perhaps the most scholarly and influential of the CSIS-based economic thinkers of the 1970s, he was educated at the University of Indonesia, from where he received his doctorate in 1963, and at Harvard University. An academic at the University of Indonesia, he was also a member of the Board of Directors of CSIS, as well as the head of several private financial institutions including Panin Bank, where he served as President Commissioner.

Radius Prawiro (b. 1928), economist. Educated at the *Nederlandsche Economische Hogeschool* in Rotterdam and at the Faculty of Economics, University of Indonesia. Prawiro has held a long list of important government positions since the beginning of the New Order: Governor of the Bank of Indonesia (1966–1973), Minister of Trade (1973–1983), Minister of Finance (1983–1988), and Coordinating Minister for Finance and Industry (1988–1993). He was another member of the team of Presidential economic advisers (1968–1971) that was so influential in the early years of the New Order, and which reasserted itself in the mid-1980s following the fall in international oil prices.

Mohammad Dawam Rahardjo (b. 1942), NGO activist and Muslim scholar. Educated at the Faculty of Economics of Gadjah Mada University in Yogyakarta, Rahardjo worked as a researcher at, and later became director of, LP3ES (The Institute for Economic and Social Research, Education and Information), one of the largest NGOs in Indonesia. He is also an editor of the social and economic affairs journal, *Prisma*. A well-known social and political affairs commentator, he subsequently established LSAF (The Institute for the Study of Religion and Philosophy) and now publishes the religious and social affairs journal, *Ulumul Qur'an*. Rahardjo was instrumental in founding ICMI, the Association of Muslim Intellectuals.

Mohammad Sadli (b. 1922), economist. Initially trained as an engineer at Gadjah Mada University, Yogyakarta (1952) and MIT (1956), he subsequently took up economics at the University of California at Berkeley, the University of Indonesia – where he received his doctorate in 1964 – and at Harvard. Although essentially an academic, he has held the cabinet positions of Minister of Manpower (1971–1973) and of Minister of Mining (1973–1978). Part of the team of economists that played such a large role in setting economic policy direction in the late 1960s, he has also been an adviser for the Chamber of Commerce and Industry, KADIN.

Emil Salim (b. 1930), economist. Educated at the Faculty of Economics, University of Indonesia, and at the University of California, Berkeley, where he received his doctorate in 1964. Yet another of the team of economists that shaped early New Order economic policy, he has served as Deputy Chairman of Bappenas (1971–1973), State Minister for the Reform of the State Apparatus (1971–1973), Minister of Transport (1973–1978), Minister of State for the Supervision of Development and for the Environment (1978–1983), and Minister of the Environment (1983–1993). Until his retirement, he was among the longest serving of Soeharto's Ministers.

Adi Sasono (b. 1943), NGO activist. A former student leader at the Bandung Institute of Technology (ITB), Sasono initially began his career in the business world, where he was General Manager of PT Krama Yudha Philips Welding Electrode Manufacturing (1975–1977). He later founded an NGO, the Institute of Development Studies (LSP) in 1978. Appointed as a committee member to the National Defence and Security Board (*Dewan Pertahanan dan Keamanan Nasional*) in 1979, he is now a leading member of ICMI, the Association of Muslim Intellectuals.

Frans Seda (b. 1926), economist, politician and businessman. Dutch-educated (with a degree in economics from the *Katholieke Economische Hogeschool*, Tilburg in 1956), he was the leader of the Catholic Party from 1961 to 1968. In the 1960s and early 1970s he served as Minister for Plantations, Minister of Agriculture, Minister of Finance, and Minister of Transport and Tourism. A former member of the Supreme Advisory Council, he is also the founder of Atmajaya Catholic University and has been chairman of the Association of Textiles Producers, API.

Sjahrir (b. 1945), economist. A student leader in the 1960s and early 1970s, he graduated from the Faculty of Economics of the University of Indonesia in 1973. Sjahrir was subsequently imprisoned for several years following the MALARI riots of January 1974. He received a PhD in Political Economy and Government from the Faculty of Arts Sciences, Harvard University in 1983. Formerly Chief Economist at the Centre for Policy Studies in Jakarta, he currently heads *Yayasan Padi dan Kapas* and the Institute for Economic and Financial Research, both in Jakarta. Sjahrir comments extensively on the Indonesian economy in the national press.

Soedjatmoko (1922–1989). One of the mostly highly respected intellectual figures in Indonesia in his lifetime, Soedjatmoko dropped

out of medical school in Jakarta in 1943 during the Japanese occupation. A member of the Indonesian Socialist Party (PSI), he was a delegate to the UN in 1947–1951. During the New Order period he served as Ambassador to the US (1968–1971), Personal Assistant to the Foreign Minister (1967–1977), and Social–Cultural adviser to BAPPENAS (1971–1980). In the 1980s he was appointed Rector of the United Nations University in Tokyo. Soedjatmoko published extensively, in both Indonesian and English, on a wide range of economic, social and political issues. He received several honorary doctorates, including one from Yale University.

Soeharto (b. 1921), President of Indonesia. He began his military career in the 1940s Dutch colonial army, KNIL, and the Japanese-occupation force PETA, ‘defenders of the motherland’. Taking part in the revolutionary war of 1945–1949, he rose in the ranks of the new national army to become commander of the Central Java Command in the 1950s. In the early 1960s he was commander of the ‘Mandala Operation’, the military effort to wrest control of Dutch-held West Irian. As commander of the Strategic Reserve Command (KOSTRAD), Soeharto led the army’s crushing of the Indonesian Communist Party in 1965–1966. In March 1966, President Sukarno effectively transferred powers of government to then Major-General Soeharto, although he was finally appointed full President in 1968.

Abdoel Raoef Soehoed (b. 1920), engineer. A proponent of an industrialisation strategy which emphasises backward and forward linkages between industries, Soehoed was Minister of Industries from 1978 to 1983. He also served as deputy chairman of the Investment Coordinating Board (BKPM) and head of the capital-intensive Asahan aluminium project. After he was replaced as Minister, Soehoed was appointed to the Supreme Advisory Council. A former student of the *Technische Hooge School*, Bandung (later ITB), and the Technical High School in Yogyakarta, he also graduated from the air force staff and command school (1952). Soehoed retired from the airforce with the rank of major.

Sarbini Sumawinata (b. 1918), economist. Educated in Indonesia and the Netherlands, he received a masters degree in economics from Harvard University in 1954. In the civil service, he was appointed head of the Central Bureau of Statistics in the mid-1950s. Appointed professor to the Faculty of Economics of the University of Indonesia in 1959, he played a crucial role in the early New Order as the head of the President’s team of political advisers. Sarbini soon became a vocal

government critic, however, and was jailed for two-and-a-half years – without trial – following student riots in early 1974 (the MALARI Affair). He has since been owner and managing editor of a publication for commercial news published thrice weekly, *Business News*.

Supreme Advisory Council (DPA, 'Dewan Pertimbangan Agung'). One of the most important state institutions according to the 1945 Constitution, its forty-five members are usually senior and retired government figures. After its dissolution in the late 1940s it was reconstituted in 1959. Although it offers advice and proposals to the President, the DPA's real power and influence is much less than its formal stature.

Enin Supriyanto (b. 1962), student activist. Supriyanto studied design at the Institute of Technology in Bandung (ITB) from 1984 to 1989, when he was arrested for involvement in an on-campus student protest. An activist of student discussion groups, he was imprisoned for several years.

Bambang Beathor Suryadi, student activist. A leading figure of the radical student organisation, PIJAR (Information Centre and Network for Reform Action), Suryadi was imprisoned in 1990 for defaming the President. He was released in 1993, since when he has continued his activities in pro-democracy groups.

Ali Wardhana (b. 1928), economist. Another of the economists based at the University of Indonesia and trained at Berkeley (receiving a PhD in 1962) who have held important economic portfolios in the New Order. He began his career as an academic and was Dean of the Faculty of Economics of the University of Indonesia from 1967 to 1983. He was Minister of Finance (1968–1983) and Coordinating Minister for Economics, Industry and Supervision of Development (1983–1988) and has also held important positions with the World Bank and International Monetary Fund.

World Bank (International Bank for Reconstruction and Development). Indonesia first joined the IBRD in 1954 and left in 1965, without receiving any loans. Indonesia rejoined the organisation at the beginning of the New Order in 1967. In 1968 the World Bank provided the country with its first loan, and it has since continued to be a major provider of funds for development programmes. A member of the IGGI (Inter-Government Group on Indonesia), the IBRD has chaired a new consortium of creditors since the collapse of IGGI in 1992.

NOTE

- 1 Sources: *Apa dan Siapa: Sejumlah Orang Indonesia, 1982-1983*, Jakarta: Grafitipers; *Apa dan Siapa: Sejumlah Orang Indonesia, 1985-1986*, Jakarta: Grafitipers; Redaksi Kompas (1982), *Mencari Bentuk Ekonomi Indonesia*, Jakarta: Gramedia; Cribb (1992), Robison (1986), Crouch (1988) and various other sources.

Foreword

In 1970, Herbert Feith and Lance Castles produced an edited collection of critical political writings and statements by Indonesians. Titled *Indonesian Political Thinking, 1945–1965*, it was to become an indispensable volume for students of modern Indonesia and remains a record of the ideologies, strategies and thoughts that drove political change in Indonesia during that critical period.

Since then, no comparable volume has attempted to capture Indonesian political or economic thinking within a coherent and structured volume despite the dramatic changes that have taken place. While there has been no shortage of secondary analysis, usually by non-Indonesians, the thoughts and plans of Indonesians who set the agendas, or resisted them, have not been widely available to the outside world, especially to non-Indonesian speakers.

It was to address this void that the Asia Research Centre at Murdoch University decided to fund a collection of primary documents on economic thinking in the period of Indonesia's New Order government, which has been in place since early 1966. The editors, Ian Chalmers and Vedi Hadiz, have been faced with the tasks of selecting those pivotal documents that give a sense of the complex collision of ideologies, interests and political forces that characterised economic policy-making in the period and providing a sense of the structural constraints under which they operated. To give coherence and context without intruding too far onto the voices of the Indonesian actors, they have also developed commentaries that place the primary documents in perspective.

On one level, their task has been assisted by the sheer volatility of the period. It has not been a boring time. Over the past thirty years, Indonesia's economy has been dramatically industrialised and more closely integrated into the global economy. It has also undergone major shifts in direction. An initial apparent surge of liberal reform