Chapter 4 Reemerging Developmental State in Democratized Indonesia

Yuri Sato

4.1 Introduction

This chapter discusses challenges facing emerging states that promote development under democratization and globalization. It compares two types of developmental state; that is, 'authoritarian developmental state' and 'democratic developmental state'. Indonesia experienced both types of developmental states during the last five decades. The chapter looks at similarities and differences between the two types from the viewpoint of institutions, policies, and policymakers under the respective given external conditions. By doing so, it explores the key characteristics inherent in 'democratic developmental state' in the context of the twenty-first century.

As Chap. 1 emphasizes, this volume reexamines the concept of developmental state beyond the so-called 'East Asian bias' prevalent in the existing literature. This chapter provides a reexamination from the Southeast Asian perspective. Southeast Asia has been considered as a region where one can hardly find developmental states in the sense in which Japan, Korea, and Taiwan were viewed as developmental states. As Chap. 1 reviews, the term 'developmental state' was coined by Johnson (1982) on the model of Japan, where the Ministry of International Trade and Industry (MITI) materialized 'plan rationality' in the bureaucratic system and in the collaborative relationship between state and business in promoting development. Johnson's focus on capacity of the developmental state was enriched with broader evidences from Korea (Amsden 1989; Haggard 1990; Haggard et al.1992) and Taiwan (Wade 1990; Hattori and Sato 1996). Setting this model of developmental states as a benchmark, Southeast Asian states are rated as having lower capacity than a developmental state. Doner et al. (2005), defining developmental states as 'organizational complexes in which expert and coherent bureaucratic agencies collaborated with organized private

Y. Sato (✉)
Institute of Developing Economies (IDE), Japan External Trade Organization (JETRO), 3-2-2 Wakaba, Mihama-ku, 261-8545 Chiba, Japan
e-mail: yuri_sato@ide.go.jp

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sectors to spur national economic transformation', deem Southeast Asian states not to fulfill the definition, as these states are featured by uneven bureaucratic coherence, clientelism in public-private linkages, and private-sector factionalism.

Southeast Asian studies, however, set eyes on the features common to some states that have been pushing development as intermediate states (see Chap. 1 of this volume). As Iwasaki (1994) argued, Thailand, the Philippines, Indonesia, Singapore, and Malaysia have had 'a development-oriented organic unity of political and economic institutions'. He called it a 'developmental regime', featured by four elements; (i) developmentalism to place 'development' as a source of legitimacy of the state, (ii) a centralized administrative system of bureaucrats-technocrats with state intervention, (iii) authoritarianism, and (iv) pro forma parliamentary democracy led by the military or a dominant political party. Suehiro (1998, 2002) saw the developmental regime fit in wider area including Korea, Taiwan, the above-stated five original ASEAN member states, and Vietnam, and extracted a concept of 'developmentalism' as the most essential element. He defined developmentalism in the context of East and Southeast Asia as 'a state ideology for intensively mobilizing physical and human resources to catch up with advanced countries by achieving economic growth through industrialization'.

According to Chap. 1, this volume sets the concept of developmental state free from a specific historical (e.g. the Cold War era) and geographical (e.g. Japan, Korea, and Taiwan) milieu by broadening the scope of observation in terms of time (twentieth and twenty first centuries) and space (Asia and Africa). As an essential element of a developmental state, it underlines the 'shared commitments of leaders and policymakers to development', rather than a specific set of policy instruments.

Similarly, this chapter is based on the following understanding. In Southeast Asia in the latter half of the twentieth century, there emerged some developmental states entailing the 'shared commitments of leaders and policymakers to development', though the degree of coherence in the state system and the quality of state-business relationship may have been lower than those of the advanced model of Japan. One of the common features of the Southeast Asian developmental states in those days was that they took the authoritarian regime. However, as the Cold War that had tolerated the authoritarian regime ended in 1989, the world turned into the era of globalization and democratization. At the beginning of the twenty first century, Southeast Asia saw reemergence of developmental states in the sense of increasing shared commitments of leaders and policymakers to promoting development. It occurred under globalization and democratization, the circumstances greatly changed from the latter half of the previous century.

Indonesia is a typical example in Southeast Asia experiencing developmental state building under authoritarianism in the era of the Cold War and reemergence of developmental state under democracy in the globalization era. I call them 'authoritarian developmental state' and 'democratic developmental state' respectively. Section 4.2 below overviews these two types of developmental state observed in Indonesia and provides an analytical framework this chapter adopts. Sections 4.3 and 4.4 examine the process of policy making under the respective types of developmental state. The main questions are who the key policy makers are; who involves in the policy making;

how the relationship among stakeholders is; and how external and internal conditions influence the policy making process. Economic development policy and social welfare policy are taken up in the third and fourth sections respectively. Section 4.5 summarizes the analysis and elicits challenges facing developmental states in the twenty first century.

4.2 Authoritarian Versus Democratic Developmental States

It is widely accepted that the rule of Indonesia's second president Soeharto was authoritarian and that it set *pembangunan* or 'development' as a state ideology (Thee 2002, Robison 1988, Yasunaka and Mihira (eds) 1995, Shiraishi 1997). Soeharto, after seizing power in 1966, succeeded the authoritarian rule that concentrated power in the president on the basis of the 1945 Constitution from the first president Soekarno, while making a historic turnaround from closed socialism to open capitalism in managing the national economy under the banner of *pembangunan*. The nature of development-oriented authoritarianism remained unchanged throughout his administration until 1998 when democratization movement amid the Asian financial crisis forced Soeharto to step down. I designate Indonesia under the Soeharto's rule (1966–1998) as an 'authoritarian developmental state'. The Soeharto-led authoritarian developmental state is positioned on the left (II and III quadrants) in Fig. 4.1, an area with a high degree of power concentration, while its position in terms of state intervention into the economy changed over time as discussed in Sect. 4.3.

With the fall of Soeharto, the pendulum of Indonesia's state governance swung sharply from power concentration to de-concentration, from centralization to decentralization, and from active state intervention to least state intervention. The position of state governance moved to the extreme of libertarianism, the upper right corner of Fig. 4.1. In 2004, the first direct presidential election in the Indonesian history was carried out peacefully, which led to the recognition that Indonesia established a foundation of democracy through vigorous institutional transformation in the period of 1998–2004.

In the post-Soeharto transition period, policymakers, business agents, and the general public shared sentiment to reject state intervention, perceiving it as an evil practice of authoritarianism, and espoused laissez-faireism. After a decade of laissez-faireism, however, the government changed gear toward more active state intervention, having realized the necessity of shared commitments that would drive the state towards the common goals of development even under a decentralized democracy. I designate Indonesia recognizing the importance of shared commitments for development under democracy as being a 'democratic developmental state'. The democratic developmental state is positioned in the center right (asride I and IV quadrants) in Fig. 4.1, a position with a low degree of power concentration and some degree of state intervention in managing the economy.

A consensus has not reached about the concept of Indonesia being a 'democratic developmental state' and when it started. This chapter suggests it started in 2009,

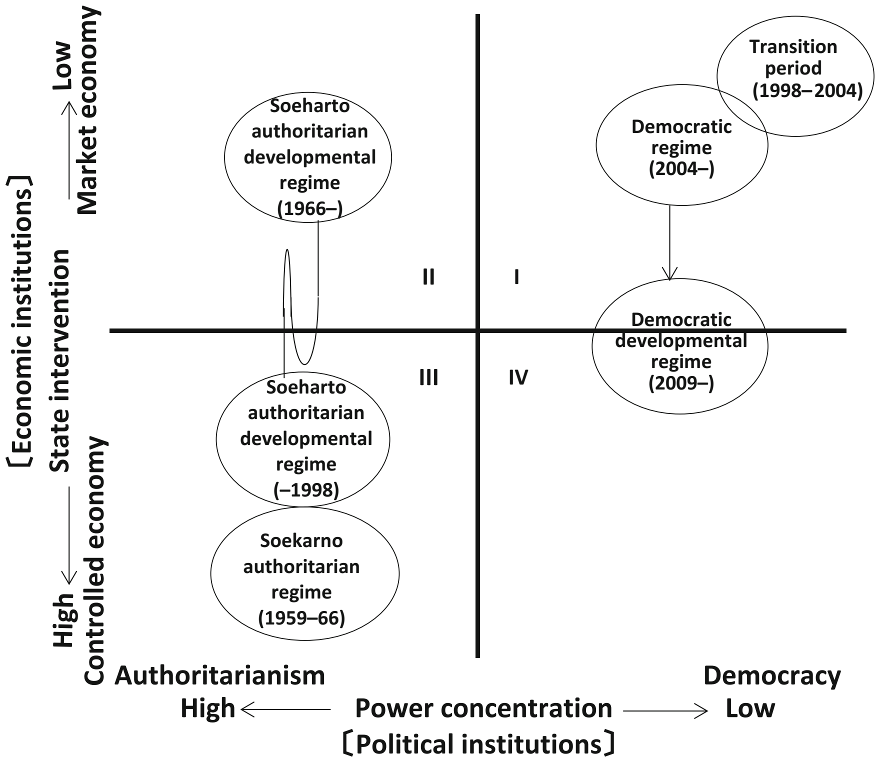

Fig. 4.1 State governance in terms of political and economic institutions: positioning of Indonesian regimes. *Source* Created by the author

when the second-term administration of Susilo Bambang Yudhoyono (2009–2014) began.

Some signs of a gear change can be observed during the Yudhoyono's second-term. The first sign was the National Medium-Term Development Plan 2010–2014 formulated in early 2010. Every Indonesian administration should provide a comprehensive 5-year plan of policies as the National Development Plan or Program at the beginning of its term, but the post-Soeharto administrations avoided setting numerical targets that were perceived as a top-down custom of the Soeharto's authoritarianism. However, the Plan of the second-term Yudhoyono administration set detailed numerical targets not only in the macro indicators, but also in the attached 'policy matrices' of micro policy items (Sato 2010, 164–5). This style was followed by the Plan of the Joko Widodo administration for its 2015–2019 term. The second signpost was the "Masterplan for the Acceleration and Expansion of Indonesian Economic Development 2011–2025" announced in May 2011. While some criticized this Masterplan as a mere rhetoric, its significance lies in the official recognition of greater state commitment to national development. In the launching speech, President Yudhoyono stated that ‘for an efficient economy, the invisible hand is important, but the visible hand is also necessary for a fairer and more balanced economy’ (Presidential Secretariat 2011). In the Masterplan, the government, for the first time, proclaimed the explicit state developmental target that Indonesia would ‘transform into a developed nation in the 21st century’ and ‘place itself in the top ten advanced economies in the world by 2025 and the top six by 2050’ (Republic of Indonesia 2011, 8–9).

Table 4.1 compares ‘authoritarian developmental state’ (1966–1998) and ‘democratic developmental state’ (2009–present) in Indonesia in terms of socio-economic performance, external conditions, institutions, and policies.

Three major changes had an impact on policy making in the democratic developmental state, compared to the authoritarian developmental state in Indonesia. The first is the change in external conditions, that is, globalization after the end of the Cold War. Accountability, transparency, and good governance came to be global-standard principles, which policymakers could not ignore. Also, economic liberalization became a global standard policy. Together with the impact of information technology revolution, it promoted cross-border economic activities and value chain development.

The second and third major changes are those in internal conditions. One is the appearance of the constituency. After Indonesia introduced a system of direct presidential election in 2004, the approval of the constituency became the most crucial indicator of the administration’s legitimacy. The political leaders became conscious of the voices of the constituency. They came to appeal to the people for Indonesian self-identity and their commitment to the national interests.

The other internal major change occurred in the power structure, that is, deconcentration and decentralization. As a consequence, the number of stakeholders involved in the policy making process have increased greatly. While the president, ministers, technocrats and bureaucrats in the executive branch are central policymakers, veto players such as politicians in the legislature and the constitutional court in the judiciary have emerged. Local governments and non-state players, such as economic organizations, workers unions, religious and social organizations, civil society watchdogs, mass media, and the public through opinion polls as well as social network services (SNS), have increased their voice. With these internal major changes, the democratic developmental state is characterized by a less state-centric policy framework, with more players involved in the policy making, and an interactive relationship between state and non-state domains.

To accommodate the major change in the external conditions explicitly in the analytical framework, I add the third axis to Fig. 4.1. Figure 4.1 shows political institutions in terms of power concentration with the extremes of authoritarianism and democracy as the abscissa axis, and economic institutions in terms of state intervention with the extremes of controlled economy and market economy as the ordinate axis. The third applicate axis represents external relations in terms of conformity with globalization between the extremes of global standard and national interests. Policies can be categorized into eight spaces divided by the three axes as seen in

Table 4.1 Comparison between authoritarian developmental state and democratic developmental state in Indonesia

	Authoritarian developmental state	Democratic developmental state
Administration (Period)	Soeharto (1966–1998)	2nd Yudhoyono and Joko Widodo (2009–present)
Socio-economic performance		
GDP per capita (current US$)	57→1154 (1967→1996)	2400→3570 (2009→2017)
Average GDP growth (%)	7.4 (1968–1997)	5.4 (2009–2017)
Poverty ratio (%)	60.0→11.3 (1970→1996)	14.2→10.1 (2009→2017)
GINI index	0.35→0.36 (1970→1996)	0.37→0.39 (2009→2017)
External conditions	the Cold War	Globalization, economic liberalization, regional integration, global value chains[a]
Institutions		
Political institutions		
Source of legitimacy	Developmentalism (*Pembangunan*)	Public support of the constituency[b]
Power structure	Concentration and centralization	De-concentration and decentralization[c]
Variety of stakeholders	Low	High
Economic institutions		
Institutions for development	Created and established	Revived and developing
State intervention	Active	
Development strategy	Exists	
Aims of the strategy	Economic and social development + distribution of the outcomes of development	
Key element of the strategy	Industrialization	Infrastructure, resource-based industry, digitalization
Policies		
Legal and policy framework	State centric	Accountability, transparency, governance[a]
		Liberalization as global standard[a]
		Nation-state self-identification[b]
		Participation of various stakeholders[c]
Players in policymaking	President, technocrats, foreign organizations, techonologues	President, politicians, technocrats, business/workers organizations, local governments, civil society

(continued)

Table 4.1 (continued)

	Authoritarian developmental state	Democratic developmental state
State = non-state relationship	Vertical, with the least interaction	Horizontal, with various forms of interaction
Policy elements		
Economic development	Boom: state-led investment	Infrastructure investment, deregulation
	Bust: deregulation and rationalization	
Social development	Village development (school, health center)	Universal social security system

[a]External major change
[b]Internal major change
[c]Internal major change
Source Created by the author. Figures are calculated from BPS Indonesia and *World Development Indicators*

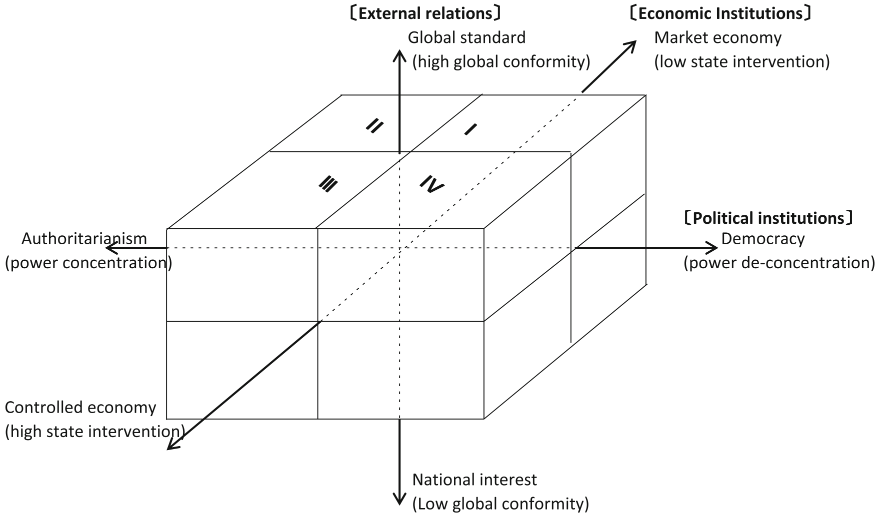

Fig. 4.2 Policy area in three dimensions. *Source* Created by the author

Fig. 4.2. In this framework, it is assumed that policies in the authoritarian developmental state are observed in the four spaces on the left rear side, and those in the democratic developmental state are seen in the four spaces on the front right side, both of which contains the polarities between controlled economy (regulation) and market economy (deregulation), and between the global standard and national interests.

4.3 Development Policies in the Soeharto-Led Authoritarian Developmental State

In the authoritarian developmental state, development policies were formulated and implemented under the concentrated power structure with President Soeharto at the apex. Soeharto, as an ultimate decision maker, used two camps of policy makers —technocrats and technologues—, depending on whether the economy was in a boom or bust cycle.

4.3.1 Technocrats and American Organizations—Deregulator and Market Guardian

The first camp was technocrats. Technocrats, which usually mean bureaucrats with expertise in technology and engineering, here refer to bureaucrats with expertise in economy and finance. Soeharto placed his full trust in technocrats to rescue the economy from difficulties and to manage stability. Technocrats, who started as economic advisers of Soeharto, played the role of architects of institutional foundation when the state converted to the capitalist economy. They also performed as diplomats in negotiating with the donor community and worked as therapists to mitigate every economic crisis. The original key figures were five scholars with Ph.D. in economics who were organized in an 'advisory team' for Soeharto in September 1966: Widjojo Nitisastro (the head of Bappenas in 1968–83, Coordinating Minister of Economy, Finance and Industry in 1973–83), Ali Wardhana (Minister of Finance in 1968–83, Coordinating Minister of Economy, Finance and Industry in 1983–88), Emil Salim, Subroto, and Mohammad Sadli.[1] The former three, having graduated from University of Indonesia, completed the doctoral course at the University of California, Berkeley in 1961, 1962, and 1964, respectively, with support of the Ford Foundation. The Ford Foundation started in 1956 to provide scholarships for master's and doctoral candidates to some universities in USA, and Widjojo became the first Indonesian who gained the Ph.D. from the Berkeley (Bresnan 2006). Subroto and Sadli obtained master's degrees from McGill University in Canada and MIT in USA respectively, before receiving a doctorate in economics from the University of Indonesia. They were very few scholars who studied neoclassical economics that underscored the effectiveness of a market mechanism at the time of the Soekarno reins approaching to the Communist bloc.

We can see the policy area led by technocrats in Table 4.2. The table organizes development policies into three broad categories; an action to build a new institution, a policy to intervene in the economy (regulation), and a policy to reduce intervention in the economy (deregulation). The second and the third categories run in the

[1] Interview with Widjojo Nitisastro conducted by the author on May 25 2007 at Jakarta. Widjojo told that "In September 1966, we five were asked by Pak Harto to be an advisory team. An official team".

opposite direction along the axis of economic institutions with higher to lower state intervention. The table lists intervention policies for two purposes; promoting industrial development and promoting equity (redistribution). The policies shown in bold type in the table represent those in conformity with the global standard, which here means the international standard among the capitalist bloc under the Cold War.

The first policy area in which technocrats' competence works best is deregulation that makes the market function better. Most of the policies in the column of intervention reduction (deregulation) and market establishment in the column of institution building in Table 4.2 are categorized in this policy area. The central position of the technocrat camp was in the upper II space in Fig. 4.2, a space of market orientation in conformity with the global standard under authoritarianism. In 1966–1970, they took a key part in transforming the closed controlled socialistic economy to the open liberal capitalist economy: Sadli drafted the Foreign Investment Law (Law No. 1/1967) that provided an open-door policy for foreign investment[2]; Ali Wardhana took the initiative in liberalizing foreign exchange control in 1970, a bold decision in the early stage of economic development. The next phase where the technocrats demonstrated their expertise as a deregulator was in 1983–88, the period of post-oil-boom recession, when a series of reforms were needed to adjust the oil-dependent economy, to activate manufactured exports and investments, and to mobilize domestic savings through fiscal and banking channels. Ali Wardhana as the Coordinating Minister of Economy announced a series of policy packages for deregulation. Soeharto, calling for the national solidarity under difficulties, stood behind the technocrats' reform.

The second policy area the technocrats managed well is macro-economic stability in terms of inflation, fiscal and current account balances, the level of debts, and foreign exchange rates. These policies are categorized in the upper III space in Fig. 4.2, a space with a certain level of intervention, as the policies need to enforce discipline in accordance with the internationally accepted standard. While the technocrats were routinely engaged in this task at such offices as Bappenas, the central bank, and the Ministry of Finance, they took a pivotal part in building some fundamental institutions as seen in Table 4.2. The principle of balanced budget was introduced in 1966, given that the biggest culprit of hyper-inflation in the mid-1960s had been fiscal deficit and central bank lending to make it up by issuing money. The Central Bank Law (Law No. 13/1968) stipulated check functions over the central bank lending to the national treasury (Mihira 1995: 204–5). Another example was an introduction of single foreign exchange rate in 1970. In concurrence with the above-stated full liberalization of foreign currency possession by abolishing the Foreign Exchange Bureau that had handled the multiple rates, technocrats were required full operation to avoid capital flight by raising interest rates and to create a new system of the single rate in the newly-established foreign exchange market. Ali Wardhana had analyzed on the balanced budget as a theme of Ph.D. dissertation at the UC Berkeley, and

[2]Mohammad Sadli told about the drafting of the Foreign Investment Law that "I worked in consultation with Soeharto regarding a rough outline" in an interview with the author conducted on 17 May 2007 at Jakarta.

Table 4.2 Development policies under the authoritarian developmental regime in Indonesia

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
1966	**Balanced budget principle**			**Deregulation of state control on economy**
1967	**Establishment of IGGI (donors' association)**	Recognition of Chinese capital as domestic capital		**Open-door policy for foreign investment**
	Establishment of foreign exchange market			**Open-door policy for foreign bank branches**
	Mandate of Bappenas to design and budget for development plan			
1968	**Control on central bank loan to state treasury**	Promotion of domestic investment		
1969	Start of Five-Year National Development Plan	Automobile import substitution policy		
1970	**Single foreign exchange rate**	Investment incentives to priority sectors		**Liberalization of foreign exchange control**
1971		Establishment of state-owned steel company		
1973			Elementary school development in villages	
1974		Restriction on foreign ownership and employment	*Pribumi* priority policy as FDI partner	
		Establishment of 2 LNG companies under Pertamina	Subsidized loan to *pribumi* business	

(continued)

Table 4.2 (continued)

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
			Public health center development in districts	
1975		Refund system of import duties on materials used for export products		**Pertamina debt crisis: curtailing Pertamina's investments**
1976	**Reopening of capital market**	Automobile component localization policy		
		Establishment of state-Japan-joint aluminium company		
		Establishment of state-owned aircraft company		
1979		Export substitution policy from log to plywood	*Pribumi* priority policy in government procurement	
1982	**Environmental Law**	Export finance with low interest rates		
	Copyright Law			
1983				Suspension of SOEs' 48 capital-goods investments
				1st banking reform: Liberalize interest rates
1984	**Tax reform to increase non-oil revenue (ex. VAT)**	Declaration of rice self-sufficiency	6-year compulsory education system	
1985		Ban on log exports		**Entrust custom clearance to foreign surveyor (SGS)**

(continued)

Table 4.2 (continued)

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
1986	**Establishment of commodity exchange market**	Bonded zone for export production		**Import liberalization for exporters/tariff reduction/deregulation of foreign investment**
1987				**Conversion of non-tariff barriers (NTB) to tariffs/simplification of investment procedures**
				Privatization of expressways construction (Soeharto's first daughter)
1988				**2nd banking reform: Freer new entry**
				Deregulation of capital market and financial services
				Privatization of TV broadcasting (Soeharto's second son)
1989	**Patent Law**	Establishment of Agency for Managing Strategic Industries (BPIS)		
1990			President request to 31 business group owners to transfer shares to cooperatives	
				Privatization of oil exploration (Soeharto's third son)
1992	**Trade Mark Law**			
1993			Poverty reduction for underdeveloped villages	**Lift of automobile import ban, component tariff reduction**

(continued)

Table 4.2 (continued)

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
1994			9-year compulsory education system	**Deregulation for FDI to enable 100% ownership**
1995	**Company Law**			
	Capital Market Law			
1996		National Car Program (Soeharto's third son)		
1997	**IMF crisis lending with conditionality for reform**			

Source Compiled by the author
Bold: action in conformity with global standard (of the capitalist bloc under the Cold War)

he as the Minister of Finance was the key person to execute the unification of the exchange rates by lifting the foreign exchange control.[3]

The third policy area of the technocrats is social development. While the above two policy areas, economic liberalization and macro-economic management, are well known as technocrats' specialty, they were also highly conscious of the importance of social development, especially those working at Bappenas, the headquarters of overall development throughout the country. Tilaar (2007) calls Widjojo Nitisastro, the then head of Bappenas, as a 'pioneer of social development', because Widjojo took the leadership to create the program of 'one elementary school in each village' by *Inpres* (Presidential Instruction) in 1973, and the program of 'one *puskesmas* (public health center) in each district' by *Inpres* in 1974. These two programs came to be symbolistic social services distributed uniformly all over the country by the authoritarian developmental regime. Widjojo himself recalled as follows: "Primary education and public health were under the jurisdiction of local governments, but they had no money, while the central government liked big projects for universities and hospitals; when the oil boom came in 1973, I came up with the idea of flowing part of the money directly to villages, not through the ministries".[4] These social development policies are a sort of intervention for the sake of equity and redistribution (Table 4.2), and are put in the lower III space in Fig. 4.2, a space of state intervention in the context of national interests.

Of the three policy areas the technocrats specialized in, deregulation and macro-economic management conformed with international standards. In these area, foreign organizations from the Western bloc, especially those from USA, were heavily involved in the technocrats' policy making. Key organizations were the IMF, the World Bank, the Ford Foundation, and the Harvard Institute for International Development (HIID). Just after Soeharto came to power on 11 March 1966, these organizations reacted swiftly. In April 1966, the Ford Foundation sent its representative back to Jakarta after a nine-month office closure, and in 1968 it started to finance policy advisers from the Development Advisory Service (DAS: renamed HIID in 1974) of Harvard University working for the five scholars' advisory team (Bresnan 2006). IMF sent a study team in June 1966, and then stationed an adviser before Indonesia officially rejoined the IMF in February 1967 (Mihira 1995). Starting September 1966, the World Bank closely cooperated with technocrats in debt rescheduling and new loan negotiations, and opened an office in 1968 for routinizing advisory services. In the 1983–88 period of post-oil-boom reforms, in concert with the World Bank's structural adjustment programs in general, dozens of the HIID project experts were

[3]Interview with Ali Wardhana conducted by the author on May 23 2007 at Jakarta. Regarding the liberalization of foreign exchange control, he told as follows; when he consulted his idea of this radical policy, Soeharto said to submit it to the cabinet meeting; the ministers criticized the proposal as horrible, and after all the criticisms were out in the open, Soeharto said 'I've listened. But there is some good', and concluded to accept the proposal; he was astonished to hear that and became sleepless; IMF and the World Bank said 'don't', 'see the failure of Latin America', 'stabilization first, and then liberalization'; and he thought he must think how to solve the issue by using the law of economy.

[4]Interview with Widjojo Nitisastro (see Footnote 1).

committed the process. Malcolm Gillis, a HIID Fellow, led a 28-member expatriate team to design and undertake the tax reform during 1981–84 (Gillis 1985). David Cole from the Harvard University was engaged in the HIID project of banking and financial reforms in the Ministry of Finance in the 1980s (Cole and Slade 1996).

4.3.2 Technologue—Locomotive of Industrial Development

The second camp was technologue, which refers to bureaucrats with expertise in technology and engineering, mainly working at the Ministry of Industry, the State Ministry of Research and Technology, and state-owned enterprises (SOEs). Soeharto used technologues as the locomotive to push forward with industrial development. They were particularly active when the economy turned favorable and was able to afford state-led, large-scale, capital-intensive investments. Some leading figures were Ibnu Sutowo (the president of Pertamina in 1968–76), A. R. Soehoed (the Minister of Industry in 1978–83), and B. J. Habibie (the State Minister of Research and Technology in 1978–98).[5]

Technologues' policy area is simply categorized as state intervention for industrial development in Table 4.2 and in the lower III space in Fig. 4.2, a space with state intervention on the basis of national interests. Some policies started earlier than the oil boom began. The typical case was the automobile industry, for which the Soeharto government pressed ahead with import substitution policy. The starting point was 1969, when the government banned the import of complete-built-up (CBU) commercial cars to Java and Sumatra, only allowing the import of complete-knock-down (CKD) kits, which required local assembly putting all parts together. In 1976, the import substitution proceeded to component production with introducing a 'deletion program', in which components designated to be procured domestically were deleted from the CKD import kits according to the designated schedule. The key person in designing and implementing a series of this mandatory localization policy was Suhartojo, an engineer bureaucrat and the then Director General for the Metal and Machinery Industry of the Ministry of Industry (Suhartojo 1991). The policy was backed by ministerial collective actions in the form of decrees of ministers of industry, trade, and finance, indicating that there was a political will from Soeharto in favor of the policy.

Ibnu Sutowo, an ex-army doctor who had been managing oil and gas businesses since 1957, assumed the first president of a merged oil and gas SOE, Pertamina, in 1968. Pertamina developed Batam island as an oil logistic base and resumed the suspended plan of the country's first steel company, Krakatau Steel, in 1971. Sutowo influenced the government's decision that Pertamina financed investment in Krakatau Steel, and that this steel SOE adopted natural-gas-based direct reduction furnace, rather than a coke-based blast furnace. The first oil boom starting in 1973

[5] B. J. Habibie replaced Soeharto as the 3rd President in May 1998, after he served as the Vice President for two months from March 1998.

fueled Ibnu Sutowo's expansionism: Pertamina, not only expanded its oil and gas production, but also invested in oil refineries, LNG plants, urea fertilizer plants, gas pipelines, oil tankers and so on. These diversified investments using short-term finance caused the 'Pertamina crisis' in 1975. Sutowo lost his position, but most of the projects were saved and survived.

Sutowo's role was succeeded by Soehoed. In the 1970s, Soehoed, an ex-airforce engineering officer, assumed charge of the Indonesia Asahan Aluminium project, which consisted of the first aluminum smelter and hydropower plants, jointly invested by the Indonesian government and Japanese private companies. After being appointed as the Minister of Industry, he used the second oil boom in 1979 to accelerate his plan of capital-intensive SOE projects, including oil refineries, petrochemical plants, and an alumina (raw materials of aluminum, processed from domestic bauxite) plant. In 1983 when the oil boom was over, 48 of the 52 projects were suspended.

Habibie, who completed a doctoral degree in aeronautical engineering in RWTH Aachen, West Germany, and served as a vice president of Messerschmitt-Bolkow-Blohm, a German aircraft manufacturer, was persuaded by Soeharto to return to serve the nation. Earning Soeharto's full trust, Habibie had been consistently devoted to the state-led development of technology-intensive 'strategic industries': He set up BPPT, the Agency for Assessment and Application of Technology, in 1974, established the first aircraft SOE in 1976, took a post of the State Minister of Research and Technology in 1978, and in 1989 set up and became a head of BPIS, the Agency for Managing Strategic Industry, responsible for 10 SOEs including aircraft, shipbuilding, railway vehicle, diesel engine, steel, telephone exchanges, weapons, and explosives.

4.3.3 Two Camps, the Balancer, and Degeneration

There was persistent tension between the technologue camp and the technocrat camp. Technologues were interventionists who believed that state intervention was indispensable for the catching-up of infant industries with their counterparts in advanced countries. Technocrats criticized this argument, since they believed the state intervention as the chief culprit for market distortion, lack of competition, and welfare loss. Technologues asserted that priority resource allocation into capital and technology intensive industries would lead to 'leapfrogging' or what Habibie called 'jump system' helping developing countries jump to the competence in cutting-edge technology, rather than tracing the sequential trajectory of technological development. Technocrats criticized this view, stressing the importance of 'comparative advantage' that Indonesia should first focus on labor and natural resource intensive industries making use of the nation's comparatively advantageous resources. This controversy constitutes a conventional 'state versus market' argument, or 'Habibienomics versus Widjojonomics' in the Indonesian jargon, or confrontation between the lower III space versus the upper II space (Fig. 4.2), which would never intersect with each other.

It was Soeharto that functioned as a balancer, swinging between the two camps in response to the economic situations. As shown in Table 4.2, Soeharto relied on the technocrats for setting up open capitalist institutions in the depths of hyper stagflation (1966–early 1970s), encouraged the technologues to accelerate national industrial development particularly during the oil boom with utilizing state oil revenues (early 1970s–early 1980s), and relegated transformation from the oil-dependent inward-looking economy to the manufactured-export-driven outward-looking economy to the technocrats (1983–88).

In the last phase of the Soeharto era (late 1980s–1997), the economy boomed as a result of reforms. Unlike the previous phases, the last one showed no clear tendency to turn into state intervention for industrial development (Table 4.2). There were some reasons. First, there was less room for state-led investment, since the government had no longer had financial power that it used to have under the oil boom. Private capital led investments as the five-year development plan stipulated. Second, the trend for deregulation continued, as required by the external conditions of the post-Cold-War globalization. Third, a form of deregulation associated with preferential treatment increased, favoring Soeharto's inner circle, particularly his eldest daughter, second son, and third son. Their companies were allowed to enter SOE-managed sectors as the first private players along with the global trend of privatization; the sectors included expressways, television broadcasting, oil and gas exploration, transportation of LNG, airports, water supply, and so on. This phenomenon was an evidence of degeneration of Soeharto's authoritarian developmental state, which later sparked the democratization movement against *KKN* (corruption, collusion, and nepotism) after the outbreak of the Asian Financial Crisis. The policies in this degeneration phase are positioned in the lower II space in Fig. 4.2, a space with orientation to the market economy (privatization) but based on narrow interests of the authoritarian power.

4.4 Development Policies in the Democratic Developmental State

4.4.1 Driving Forces Toward Libertarianism

Before the appearance of democratic developmental state, there was a sharp swing to libertarianism after the fall of Soeharto, driven by two forces. The first force was external, with the IMF as a major driver, with which the technocrats acted harmoniously. The force enhanced marketization conforming with the global standard, a change captured by an upward shift in Fig. 4.1, and as a shift going from the lower III space to the upper I space in Fig. 4.2. As its loan conditionality, the IMF pressed a wide range of reforms in line with global-standard concepts, such as accountability, transparency, and good governance. The reforms included ensuring independence of the central bank, reforming nontransparent monopolistic government organs (e.g. Bulog, Pertamina, etc.), enacting the Anti-Monopoly Law and so on.

The second force was internal democratization movement called *reformasi*, which strongly criticized *KKN* and power concentration in Soeharto. Its direction was power de-concentration, captured by a rightward move in Fig. 4.1, and from the lower II and III spaces to the lower I space in Fig. 4.2. Politico-bureaucrats under the Soeharto regime took concerted actions with *reformasi* movement leaders. Their enthusiasm empowered the legislative body, local governments, labor unions, and civil society watchdogs, which in turn restructured Soeharto's power centers (Bappenas, Bulog, Pertamina, Golkar, the military, etc.), annulling *KKN*-related contracts with SOEs, and legalizing private sector engagement in the SOE-monopolized public works sectors. The *reformasi* efforts came to fruition in the four-time amendments to the 1945 Constitution and the enactment of many new laws. These external and internal forces operated synergistically to drive Indonesia towards libertarianism.

4.4.2 Technocrats—Dual Functions of Regulator and Deregulator

In the democratic developmental state, the structure of policymakers became not as simple as that of the authoritarian developmental regime, which consisted of liberal technocrats, interventionistic technologues, and Soeharto as a balancer. Now the number of stakeholders increased, and the division of roles became complicated. Technocrats widened their scope to assume the roles both deregulator and regulator for growth and equity. While technologues were failing in general, multiple successors entered the policy making arena for industrial development. In addition, veto players, governmental and non-governmental watchdogs, and other players appeared. Table 4.3, which organizes development policies in the democratic developmental state in the same format as Table 4.2, shows neither alternation between deregulation and regulation by phase, nor balanced distribution of policies in conformity with global standard, like Table 4.2.

Regarding the technocrats' part, their typical product is policy packages. Under the 2nd Yudhoyono administration, policy packages started to be announced in 2013 after the 2000s commodity export boom was over. While it may have appeared to be a revival of the policy packages in the 1983–88 post-oil-boom period, the direction is opposite. In the mid-1980s, the state controls were deregulated to transform the economy heavily relying on state oil revenues into an industrialized economy. In the 2010s, the policy packages were intended to divert a laissez-faire commodity-dependent economy into an economy specializing in higher value-added sectors. A key person in reviving the policy packages was Chatib Basri, a third generation technocrat who, like Widjojo Nitisastro, taught in the Faculty of Economics, the University of Indonesia (FEUI). He took a post of the Minister of Finance in April 2013, and announced the policy packages in August and December 2013. The aim was

Table 4.3 Development policies under the democratic developmental regime in Indonesia

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
2009	Establishment of state-owned infrastructure finance company (SMI)	Obligation of domestic processing of minerals and domestic use of coals		**Single window service for investment**
	Establishment of state-owned infrastructure insurance company (PII)	Obligation to use domestically-made products in government procurement		
	Law on National Flag, Language, Emblem, and Anthem			
2010				**ASEAN–China FTA: Tariff lift with China**
2011	**Establishment of Financial Service Authority (OJK)**	Announcement of Development Master Plan 2011–2025	Establishment of Social Security Agency (BPJS)	
	Currency Law	Progressive export tax exemption for processed palm-oil products		
		Fiscal incentives for large-scale investment in pioneer industries		
2012	Land Acquisition Law	Import restriction on agricultural products	Limitation on outsourced jobs	
			Raise in minimum wages	
2013		Low-cost eco car program		
		P1: Tax reduction for export/labor-intensive industries		

(continued)

Table 4.3 (continued)

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
		P2: Tax exemption for imports of export industries		
		Nationalization of state-Japan-joint aluminium company		
2014	Industrial Law		Start of national health insurance	
	Commercial Law		Start of national employment insurance	
2015		Obligation to use domestically-made products in LTE telecommunication equipment		
		P1: Promotion of industrial estates	P1: Promotion of village fund utilization	**P1: Simplification of visa procedures**
		P2: Tax reduction for interests on exporters' obligatory deposits		**P2: Speed up of procedures for industrial estates, environmental licenses, tax allowance**
		P3: Reduction in electricity tariffs	P3: Reduction in MSME finance interest rates	
		P4: Introduction of minimum wage formula to improve predictability	P4: Expansion of coverage of SME finance/low-interest finance for SME exporters	
				P5: Abolition of double taxation to promote Real Estate Investment Trust

(continued)

Table 4.3 (continued)

Year	Institution building	State intervention/regulation		Intervention reduction/deregulation
		For industrial development	For equity/redistribution	
		P6: Promotion of Special Economic Zone (KEK) by tax reduction and foreign ownership		**P6: Simplification of KEK procedures/Speed up of import of pharmaceutical materials**
		P7: Tax reduction for labor-intensive export companies	P7: Easing of issuing land certificates to promote land redistribution	
		P8: Investment incentives for oil refinery/aircraft component industries		
2016		P9: Promotion of electric power infrastructure		**P9: On-line port services to deregulate logistics**
			P10: Expansion of sectors reserved for MSMEs	**P10: Deregulation for foreign investment**
		P11: Incentives for pharmaceutical material/medical equipment industries	P11: Export financing for MSMEs	
				P12: Speed up of doing business procedures and MSME start-up
			P13: Simplification of construction procedures of low-income housing	
		P14: Roadmap of development of e-commerce and digital economy		
2017		P15: Promotion of shipping and transportation insurance		**P15: Cost reduction in logistics industry**
				P16: Integrated online licensing system

Source Compiled by the author
Bold: action in conformity with global standard
P refers to a policy package consisting of several regulations, and the attached number is a serial number of the package announced by the same administration

conventional—to ensure macro-economic stability with reducing current account deficits that was supposed to depreciate the rupiah. However, the packages placed more emphasis on industrial promotion than deregulation; tax reduction for labor-intensive industries, resource-processing industries, and those with more than 30% exports; investment promotion for oil refining industries to reduce processed oil imports; and tax exemption, instead of restitution, on the imported materials of export industries.

The Joko Widodo administration inherited the practice of policy packages. A central figure is Darmin Nasution, a senior technocrat from FEUI, the first Indonesian Ph.D. from the University of Sorbonne in France. It was after Darmin took office as the Coordinating Minister of Economy in the first reshuffle of Joko Widodo cabinet in August 2015 that policy packages began to come out continuously. As seen in Table 4.2, policy packages under the Joko administration are a mix of regulation and deregulation. The former includes policies for industrial development and for redistribution to micro-, small-, and medium-sized enterprises (MSMEs). The latter are policies directed toward improving business environment, often assessed by international comparative rankings. All the policy packages were announced by Darmin and the cabinet secretary, Pramono Anung, along with some ministers related to the issues.

Like the technocrats in the authoritarian developmental state, the technocrats in the democratic developmental state deregulate the economy and manage the macro-economic stability (the upper I and IV space in Fig. 4.2). However, they are required to be more multi-talented compared to their predecessors in the authoritarian era. First, in the globalization era, their efforts for deregulation are more severely evaluated in international rankings, and their ability to manage the macro economy is inevitably rated by global credit rating agencies. Second, they receive a greater number and scope of requests for policy intervention in accordance with national interest (the lower IV space), because in the democratization era even technocrats have no choice but to be more responsive to the public's dual desire for growth and equity. Third, technocrats require greater cordination costs if they want their policy proposals accepted, given that there is an increasing number of stakeholders including party politicians.[6]

4.4.3 Business Politicians and Business Organizations—Promoters of Industrial Development

While the technocrat camp has reproduced the next generation beyond the change of regime, the technologue camp has not yet produced outstanding leaders after Habibie.

[6]In an interview with the author on 10 August 2011 at Jakarta, Chatib Basri, the then expert staff of the Minister of Finance, said, 'Bapak Widjojo never understand why our policy making is so slow. He said, at his days, what he should do was only to meet the cabinet secretary to secure the approval of Pak Harto'.

Instead, other types of players have entered the political arena and take part in policy making on the basis of national interest (the lower IV space in Fig. 4.2), succeeding the technologues' role of advocating for industrial development.

The first type of new players is business-politicians, or business leaders turned politicians. Such a career path was rarely observed in the Soeharto era, because there was a small pool of business elites, and because they were not seen as political elites equivalent to military or bureaucratic high officers or as academic professionals. After democratization, however, business elites flowed into the political arena as the political power was deconcentrated and politics came to require a war chest. Jusuf Kalla, Indonesia's first directly-elected vice president, and Abrizal Bakrie, Coordinating Minister of Economy who received his first Cabinet post in 2004 on Kalla's recommendation, made a symbolic debut of business-politicans as the top national elite. These two figures are commonly second-generation owners of leading *pribumi* (native Malay Indonesians) business groups, and became a head of the Golkar party in 2004 and 2009 respectively. The business-politicians function as a bridge between the business community and policymakers, and as a guide to get Indonesia back to developmentalism. MS Hidayat, the then President of the Indonesian Chamber of Commerce and Industry (KADIN) and a senior member of the Golkar party, was appointed the Minister of Industry at the start of the 2nd Yudhoyono administration in 2009. He implemented a low-cost green car program—an incentive policy for manufacturers to produce affordable fuel-efficient small passenger vehicles—that the association of automobile industry had lobbied for; led the full nationalization of the Asahan project; realized strategic investments through direct negotiation with targeted foreign manufacturers; got involved in making the first and second policy packages in 2013; and prepared a draft of the new Industrial Law (Law No.3/2014) that stipulated the national interests and the role of the government in Indonesia's industrial development.

The second type of new players is business organizations. In the authoritarian era, leading businessmen lobbied Soeharto directly or through his proxies. After democratization, such system did not work any longer, because the decision-making mechanism was multi-polarized, while business organizations developed a formal channel of lobbying as the representatives of the business circle. There are two cross-sectoral national business organizations in Indonesia: KADIN and the Indonesian Association of Employers (APINDO). KADIN co-organized a national summit with the government to deliver policy recommendations from its member associations at the start of the 2nd Yudhoyono administration in 2009. When the first policy package was released in 2013, the presidents of KADIN and APINDO appeared side-by-side with ministers at the media conference, demonstrating their involvement in making the policy package and their commitment to its implementation.

The third type of new players is parliamentary speakers. The People's Representative Council (DPR), which was previously viewed as a rubber stamp organization for the holder of power in the authoritarian era, has become empowered by democratization. DPR speakers appeal to public sentiment and emphasize the national interests in the process of law making. Laws enacted under their influence after 2009 that affect economic activities include the Mineral Resources and Coal Law (Law No.

4/2009) that stipulates oblization of domestic processing of minerals and domestic use of coals; the National Flag, Language, Emblem, and Anthem Law (Law No. 24/2009) that makes using Indonesian language in all domestic contracts and product labels obligatory; the Currency Law (Law No. 7/2011) that requires Indonesian rupiah to be used in every payment of domestic transactions; and the Industrial Law (Law No. 3/2014) that emphasizes the importance of domestic value-added creation of resource-based industries.

4.5 Conclusion

This chapter discussed development policy making in the authoritarian developmental state and the democratic developmental state as experienced by Indonesia. They have some common attributes, and these attributes suggests what makes a state developmental. There are also some differences between the two, and from these differences, the challenges democratic developmental states face under the era of globalization can be ascertained.

The basic common attribute between authoritarian and democratic developmental states is that the formulation and implementation of policies for growth and equity are central. The position of this policy area is the lower III and the lower IV in Fig. 4.2 respectively in the authoritarian and democratic developmental states, the space with state intervention on the basis of national interest. Regardless of authoritarianism or democracy, core elements that make a state developmental are: (i) a series of development policies accompanying state intervention backed by the national interest, (ii) the political will of the political leader as the ultimate decision maker, (iii) one or more groups of policymakers as designers and implementers of development policies, and (iv) the commitment shared among (ii) and (iii) to have the same goals for development in the medium to long run. In the case of Indonesia, (iii) was technologues in the authoritarian developmental state, and business-politicians and some other players in the democratic developmental state.

Another common attribute between the two types of developmental states is persistent presence of technocrats. Technocrats are mainly in charge of market-oriented policies that conform to global standards (the upper II and I space in Fig. 4.2), but concurrently cover policies to intervene for the sake of securing stability in line with the global standard requirements (the upper III and IV space), and to make a commitment to development policies on the basis of national interest (the lower III and IV space). The commitment to development policies extended from policies just for equity to policies both for growth and equity. While the relationship of technologues and technocrats in the authoritarian developmental state was confrontational, that of business-politicians and technocrats in the democratic developmental state seems more interrelated and cooperative though sometimes still opposing.

A fundamental difference of the democratic developmental state from the authoritarian developmental state is the more complex structure of policy making involving more stakeholders. The challenge from such a structure is higher coordination costs and a longer time to reach a consensus, while the constituency has a louder voice to demand quick decisions and visible outcomes. One of the strategies to enable quick visible actions in the deconcentrated power structure is the centrality of the executive branch, in particular, a compact and cohesive group of ministers in the cabinet, as observed in a series of policy packages led by some technocrat ministers.

The second difference is the emerging business-politicians as key players in the democratic developmental state. Unlike technologues, business-politicians wear two hats in public office and in private business, even though they must leave their business positions during their term of public service. Their increased influence in policy making brings risk that decisions are affected by private business interests. Collusion between politics and business is not a new problem, but the same person having dual functions makes the problem more serious. To control the risk of business-politician bias, check functions of the media and civil society watchdogs are necessary. In addition, the presence of politically-neutral technocrats is significant. Hired managers in the private sector and SOE professionals who do not own individual businesses would be other alternative resources to reduce the risk of business-politician bias.

The third significant difference of the democratic developmental state is increasing orientation toward national interest, as a lower proportion of policies conform to the global standard as shown in Table 4.3 compared with Table 4.2. While globalization has promoted democratization around the world, democracy seems to have activated the constituency's consciousness of national interests, which often are at odds with global conformity. In the authoritarian developmental state, the ultimate power can manage internal conflict between global orientation and national interest. In the democratic developmental state in the globalization era, the major challenge for the political leaders is to prioritize to earn satisfaction from the constituency while facing the increased requirements from globalization. As the policy area of national interest (the lower IV in Fig. 4.2) increases in relative importance, conflicts with the policy area that requires the global conformity (the upper I) become acute. A possible way to prevent the acute conflicts would be to strategically target a set of policies that concurrently fulfill the national interest and the global conformity, such as enhancing business efficiency to attract investment by improving infrastructure, simplifying procedures, promoting e-governance, and controlling corruptive practices. To achieve visible outcomes in these targeted policies, strong political will coupled with the shared commitment of the main groups of policymakers needs to be sustained for a certain period of time.

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