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# INDONESIA'S ECONOMY SINCE INDEPENDENCE

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# INDONESIA'S ECONOMY SINCE INDEPENDENCE

THEE KIAN WIE



**INSTITUTE OF SOUTHEAST ASIAN STUDIES**

*Singapore*

First published in Singapore in 2012 by  
ISEAS Publishing  
Institute of Southeast Asian Studies  
30 Heng Mui Keng Terrace  
Pasir Panjang  
Singapore 119614

*E-mail:* [publish@iseas.edu.sg](mailto:publish@iseas.edu.sg)

*Website:* <http://bookshop.iseas.edu.sg>

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#### ISEAS Library Cataloguing-in-Publication Data

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Thee, Kian Wie.

Indonesia's economy since independence.

(ISEAS current economic affairs series)

1. Indonesia—Economic conditions—1945–
2. Indonesia—Economic policy—20<sup>th</sup> century.

I. Title

HC447 T374

2012

ISBN 978-981-4379-63-2 (soft cover)

ISBN 978-981-4379-54-0 (e-book, PDF)

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Cover photo: Aerial view of Tarumanegara University in Jakarta, March 2011. Courtesy of ANTARAFOTO.

Typeset by Superskill Graphics Pte Ltd

Printed in Singapore by Chung Printing Pte Ltd

*In memory of my parents*



# CONTENTS

<i>Preface</i>	ix
<i>Acknowledgments</i>	xi
<i>Introduction</i>	xv
<b>PART I The Early Independence Period in the 1950s</b>	
1. Indonesianization: Economic Aspects of Decolonization in the 1950s	3
2. Indonesia's First Affirmative Policy: The <i>Benteng</i> Programme in the 1950s	24
3. The Debate on Economic Policy in Newly-independent Indonesia between Sjafruddin Prawiranegara and Sumitro Djojohadikusumo	38
<b>PART II The Soeharto Era: 1966–1998</b>	
4. Indonesia's Economic Development During and After the Soeharto Era: Achievements and Failings	69
5. The Impact of the Two Oil Booms of the 1970s and the Post-Oil Boom Shock of the Early 1980s on the Indonesian Economy	90

**PART III The Asian Financial Crisis and the Global Financial Crisis**

6. Indonesia's Two Deep Economic Crises: The Mid-1960s and Late 1990s 109
7. The Impact of the Global Financial Crisis on the Indonesian Economy and the Prospects for the Resumption of Rapid and Sustained Growth 126
8. Indonesia and the BRICs 137

**PART IV Industrial Development**

9. Indonesia's Industrial Policies and Development since Independence 141
  10. Policies Affecting Indonesia's Industrial Technology Development 175
  11. The Major Channels of International Technology Transfer to Indonesia: An Assessment 203
  12. The Indonesian Wood Products Industry 230
  13. The Development of Labour-Intensive Garment Manufacturing in Indonesia 248
  14. Indonesia's Auto Parts Industry 271
- Index* 297



# PREFACE

In the course of my academic career, I have incurred many debts to my colleagues and friends in Indonesia and overseas for their encouragement and help in my academic endeavours, and for their books and papers and particularly for their helpful comments and suggestions on my papers which have greatly contributed to the improvement of my work.

In Australia I would like to record my great appreciation to my colleagues and friends at The Australian National University, Canberra, particularly Hal Hill and Chris Manning, and Ross McLeod, Peter McCawley, Budy Resosudarmo, Terence Hull, Colin Barlow and Pierre van der Eng; Howard Dick, formerly at the University of Melbourne; Robert Elson, formerly at The University of Queensland; John Butcher, formerly at Griffith University; and Cassey Lee at the University of Wollongong.

In the U.S., I would like to express my great appreciation to Jeffrey Williamson at the University of Wisconsin; Madison, Wisconsin; Thomas Grennes at North Carolina State University, Raleigh, North Carolina, and William Liddle at Ohio State University, Columbus, Ohio.

In the UK I would like to express my great appreciation to Anne Booth, School of Oriental and African Studies (SOAS), University of London; and in The Netherlands to J. Thomas Lindblad, University of Leiden; to Cees Fasseur, formerly at the University of Leiden; Ewout Frankema, University of Utrecht; and Leonard Blusse, formerly at the University of Leiden, and Eddy (Adam) Szirmai at UNU MERIT, Maastricht. In Sweden I would like to express my appreciation to Fredrik Sjöholm, Research Institute of Industrial Economics, and Örebro University, Stockholm.

In Japan I would like to express my great appreciation to Eric Ramstetter, International Centre for the Study of East Asian Development (ICSEAD), Kitakyushu, and to Ichimura Shinichi and Takii Sadayuki, both formerly at ICSEAD.

In Korea I would like to express my great appreciation to Lee Jisoon, Seoul National University, and Baek Ehung-Gi of Sanmyung University, Seoul.

In Singapore I would like to express my great appreciation to Professor J. Soedradjad Djiwandono of the Rajaratnam School of International Studies, Nanyang Technological University, Singapore.

In Indonesia I would like to express my great appreciation to my younger colleagues M. Chatib Basri and Arianto Patunru, Institute of Economic and Social Research, Faculty of Economics, University of Indonesia (LPEM-FEUI); Sudarno Sumarto and Asep Suryahadi at the SMERU Research Institute; Dionisius Narjoko at the Economic Research Institute for ASEAN and East Asia (ERIA); to Haryo Aswicahyono, Raymond Atje, Pande Radja Silalahi, and Maria Monica Wihardja of the Centre for Strategic and International Studies (CSIS); and to Taufik Abdullah at the Indonesian Institute of Sciences; M.P.S. Tjondronegoro at the Bogor Agricultural University; and Bambang Purwanto at Gadjah Mada University.

I would also like to express my great appreciation to Darwin, Head of the Economic Research Centre, Indonesian Institute of Sciences (P2E-LIPI), Jakarta; for his inspiring leadership of the Centre, and to my younger colleagues, particularly Siwage Dharma Negara, at the Centre for their friendship and for sharing with me their newly-acquired knowledge upon their return from their postgraduate study overseas.

I also would like to record my great appreciation to Mr K. Kesavapany, Director of the Institute of Southeast Asian Studies (ISEAS), Singapore, for his support of my book project.

Last but certainly not least, I would like to express my heartfelt thanks and great appreciation to Mrs Triena Ong, Managing Editor and Head of the Publications Unit of the Institute of Southeast Asian Studies (ISEAS), Singapore for her positive response to the planned book and for her most valuable and constructive suggestions for the book, and to Mark Iñigo M. Tallara, also of the Publications Unit of ISEAS, for his very important role in getting this book to publication.

*Thee Kian Wie*  
*1 August 2011*  
*Jakarta*

# ACKNOWLEDGEMENTS

The chapters in this volume are taken from the sources listed below, for which the author and publishers wish to thank their editors, original publishers or other copyright holders for the permission to use their materials as follows:

1. KITLV Press for republishing my article ‘Indonesianization: Economic aspects of decolonization in the 1950s’, originally published in Thomas Lindblad and Peter Post (editors): *Economic Decolonization in Indonesia in Regional and International Perspective* (KITLV Press, Leiden, 2009, pp. 15–39).
2. Professor Bambang Purwanto, Professor of History, Gadjah Mada University, for republishing my article ‘Indonesia’s First Affirmative Programme: The *Benteng* Programme in the 1950s’, in *Lembaran Sejarah* (History Papers), Vol. 8, no. 3, 2005, pp. 33–36.
3. Cambridge University Press for republishing my article ‘The debate on economic policy in newly-independent Indonesia between Sjafruddin Prawiranegara and Sumitro Djojohadikusumo’, which appeared in *Itinerario*, Vol. XXXIV, issue 1, pp. 1–22.
4. Taylor and Francis. Co. UK, for republishing my articles:
  - i. ‘The Major Channels of International Technology Transfer to Indonesia: An Assessment’, in *Journal of the Asia-Pacific Economy*, vol. 10, no. 2, May 2005, pp. 214–36.

- ii. 'Indonesia's Two Deep Economic Crises: The mid-1960s and late 1990s', in *Journal of the Asia-Pacific Economy*, vol. 14, no. 2, February 2009, pp. 49–60.
- iii. 'The Indonesian Wood Products Industry', in *Journal of the Asia-Pacific Economy*, vol. 14, no. 2, May 2009, pp. 138–49.
- iv. 'The Development of Labour-intensive Garment Manufacturing in Indonesia', in *Journal of Contemporary Asia*, vol. 39, no. 4, November 2009, pp. 562–78.
5. Institute of Southeast Asian Studies (ISEAS), Singapore, for republishing my article 'Policies Affecting Indonesia's Industrial Technology Development', in *ASEAN Economic Bulletin*, Vol. 23, no. 3, December 2006, pp. 341–59.
6. Bureau of East Asian Economic Research, ANU College for Asia and the Pacific, School of Economics and Government, Australian National University, for republishing my article on 'Indonesia and the BRICs', available at the East Asia Forum website: <<http://www.eastasiaforum.org/>>.

**Note:** The following two papers:

1. 'Indonesia's Economic Development During and After the Soeharto Era: Achievements and Failings', appeared in the JICA/JBIC International Workshop Report *Asian Experiences of Economic Development and Their Policy Implications for Africa*, published by the Institute of International Cooperation, Japan International Cooperation Agency, Tokyo, May 2008, pp. 19–24.
2. 'The Impact of the Two Oil Booms of the 1970s and the Post-Oil Boom Shock of the Early 1980s on the Indonesian Economy', appeared in the *Proceedings of the Third AFC International Symposium 'Resources under Stress — Sustainability of the Local Community in Asia and Africa'*, published by the Afrasian Centre for Peace and Development Studies, Ryukoku University, Kyoto, 23–24 February 2008, pp. 239–51.

While the following two papers were unpublished papers:

1. 'Indonesia's Industrial Policies and Development Since Independence', which was originally presented at a Conference on Labour-intensive Industrialization in Southeast Asia, Kyoto, February 2008.

2. 'Indonesia's Auto Parts Industry', is an abbreviated and updated version of part 3 of the Final Report on *Indonesia's Industrial Competitiveness – A Study on the Garments, Auto Parts and Electronic Components Industries*, written by Haryo Aswicahyono, Raymond Atje and Thee Kian Wie for the Development Economics Research Group, The World Bank, March 2005.

**Note:** Some of these papers were published at different times in different books and journals, and for this reason may be repetitive. They were also written a few years ago, so some of the data may not be up-to-date.



# INTRODUCTION

## **A short historical overview of Indonesia's economy since independence — Essays**

This book contains a collection of papers on various aspects of Indonesia's economy and its industrial development since the early 1950s. This date is chosen because Indonesia only achieved effective sovereignty over the whole territory of the former Netherlands Indies, with the exception of Papua, after the official recognition of Indonesia's independence by the Netherlands government on 27 December 1949, even though on 17 August 1945 Sukarno and Hatta had officially proclaimed Indonesia's independence.

The Netherlands recognition of Indonesia's independence was only achieved after a bloody armed struggle by Indonesian freedom fighters against the returning Dutch army in late 1945. This armed struggle lasted until the delegations of the two contending parties (the Indonesian revolutionary government and the Netherlands government) under the auspices of the United Nations Commission on Indonesia (UNCI) at the Round Table Conference in The Hague in the autumn of 1949 agreed on the transfer of sovereignty from the Netherlands government to the government of the United States of Indonesia (*Republik Indonesia Serikat, RIS*) on 27 December 1949.

The Netherlands transfer of sovereignty to the federal Republic of the United States of Indonesia (RIS) was particularly galling to the revolutionary Republic of Indonesia based in Yogyakarta which had waged the armed struggle against the Dutch army. The reason was that it was forced to share power with 15 puppet states set up by the Dutch as a counterweight to the Republic. However, this federal structure proved to be fragile, as in the following months the puppet states one by one disbanded themselves to join the Republic.

At the celebration of independence day on 17 August 1950, President Sukarno was able to proclaim the restoration of the unitary state of the Republic of Indonesia (*Negara Kesatuan Republik Indonesia, NKRI*).

## Outline of the book

This book does not provide a thematic account of Indonesia's modern economic history, as contained in Anne Booth's pioneering book *The Indonesian Economy in the Nineteenth and Twentieth Centuries: A History of Missed Opportunities* (1998) or the chronological account provided in the book *The Emergence of a National Economy: An Economic History of Indonesia, 1800–2000*, written by Howard Dick, Vincent Houben, J. Thomas Lindblad and Thee Kian Wie (2002).

Instead, this book discusses various aspects of Indonesia's post-independence history which have not yet been discussed in the above two books or are discussed in greater detail than has been the case with the above two books.

This book is divided into two main parts, namely Overall Developments and Industrial Development.

The part on **overall developments** is divided into three periods, namely the early independence period in the 1950s; the Soeharto era (often referred to as the New Order era, 1966–98); and the ensuing two economic crises, namely the impact of the Asian Financial Crisis of 1997/98 and the Global Financial Crisis of 2008.

In the section on the early independence period in the 1950s three papers are presented, including:

- Economic aspects of decolonization in the early 1950s, which discusses Indonesia's efforts at economic decolonization after political independence was achieved;
- The *Benteng* programme in the 1950s which was aimed at countering Dutch and Chinese economic dominance over the Indonesian economy;
- the debate on economic policy in newly-independent Indonesia between Sjafruddin Prawiranegara and Sumitro Djojohadikusumo, who were two of Indonesia's most prominent economic policymakers in the early 1950s.

The section on the Soeharto Era contains two papers, namely 'The Indonesian economy during the Soeharto Era — Achievements and Failings' which argues that during the first two decades the New Order state was a 'developmental



state', which during the third and last decade deteriorated into a 'predatory state' when economic policies were often designed to benefit President Soeharto's children and their cronies; and 'The Impact of the Two Oil Booms of the 1970s and the Post-Oil Boom Shock of the Early 1980s on the Indonesian Economy', which discusses the beneficial aspects of the two oil booms of 1973/74 and 1978/79 on the Indonesian economy, and the adjustment and deregulation (liberalization) measures which the Indonesian government had to take in early 1983 to restore macroeconomic stability and raise non-oil exports in response to the end of the oil boom era in 1982, when the price of crude oil in the international market steeply declined as a consequence of the economic recession in the major industrial countries.

The section on the Asian Financial Crisis of 1997/98, the Global Financial Crisis of 2008, and the prospects for rapid growth contains three papers, namely Indonesia's two deep economic crises, the mid-1960s and late 1990s' which compares the adverse impact of Asian Financial Crisis and the economic crisis of the mid-1960s on the Indonesian economy; the relatively mild impact of the Global Financial Crisis on the Indonesian economy; and a short discussion on the feasibility of Indonesia joining the BRIC (Brazil, Russia, India and China) group of rapidly-growing economies.

The second part on **Industrial Development** contains six papers, namely an overall discussion of Indonesia's industrial policies and industrial development since independence, a discussion on the Indonesian government's policies affecting Indonesia's industrial technology development; a discussion of the four major 'Channels of International Technology Transfer to Indonesia', specifically to its manufacturing sector; and three final papers on three of Indonesia's most important manufacturing industries, namely the labour-intensive garment industry'; 'the resource-intensive wood products industry'; and 'the medium-technology auto parts industry'.