

BOOK REVIEWS

The Indonesian Economy. (2nd edition). By **Hal Hill.** Cambridge: Cambridge University Press, 2000. Pp. 366.

Hal Hill's latest work is a second edition of his original 1996 volume entitled *The Indonesian Economy Since 1966: Southeast Asia's Emerging Giant*. Of the original work he could legitimately claim to fill a gap in the literature and provide a "big picture" account of the Indonesian economy under the Soeharto regime. This volume remains a superb account of Indonesia's economy by a leading authority on the subject.

The second addition of *The Indonesian Economy* differs from the first in only one substantial regard. There is an extra chapter on the financial crisis at the end. Hill states in his new preface that "[t]his is not a complete re-write of the entire text — that will have to wait for another day, when the dust has settled". Thus Hill's book, like quite a number of post-Soeharto books on Indonesia, is a text written in Soeharto's time with an updating section at the end to give some salience to the work. Therefore the first twelve chapters, out of thirteen, cast the reader back to 1996 (the original publication date), which means one must suspend all knowledge of events after that date. Much of what appears in these chapters, written in present tense, is in fact past tense, while the numerous references to former President Habibie as the current Minister for Research and Technology are the most striking given that he had not held this position for 16 months when Hill

penned the second preface in May 1999. Furthermore, the original conclusion, which looks forward from 1996, remains in this volume — yet seems well overtaken by events. That said, one can understand the tack Hill has taken here. Either leave the work as it is, or rewrite it entirely when a detailed analysis of the turbulent aftermath of Soeharto's rule may not yet be opportune. However, the chronology of events at the end draws to a close in December 1993 — this at least could have been extended.

Soeharto, upon assuming the mantle of leadership from Sukarno, reversed the founding president's destructive socialist policies. Indonesia went from being a "basket case" (p. 1) in the 1960s to be officially listed as a middle income country by the World Bank in 1980. From 1966 hyperinflation was brought under control, the debt burden was eased, while export-driven economic growth matched the other emerging Asian economies in most years prior to the 1997 financial crisis. The overall structure of the Indonesian economy also changed towards manufacturing and services. Hill's account gives the reader an insight into the success of Indonesia's economic policies in overcoming some of the challenges of underdevelopment. The strength of this volume is that it avoids the extremes of platitudinous praise for New Order policies (as exhibited by some journalists and economists prior to the crash) and the complete condemnation offered by others. Hill gives credit where it is due, but equally he also does not hesitate to point out the major flaws of the

Soeharto era. The volume is rich in detail, including a monumental compilation of socio-economic data into tables and graphs, while engaging in sophisticated analysis. Overall the reader is reminded of the terrible shambles of the Sukarno period and the tremendous achievements of the Soeharto regime in terms of economic and social development – albeit partly undermined by the financial crisis and the growing corruption of the first family.

Hill gives the reader the picture of an economy with some underlying problems includes slipshod record keeping, uneven tax collection, capricious decision-making, an out of control financial system, and a weak legal structure. While the Soeharto government publicly maintained a balanced budget principle, in reality a small budget deficit was incurred in most years due to “off budget expenditure” — chiefly for large industrial projects and military funding (pp. 43–45). The “balanced budget” also included aid and external borrowings as “revenue”, thus, Hill concludes, balanced books in the New Order were a “fiction” (p. 60). Given the corruption in the bureaucracy, vast numbers of well-heeled people avoided paying taxation, which, though officially progressive, may in practice “even be regressive” (p. 64). Hill also estimates the Soeharto era public debt at US\$100 billion, far higher than official acknowledgements (p. 72). State-owned enterprises almost always failed to turn profits, while Pertamina (the state oil company) actually managed to go into considerable debt after the dramatic rises in petroleum prices after 1973. Hill also does some analysis of the literature of trade protectionism which demonstrates a very opaque structure with nobody being quite sure on the levels and numbers of commodities covered.

In Chapter Six, Hill engages in a brief, yet informed discussion of Soeharto’s overall economic direction: “There remains a deep-seated mistrust of market forces, economic liberalism, and private (especially Chinese) ownership in many influential quarters in Indonesia.” (p. 95) Soeharto managed to confuse onlookers by promoting free trade at times, most famously forcing the APEC Bogor Declaration in 1994 for

free trade in the Asia Pacific by 2020, while at other times supporting Indonesia’s mercantilist “technologists” and the heavily protected technology-intensive industries that they championed. Hill also engages in an analysis of the social progress of the New Order regime, praising the administration for its achievements in health, education, general incomes and overall standard of living (“Indonesia’s record on poverty alleviation has been a resounding success” — p. 197) while not being blind to the flaws in the overall structure.

The last chapter of this volume is a sophisticated look at the causes and consequences of the economic crisis in Indonesia: the conclusion reached there is no single factor at work as nearly everything went wrong at once. Hill disputes that poverty levels have now crept up to 50 per cent of the population, stating that it may be nearer to mid-1995 levels (13 per cent, down from 11 per cent immediately prior to the crisis). He adds his voice to those who have been critical of the IMF’s original austerity programme of a surplus budget, which Hill claims only deepened the crisis. The depression calls for old-fashioned keynesian pump-priming measures — incidentally even the IMF now accepts that a 5 per cent deficit of GDP is more appropriate to revive the economy. Hill does not seem to accept that corruption played a major role in causing the meltdown: “corruption was a serious problem, but it is difficult to advance the argument that it was a key participating variable” (p. 279). Yet the author admits that “the growing perception that President Soeharto was intent on protecting his family’s commercial interests at all costs ... [added to the] general loss of confidence” (p. 280). Thus it seems that high-level corruption did play an important, if not major, role in undermining investor confidence in the future of Indonesia, even by the author’s own admission.

One other minor point, particularly for those not familiar with Indonesia, is that not all terms, acronyms and abbreviations appear in the glossary. One example is the use of the word “paddy” (although it should be spelt *padi*: p. 131) — which has come to mean something a shade different in

English (a rice field) to what it means in its native Bahasa Indonesia (unhusked rice).

Overall, *The Indonesian Economy* remains a superb sector by sector account of the Indonesian economy under Soeharto and the second edition provides an excellent addition on the Indonesian economic crisis. The aforementioned quotation about waiting for the dust to settle seems to hint at a complete updating of the volume at some point in the future. Such a work would be another welcome contribution from an outstanding scholar in the field.

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Technology, Competitiveness and the State: Malaysia's Industrial Technology Policies. Edited by Jomo K.S. and Greg Felker. London: Routledge, 1999. Pp. xii + 271.

This book is one of two volumes analysing the determinants of technological development of late industrializing nations. It examines the issue of technology development from a multi-faceted approach and addresses the complex issues involved through a "variety of disciplinary approaches and levels of analysis". This particular volume analyses technological development at the national or policy level, while the other entitled *Industrial and Technology Development in Malaysia: Industry and Firm Studies* is devoted to firm and industry-level investigation.

Research over the past two decades, particularly with respect to the miracle economies of East Asia, has shown that the accumulation of technological capabilities is much more than a market-driven process and that "institutional and strategic support at the firm, industry and national levels is crucial". The academicians and practitioners who contributed to this volume lend further support to this view and examine the complex economic, social and institutional dynamics in the development of technological capabilities. Though the larger part of the analysis

is devoted to an empirical study of Malaysia's technology development *vis-à-vis* its industrialization transformation, some preliminary attempt is made to provide the theoretical perspectives on the role of technology policies.

The well-written introductory chapter by Greg Felker and Jomo provides the theoretical and empirical framework for detailed discussion in the later chapters. It begins with an overview of the theoretical arguments for intentional strategies and strategic intervention by examining the various models of innovation and their implications for technology policy. This is followed by a brief introduction on the evolution of Malaysia's technology policy to nurture a national innovation culture.

Chapter Two offers a theoretical perspective to the role of technology policy and focuses on the issue of governance, or more precisely, how should policies be formulated and implemented in an increasingly complex and fluid environment. Meyer-Stamer questions the effectiveness of hierarchical state leadership, especially when private technical competencies clearly surpass those of the state. Instead, he argues the merits of "heterarchical" policy networks which involve the state and key social actors, with the state playing a supportive and subordinate role. He suggests, however, that policy networks can only be effective when there is consensus amongst all parties concerned with the direction of technological change.

A comparative analysis of technology development capabilities in East Asian newly industrializing economies (NIEs) is presented in Chapter Three. Wong Poh Kam briefly summarizes the key technological capability development strategies pursued by high-tech firms in Korea, Taiwan and Singapore, and discusses the different forms of supportive role provided by the state. He attributes successful industrial technology development in these economies to the crucial role played by the state. But he cautions that there is no single success formula. Different strategies and mechanisms were adopted in different economies and at different stages of their development.