

STATE AND ECONOMY IN INDONESIA'S TRANSFORMATION TO
SOVEREIGNTY: A COMPARISON WITH THE PHILIPPINES,
SINGAPORE, SOUTH KOREA AND TAIWAN

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Introduction

- **This paper discusses the role of the state in the transition from colonial rule to sovereignty in Indonesia and compares it with four other East Asian countries, i.e. the Philippines and Singapore in Southeast Asia and South Korea and Taiwan in Northeast Asia**
- **Of these five countries, Indonesia's economic performance during the early 1950s was satisfactory, but poor during the early 1960s, and only started growing rapidly with onset of New Order (1966 – 1998)**
- **Of these five countries, three colonized by Western countries, Indonesia by the Netherlands, the Philippines by the US, and Singapore (together with British Malaya) by Britain, and South Korea (and North Korea) and Taiwan colonized by Japan**
- **Of these five countries, the economic prospects of the Philippines were most promising, as it was first Southeast Asian country which embarked on industrialization, but later recorded only sluggish growth. In contrast, because of strong and farsighted leadership, Singapore, South Korea and Taiwan embarked on rapid export-oriented industrialization, which transformed them into NIEs by the early 1980s**

State and Economy in Indonesia's Transition to Sovereignty – Political Developments

- **After four years of armed struggle, through mediation of United Nations Commission on Indonesia (UNCI), Indonesian and Dutch delegations got together and Round Table Conference (RTC) in The Hague in autumn of 1949 to discuss terms of Dutch transfer of sovereignty to Indonesia (which took place on 27 December 1949).**
- **Achievement of political independence not accompanied by economic independence, as Dutch delegation extracted concession from Indonesian delegation, contained in Financial-Economic Agreement (FINEC) that Dutch business interests could continue unhindered in independent Indonesia. Indonesian delegation also agreed that Indonesian government had to take over all prewar debts of NEI government, but not postwar debts**
- **In the course of the 1950s, political relations between Indonesia and the Netherlands steadily deteriorated because of festering dispute about status of West Irian (now Papua and West Papua provinces)**

State and Economy in Indonesia's Transition to Sovereignty – Economic Developments

- **After achievement of effective independence in late 1949, Indonesian cabinets (Hatta, Natsir, Wilopo, Sukiman) focused efforts on raising economic welfare of the people, incl. raising output of food crops, which only reached prewar level in 1952, and rehabilitate physical infrastructure (transport & communication, irrigation and power supplies)**
- **Great shortage of trained administrative, professional and managerial personnel**
- **Introduction of first 'affirmative' program ('*Benteng*' program) to counter economic dominance of Dutch and ethnic Chinese business interests) which was terminated because of lack of success in nurturing indigenous (*Indonesia asli*), creating mostly 'brief case importers' (*importir aktentas*)**
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State and Economy in Indonesia's Transformation to Sovereignty – Industrial development

- **Policies:** In early 1950 government of the Republic of the United States of Indonesia (*Republik Indonesia Serikat, RIS*) prepared first industrial plan (*Rencana Pekerjaan Industri*)
- Natsir cabinet which replaced RIS cabinet led by Hatta prepared new industrial plan in 1951 introduced by Minister of Trade and Industry, Sumitro Djojohadikusumo, entitled Economic Urgency Plan (*Rencana Urgensi Perekonomian*), also called Industrial Urgency Plan (*Rencana Urgensi Industri*), as industrial development considered 'major engine of growth'.
- This Plan not implemented as Natsir cabinet soon fell, and three subsequent cabinets did not prepare new industrial plan
- Newly-established State Planning Bureau (*Biro Perancang Negara*) then prepared more complete plan for country's economic development, entitled *Rencana Pembangunan Lima Tahun* (Five Year Development Plan) for period 1956-1960.
- **Performance:** Despite these plans, manufacturing sector experienced structural regression, and in late 1950s through mid-1960s stagnated, reflecting slow industrial transformation during this period

Comparison with the Philippines, Singapore, South Korea and Taiwan

- **The Philippines**: Despite extensive wartime destruction during Pacific War, the Philippines had one of the highest per capita incomes in East Asia, and substantially higher than Indonesia
- Initial conditions were relatively favourable, as America's colonial rule relatively benign. Educational standards were quite high, and it enjoyed privileged access to huge American market until expiry of Laurel-Langley agreement in 1974.
- Philippines and its industrial sector early leaders in East Asia, neither Philippine economy nor its industrial sector performed well in ensuing decades, as early advantages not converted into rapid and sustained industrialization, and its performance has been unsatisfactory in terms of growth, export performance, employment generation, spatial distribution and absence of dynamic SMEs
- Poor industrial performance reflects failure to pursue export-oriented industrialization due to failure to achieve international competitiveness

Comparison with the Philippines, Singapore, South Korea and Taiwan

- **Singapore**: In 1959 Singapore granted internal autonomy by British government, and in 1963 joined Malaysian Federation, but on 9 August 1965 expelled from Malaysia. Singapore became independent country
- Separation from Malaysia painful, yet by 1967 Singapore economy had recovered from separation, and during subsequent years economic growth accelerated to 14 per cent during 1967-1972
- Rapid expansion of Singapore's economy due to government's policies that stimulated manufacturing and construction (of flats)
- Singapore is clear case of interventionist policy on FDI and industrial targeting combined with free trade
- Singapore's economy started with base of capabilities in entrepot trading, servicing of ships in its strategically located and efficiently managed harbour, and petroleum refining. Because of small domestic market, it shifted to export-oriented industrialization based on FDI by MNEs, as Singapore has weak tradition of local entrepreneurship
- Singapore's industrial strategy highly successful, and it has now highest per capita income in SE Asia.

Comparison with the Philippines, Singapore, South Korea and Taiwan

- **South Korea: During Japanese occupation Korean economy displayed several characteristics of colonial export economy, as high proportion of export and import trade was with Japan. During this period Japanese corporations discriminated against Koreans at managerial and supervisory level, and Korean capitalists existed only at the fringes**
- **In June 1950, 5 years after liberation by American forces, North Korea invaded South Korea; three year civil war ended in truce in mid-1953, but without peace agreement**
- **In 1953 South Korea had lesser industrial base than North Korea where Japanese had built large hydroelectric stations by taming Yalu river and which generated 90 percent of Korea's electricity. They also built large chemical plants for fertilizer and munitions production.**
- **Postwar South Korean push towards export-oriented industrialization (supported largely by *chaebol*) started in earnest in 1961 by President Park Chun Hee who was dedicated to rapid economic development after end of American aid and who wanted to improve welfare of common people.**
- **South Korea's spectacular economic progress enabled it to join OECD, the 2nd Asian country after Japan.**

Comparison with the Philippines, Singapore, South Korea and Taiwan

- **Taiwan**: Like Indonesia, the Philippines and South Korea, Taiwan also emerged from Japanese colonial rule as poor agrarian economy, with physical infrastructure severely damaged due to wartime destruction
- When Taiwan became Japanese colony after China's defeat in Sino-Japan war (1894-95), it was developed into highly productive two-crop economy, producing rice and sugar for Japanese mainland. Sugar cane cultivation not only cultivated by Japanese planters, but also by small Taiwanese planters and tenants.
- After Chiang Kai-Shek's retreat to Taiwan after communist army overran Chinese mainland, island's economic prospects not bright. However, by mid-1950s building blocks for rapid, export-oriented industrialization (necessary because of small domestic market), including political stability and drive to root out corruption, control of inflation, and moderate, well-developed infrastructure and adequately trained human resources, and competitive SMEs were in place. By mid-1980s Taiwan had emerged as one of the most successful developing countries, successfully combining rapid growth with equity
- Taiwan's political and economic prospects now improved because of recent signing of Economic Cooperation Framework Agreement (ECFA) with China

Conclusion

- **This paper has provided brief discussion of role of the state in the transition from colonial rule in Indonesia and compared it with four other East Asian countries, the Philippines, Singapore, South Korea and Taiwan.**
- **Of these five countries, Indonesia's economic performance during early 1950s was satisfactory, but deteriorated in late 1950s-early 1960s. Only since Suharto era did Indonesia embark on rapid, sustained growth which lasted three decades**
- **Economic prospects of the Philippines during early independence seem bright, but in next decades the Philippines's economy faltered, recording sluggish growth during next few decades**
- **In contrast, Singapore, South Korea and Taiwan able to embark on rapid export-oriented industrialization due to strong, farsighted leadership**
- **Indonesia's economy has in general been consistently better than of the Philippines, but it has not been able to match economic performance of Singapore, South Korea and Taiwan.**

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**State and Economy in Indonesia's Transition to Sovereignty:
A Comparison with the Philippines, Singapore, South Korea, and
Taiwan¹**

by THEE Kian Wie²

Introduction

This paper discusses the role of the state and the economy in the transition from colonial rule to sovereignty in Indonesia and compares them with four other East Asian countries, namely the Philippines and Singapore in Southeast Asia and South Korea and Taiwan in Northeast Asia. Of these five countries, Indonesia's economic performance during the early 1950s was satisfactory, but very poor during the early 1960s. At that time the Indonesian state under President Sukarno was deployed 'to complete the national revolution', that is to liberate West Irian (now comprising the provinces of Papua and West Papua) from Dutch rule, and later to 'crush the newly-established Malaysian Federation' which Sukarno perceived as a 'neo-colonialist plot' to undermine 'anti-imperialist' Indonesia. Because of Sukarno's preoccupation with 'completing the national revolution', he neglected the economy which by the mid-1960s was in complete shambles and wrecked by an unprecedented hyperinflation of almost 600 per cent (Thee, 2008: 51)..

It was only with the onset of the Soeharto era in 1966 that a strong and centralized state emerged under the authoritarian rule of General, later President Suharto, who put a top priority on economic development. Hence, since the late 1960s the Indonesian economy finally embarked on a rapid path of economic growth, averaging 7 per cent annually, which in general was sustained during the next three decades until the Indonesian economy in late 1997 and 1998 was severely hit by the Asian financial crisis (AFC). The Indonesian economy only started recovering slowly in 1998 and from then onwards started growing more rapidly, although until now it has not been able to match the 7 per cent growth rate of the Suharto era.

Of the five East Asian countries being discussed, three were colonized by Western countries, Indonesia by the Netherlands, the Philippines by the U.S., and Singapore (together with British Malaya) by Britain), while South Korea (together with North Korea) and Taiwan were colonized by Japan, which by the end of the 19th century had joined the Western powers in its scramble to get colonies.

Of the four other East Asian countries, the prospect of the Philippines during its early independence appeared to be the most promising, as it was the first Southeast Asian country which had embarked on industrialization. However, during the next few decades the Philippines' economy faltered, recording only sluggish growth during the next few

¹ I would like to acknowledge the valuable comments of Dr. J. Thomas Lindblad on an earlier draft of the paper. Naturally, I alone am responsible for remaining errors and shortcomings.

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decades up to the present. In contrast, because of strong and farsighted leadership which was able to establish a strong and cohesive state, Singapore, South Korea and Taiwan were able to embark on a path of rapid export-oriented industrialization which had transformed these countries into strong and stable states which transformed their economies into newly industrialized and prosperous economies by the 1980s.

State and Economy in Indonesia's Transformation to Sovereignty

- Political developments

On 17 August 1945, two days after the Japanese unconditional surrender to the Allied forces, Sukarno and Hatta, Indonesia's two most charismatic leaders, proclaimed Indonesia's independence. Disregarding this proclamation, the Netherlands was intent on reclaiming its colony from the Japanese. In the following four years, heavy fighting broke out between Dutch troops and the fledgling Indonesian army and irregular troops.

Through the mediation of the United Nations, the Netherlands and Indonesia called a truce in early 1949 after the Dutch army on 19 December 1948 had for the second time launched a military attack on Yogyakarta, the de facto capital of the Indonesian republic, to crush the Indonesian revolutionary army once and for all. Despite the early military success of the Dutch army, this second military attack backfired, as the governments of the puppet, federal states, referred to as the '*Bijeenkomst voor Federaal Overleg, BFO*', (Federal Consultative Assembly) set up by the Dutch in the various regions as a counterweight to the Indonesian republic, resigned in protest (Taufik, 2009: 185).

International reaction to the Dutch military attack was also harsh. In January 1949 Prime Minister Pandit Jawaharlal Nehru of India convened the Inter-Asian Relations Conference in New Delhi with a special focus on Indonesia. The Conference sent an appeal to the Security Council of the United Nations to stop the Dutch aggression. The United Nations Commission on Indonesia (UNCI) also reacted negatively to the Dutch military attack. The United Nations' Security Council then pressured the Dutch to resume negotiations with the Indonesian leaders under the auspices of the United Nations Commission of Good Offices for Indonesia. to discuss the terms of the Dutch transfer of sovereignty (Taufik, 2009: 137-138). Consequently, the Indonesian and Dutch delegations got together in a Round Table Conference (RTC) convened in The Hague in the autumn of 1949 under the auspices of the United Nations Commission of Good Offices.

The official transfer of sovereignty from the Netherlands to Indonesia took place on 27 December 1949. The Indonesian side, however, referred to this event as the Dutch recognition of Indonesia's independence which had already been proclaimed on 17 August 1945 by Sukarno and Hatta.

The achievement of political independence, however, was not accompanied by economic independence. The Dutch delegation at the RTC had extracted a concession from the Indonesian delegation that their extensive business interests could continue to operate without hindrance in an independent Indonesia. This concession was contained in the Financial Economic Agreement (Finec) as part of the RTC agreement (Meijer, 1994: 46). This problem as well as the Dutch refusal to hand over West Irian (Dutch

West New Guinea) to Indonesia doomed from the start amicable relations between the Netherlands and Indonesia.

The other economic issue on which the Indonesian delegation at the RTC had to yield was the demand of the Dutch delegation that the Indonesian government would have to take over all prewar debts of the Netherlands Indies government as well as the postwar debts incurred by the Netherlands Indies Civil Administration (NICA). In total these debts included 3 billion guilders of domestic debt and another 3.3 billion dollars of external debt. However, the Indonesian delegation was only prepared to take over the prewar domestic debt.. It argued that the postwar debt, estimated at 2 billion guilders, had been used to finance the military campaigns against the Indonesian republic (Thee, 2003: 7-8). In the end, the Dutch delegation agreed to forego its claim on the controversial 2 billion guilders (Meier, 1994: 47).

The deteriorating relations between the two countries in late 1957 as a result of the festering dispute about Indonesia's demand to hand over West Irian to Indonesia, which considered it as an integral part of Indonesia, led to a total breakdown in the relations between Indonesia and the Netherlands in late 1957. It also led to the takeover of all Dutch companies in Indonesia by militant trade unions, and subsequently to their subsequent nationalization by the Indonesian government in 1959. Hence, with one sweep, the vast Dutch private business interests, which had operated in Indonesia since 1870, were swept away. The nationalized Dutch companies were subsequently turned into state enterprises, which accounts for the large number of state enterprises in Indonesia. These nationalized enterprises were then largely managed by senior military officers in view of the absence of experienced indigenous Indonesian managers.

Arguing that parliamentary democracy was unsuitable for Indonesia, President Sukarno, in July 1959, re-introduced the Constitution of 1945, under which he became head of state as well as head of government. Vested with greater executive powers, President Sukarno introduced 'Guided Democracy' and 'Guided Economy', under which Indonesia would pursue an 'Indonesian-style socialist pattern of development, or *'sosialisme a la Indonesia.*, as President Sukarno put it. Because of Sukarno's obsession with 'completing the national revolution' and opposing the Western capitalist countries', which in Sukarno's view still had imperialist intentions, he neglected Indonesia's serious economic problems.

To liberate West Irian from the Dutch and confront militarily the young Malaysian federation proclaimed in mid-1963, which Sukarno viewed as a neo-colonialist creation to undermine Indonesia, Sukarno purchased much weaponry from the Soviet Union and the other East European socialist countries. These military expenditures and other expenditures on prestige projects led to a growing budget deficit, which was financed by deficit-financing, that is by the simple device of printing money. The rapid increase in money supply caused runaway inflation, which by the mid-1960s turned into an unprecedented hyperinflation, reaching almost 600 per cent in 1965 (Grenville, 1981).

- Economic developments.

Although Indonesia had proclaimed its independence on 17 August 1945, it only achieved effective independence in early 1950 after the Netherlands had officially transferred its sovereignty over the Indonesian archipelago to Indonesia. The economic

problems facing Indonesia at the time were very serious, as the Indonesia had suffered greatly during the Japanese occupation and the armed revolution against the Dutch. Basic goods and services, including food, clothing, dwellings, health and education services, were all in short supply. Therefore, the Natsir cabinet, which had replaced the Hatta cabinet in late 1950, focused its efforts on raising the welfare of the people (Sumitro, 2000). This focus was crucial since standards of living, as expressed by real per capita GDP, had declined by roughly one third from what was already a low level before the Pacific War, from US\$ 1,251 (at 1990 prices) in 1941 to US\$ 840 in 1950 (Booth, 2010: 68).

However, during the period 1949 – 1958 GDP growth was fairly good up to through 1957. In fact, between 1950 and 1957 total GDP grew by an average annual rate of 5.1 per cent, whereas per capita GDP increased at an average annual rate of 3.2 per cent (Marks, 2010). However, the output of the most important food crops, including rice, maize, soy bean, and ground nuts, only returned to 1937 levels in 1952. Moreover, the production of root crops, which was an important source of calories for the poor, was still below the level of 1940 (Booth, 1998: 53).

The following table provides estimates of production by sector as a percentage of prewar levels.

Table 1 Estimated production by sector as a percentage of prewar levels, 1950

Sector	Percentage of prewar levels
Food crops	70 - 75 per cent
Smallholder tree crops	30 -35 per cent
Estate crops	20 – 25 per cent
Fisheries	50 per cent
Mining	20 per cent
Industry	30 – 35 per cent

Source: Anne Booth: Growth and stagnation in an era of nation-building: Indonesian economic performance from 1950 to 1965, in: Thomas Lindblad (editor): Historical Foundations of a National Economy in Indonesia, p. 403.

The data in table 1 not surprisingly show that food crops and fisheries, a major source of calories and protein for the population, had experienced the lowest, although still a substantial, decline, while the largely foreign-owned large estates, mining, and manufacturing industries, had experienced the largest declines.

The output of the sugar factories had declined from more than 1.5 million tons in 1939 to only 261,000 tons in 1950, which was barely enough to meet domestic demand. Sugar exports had also fallen from 1.2 million tons in 1939 to only 1,000 tons in 1950. Sugar exports then rose to 7,000 tons in 1951, but then dropped again to 1,000 tons in 1952. During subsequent years sugar exports gradually increased, reaching 217,000 tons in 1955 which, however, corresponded to only one-sixth of the level of sugar exports in 1939 (Bank Industri Negara, 1957).

For the Indonesian government, the first priorities were therefore to raise the standards of living of the Indonesian people, increase production, and stimulate commerce and

industry (Sumitro, 1952: 5). However, the newly-independent country was faced with serious economic problems, as its transport infrastructure had not yet recovered from the devastations during the Japanese occupation and the armed revolution against the Dutch army (Booth, 1998: 53).

The dilapidated infrastructure was most apparent in Java, where prolonged neglect during the Japanese occupation and the armed struggle against the Dutch had done the most damage, not only in transport and communications, but also in irrigation and power supplies. In the Outer Islands most roads had become impassible, forcing traffic to the waterways wherever possible (Dick, 2002: 173). Indonesia in 1950 also did not have an administrative apparatus in working order, and it also lacked trained and experienced administrative, professional and managerial workers. Although during the Japanese occupation many low-ranking Indonesian officials in both the government and the private sector had been promoted into more senior posts by the Japanese military authorities, the unsettled conditions were certainly not favourable for an orderly transfer of responsibilities (Booth, 1998: 53).

- Industrial development

Like in most other newly-independent countries, the leaders of newly-independent Indonesia considered industrialization as the best way to achieve a more balanced structure of the economy by lessening the country's dependence on agriculture and develop their country more rapidly. Hence, not long after the Dutch recognition of Indonesia's independence on 27 December 1949, the government of the Republic of the United States of Indonesia (*Republik Indonesia Serikat, RIS*) prepared its first industrial plan, entitled *Rencana Pekerjaan Industri* (Industrial Work Plan). However, this Plan could not be implemented as on 17 August 1950 the RIS was disbanded and replaced by the Unitary State of Indonesia (*Negara Kesatuan Republik Indonesia, NKRI*) (Siahaan 1996; 181).

The Natsir Cabinet, which had replaced the RIS Cabinet led by Moh. Hatta, the Vice President of RIS, who had served as Prime Minister of the RIS Cabinet, then set out to prepare a new industrial plan. To this end, the then Minister of Trade and Industry, professor Sumitro Djojohadikusumo, in 1951 introduced the Economic Urgency Plan (*Rencana Urgensi Perekonomian*) for a period of three years. Since this Plan focused on industrial development as the major engine of growth, the Plan was also referred to as the Industrial Urgency Plan (*Rencana Urgensi Industri*) (Siahaan, 1996: 190).

Unfortunately, this Plan could not be implemented by the Natsir cabinet, as only one month after this Plan was announced, the Natsir cabinet was replaced by the Wilopo cabinet. The three subsequent cabinets did not prepare a new industrial plan, but used the existing Economic Urgency Plan as a guide for the country's industrial development, with only a few changes and adjustments. The newly established State Planning Bureau (*Biro Perancang Negara*) then prepared a more complete plan for the development of the country, entitled *Rencana Pembangunan Lima Tahun* (Five Year Development Plan) for the period 1956 – 1960 (Siahaan, 1996: 182).

It must be pointed out that the Indonesian government did not start from scratch, as the groundwork had already been laid by the outgoing Dutch administration. The Industry Policy Guidelines of 1946 had envisaged industrial rehabilitation and development being

carried out on the basis of annual plans. In November 1949, on the eve of the transfer of sovereignty, the Industry Section of the Department of Economic Affairs, presented a Special Industrial Welfare Plan, which was intended as the basis for preparing a detailed industry plan (Dick, 2002: 176).

Despite the launch of the Economic Urgency Plan, which had focused on industrial development for the period 1951 – 1955, not much industrial development took place during this period. This situation was not really surprising, since manufacturing developments at the time were largely conditioned by existing prewar plants based on the concepts of a colonial economy. In the immediate postwar years (early 1946 – 1949), a few new factories, none of them of any considerable size, were built in the Dutch-occupied areas, but most efforts were directed towards the rehabilitation of plants damaged during the Japanese occupation (Soehoed, 1967: 65-72).

However, during the early 1950s some new industries were established, although more industries either stagnated, declined or were just closed. This worrisome new development was caused by several problems faced by several industries, including lack of safety, labour relations, lack of capital, lack of skilled personnel, lack of raw materials, lack of adequate water supply and electricity (Burger, 1975: 185). The shortage of raw materials and other imported inputs could not be solved because of the shortage of foreign exchange. The greatest difficulties were experienced by the small-scale industries because of their great shortage of capital and less efficient production methods (Burger, 1975: 185).

In 1956 the Indonesian government launched its First Five Year Development Plan. In this Plan, the emphasis was put on the rehabilitation of existing plants, maximum utilization of domestic raw materials, upgrading of labour skills and managerial ability, and the achievement of reasonable cost levels. Some basic industrial plants were planned to act as catalysts for other manufacturing developments. Among these projects, mainly financed by foreign loans, were a caustic soda plant in Surabaya; a spinning mill in Cilacap, Central Java, an urea fertilizer plant in Palembang, South Sumatra; an extension of the cement plant in Gresik, East Sumatra; paper mills at Blabak, Central Java, and in Pematang Siantar, North Sumatra; and a glass plant in Surabaya, East Sumatra (Soehoed, 1967: 72).

To get some idea of the progress or lack of progress in industrial development in the late 1950s, the data in table 2 show the production of some major industrial plants in 1958 and 1959.

Table 2 Production of Some Major Industrial Plants in 1958 and 1959
(1957 = 100)

	1958	1959
Steel		
Sabang – Merauke	100.0	157.3
Barata	100.0	118.1
Perkalin: drums, cans	85.7	89.8
Electric ware		
Metrika	85.0	103.2

Lamps and radios		
Ralin: lamps,	67.3	74.6
Radios	208.5	78.2
Paint		
Patna	90.3	88.9
Oxygen	95.0	100.8
Paper mills		
Padalarang	95.6	102.5
Letjes	97.2	105.0
Textiles		
Texin	n.a.	51.0
Cement		
Padang	52.8	77.8

Source: A.R. Soehoed: Manufacturing in Indonesia, in: Bulletin of Indonesian Economic Studies, October 1967, table 2, p. 72.

Even though the data listed in table 2 only refer to the two last years of the 1950s, they show that most of the manufacturing enterprises in the table were in general able to maintain, if not raise, their production in the late 1950s.

However, it has been argued that during the 1950s the Indonesian economy began to experience structural regression as the manufacturing sector recovered to around 12 per cent of Net Domestic Product (NDP) in 1957, and then stagnated (Dick 2002: 177). However, while during the early Suharto era in 1966 Indonesia's manufacturing sector only accounted for 8.4 per cent of GDP, by 1973 it had risen to 9.6 per cent of GDP, rising steadily to 12.1 per cent in 1981 and to 21.0 per cent in 1991. ((Booth, 1998: 79)

A Comparison with the Philippines, Singapore, South Korea and Taiwan

As mentioned earlier, this paper also intends to discuss the role of the state and the performance of the economy in the transition from colonial rule to sovereignty in four other East Asian countries, namely the Philippines and Singapore in Southeast Asia and South Korea and Taiwan in Northeast Asia, and compare them with the role of the state in Indonesia and Indonesia's economic and industrial performance.

Of the four other East Asian countries to be discussed, two were colonized by Western countries, namely the Philippines by the U.S., and Singapore (together with British Malaya by Britain), while South Korea (together with North Korea) and Taiwan were colonized by Japan, which had joined the Western powers in its scramble to get colonies.

Of the four other East Asian countries, the prospect of the Philippines during its early independence appeared to be the most promising, as it was the first Southeast Asian country which had embarked on industrialization in the 1950s and 1960s, spurred on by protection and a well-developed human capital base. In the late 1960s there also seemed to be some prospect of a transition to export-oriented industrialization (Hill, 2003). However, during the next few decades the Philippines' economy faltered,

recording only sluggish growth and slow poverty reduction during the next few decades up to the present.

In contrast, because of strong and farsighted leadership which had been able to establish strong and cohesive states in the face of sheer survival (Singapore after its expulsion from the Malaysian Federation on 9 August 1965, and external threats (from North Korea in the case of South Korea and from China in the case of Taiwan, these three resource-poor East Asian countries since the 1960s embarked on rapid-export-oriented industrialization. As a result, by the late 1980s these countries, along with Hong Kong, had become the newly-industrializing economies (NIEs) and three of the most prosperous countries in East Asia after Japan.

The Philippines

The experience of the Philippines is of great interest to development economists, international and bilateral aid organizations, and policy-makers in the Southeast Asian countries, including the Philippines itself, because of its poor economic performance and weak political and often corrupt leadership since its independence in 1946 which has persisted up to the present. This has made the Philippines a weak and uncohesive state, which has been afflicted by communist rebellions and separatist revolts by armed Moslem groups in Mindanao in the Southern Philippines.

Despite extensive wartime destruction during the Pacific War, the Philippines had one of the highest per capita incomes in East Asia, including South Korea and Taiwan, and substantially higher than Indonesia, Thailand, and China, and only below Japan, British Malaya, and Hong Kong and Singapore (Balisacan & Hill, 2003a: 3).

Among Asia's newly-independent countries, the initial conditions of the Philippines were favorable, as America's colonial rule during half of a century (1898 – 1946) had been comparatively benign by colonial standards. As the U.S. had promised independence to the Philippines before the Japanese occupation, no revolution took place against the returning American colonial rulers, unlike in Indonesia and Vietnam. In fact, in 1946 the Philippines became an independent country. Educational standards in the Philippines were among the highest in the world, and it also enjoyed privileged access to the huge American market until the expiry of the Laurel-Langley Agreement in 1974. While not as resource-rich as Indonesia, the Philippines possessed ample agricultural land to sustain several decades of rapid agricultural growth (Balisacan & Hill, 2003a: 3).

Reflecting international confidence in the economic prospects of the Philippines, the Asian Development Bank (ADB), the Asia-Pacific region's major international development bank, was located in Manila. Although as late as 1980 the Philippines was still regarded as a member of the second-generation East Asian 'Tiger Economies', its overall development performance has been unsatisfactory by any measure. In fact, in 2000 real per capita income of the Philippines was about the same as in 1980 (Balisacan & Hill, 2003a: 9), reflecting the country's long-term economic stagnation.

Although both the Philippines and its industrial sector were early leaders in East Asia, neither the Philippine economy as a whole nor its manufacturing sector have performed well, or even satisfactory, in the ensuing decades, even though a relatively sophisticated manufacturing sector had emerged in the 1950s and 1960s, supported by protection and

a relatively well-developed human resource base. However, in spite of these early hopes, the manufacturing sector's performance has been disappointing, reflected by the slow growth and transformation of the manufacturing sector, and the absence of a broad-based export-oriented industrialization, with the notable exception of electronics (Hill, 2003: 219).

A fairly large number of the country's manufacturing companies were engaged in light manufacturing, such as the textile companies, food companies, tobacco companies, and beverages companies. The export-oriented industries consisted mainly of companies which processed agricultural products for export, including fruit processing companies producing canned pineapples. The majority of these industries were import-substituting industries, including the petroleum refining industry which was the most capital-intensive, import-substituting industry (Yoshihara, 1985: 27- 29).

The early advantages of the Philippines in industrialization were not converted into rapid and sustained industrialization. For the past few decades, the performance of the country's manufacturing sector has been unsatisfactory in terms of growth, export performance, employment generation, spatial distribution and the absence of dynamic SMEs. This poor performance of the country's manufacturing sector has reflected the failure to pursue an export-oriented industrialization (Hill, 2003: 219), which which would have forced the manufacturing sector to achieve international competitiveness, particularly by developing and raising its industrial technological, managerial and marketing abilities. This, of course, would have required that the basic conditions to achieve this goal would have to be met, namely a conducive incentive system (sound macroeconomic policies and pro-competition policies) and a skilled and disciplined labour force (World Bank, 1996: 2-5).

However, in the case of the Philippines, the incentive system was not particularly conducive, as inflation has in general been higher than its Southeast Asian neighbours, while the country has also suffered chronic budget deficits, which was often monetized (Balisacan and Hill, 2003: 20), leading to high inflation. The high seller concentration combined with long-established patterns of lobbying for regulatory and price barriers to competition (Hill, 2003: 238), has thus frustrated pro-competition policies.

Singapore

In 1959 Singapore was granted internal autonomy by the British government, and in 1963 joined the Malaysian Federation as one of the member states. Malaysia, however, was quite worried that the strength of Singapore and its Chinese population would dominate the Malays (Vogel, 1991: 74-75). However, after only two years as part of the Malaysian Federation, Singapore was expelled from the Malaysian Federation on 9 August 1965 because Malaysia's Prime Minister, Tengku Abdul Rahman, feared that the strident calls of Lee Kuan Yew, Singapore's Prime Minister, for a 'Malaysian Malaysia', in contrast to a Malay-dominated Malaysia favoured by the majority Malays, would lead to divisive racial tensions and bloody riots between the Malays and the Chinese.

Hence, as from 9 August 1965 Singapore became an independent country. The separation or expulsion from Malaysia was a painful experience, and the hope for a wider domestic market encompassing the whole Malaysian Federation evaporated, as

manufactured exports to Malaysia now faced import duties. Hence, Singapore could no longer afford to pursue the import-substituting industrialization as its basic industrial strategy (Yoshihara, 1976: 8). Yet by the end of 1967 the Singapore economy had recovered from the 'separation shock'. In fact, during the subsequent years the pace of growth was even faster, as GDP growth was a little over 8 per cent in the 1961-1967 period, but accelerated to an even higher 14 per cent in the 1967 – 1972 period (Yoshihara, 1976: 8). The economy slowed down after the oil crisis of 1973/74, but it was still able to maintain a high average of 8 per cent during the 1970s. Altogether, the economy grew by an average annual rate of 9.5 per cent a year during the period 1960-1980 (van Liemt, 1988: 17).

The rapid expansion of Singapore's economy after 1965 was due to its government's policies that stimulated manufacturing and construction, the boom in world trade, as well as some 'special' factors, particularly the end of Indonesia's 'confrontation policy' against Malaysia (and Singapore), which had slowed down trade with Indonesia, specifically Singapore's entrepot trade with Indonesia (Yoshihara, 1976: 8), and had had a negative effect on the region's stability, which in turn had depressed foreign direct investment (FDI) into the region. Singapore also profited from the discovery of oil in the region, particularly Indonesia, which led to a boom in oil exploration activities and its related activities, including oil refining facilities, many of which were based in Singapore (van Liemt, 1988: 17).

Singapore's success in industrialization was due to its success in attracting a large amount of foreign direct investment in export-oriented industries. This success was attributable to Singapore's excellent infrastructure, including its excellent harbour facilities, which was the best in Southeast Asia. The Singapore government was also effective in industrial promotion (Yoshihara, 1976: 17). In the Jurong Industrial Estate, which was developed in successive stages by the Singapore government, land could be leased at a subsidized price. The government also gave tax exemptions to foreign investors. The Singapore government also set up promotion offices in the advanced countries and staged vigorous promotion campaigns (Yoshihara, 1976: 18).

Singapore provides a clear case of the consequences of an interventionist policy on foreign direct investment (FDI) and industrial targeting combined with free trade. Although it has only about half the population of Hong Kong, Singapore has developed a far deeper industrial structure, in terms of the sophistication of production and exports, and it has continued to sustain high rates of industrial and manufactured export growth, despite its high industrial wages (Lall, 1996a: 18).

Singapore's economy started with a base of capabilities in entrepot trading, servicing of ships in its strategically located and efficiently managed harbour, and petroleum refining. Because of its small domestic market, Singapore soon moved into export-oriented industrialization, based overwhelmingly on FDI by multinational enterprises (MNEs), primarily from the US and Japan. This policy was considered necessary, as unlike Hong Kong, Singapore has a weak tradition of local entrepreneurship, with a little influx of entrepreneurial and technical know-how from China (Lall, 1996a: 18).

After a decade of light industrial activity (garments and semi-conductor assembly), the Singapore government acted decisively to upgrade the industrial structure by guiding the the MNCs to higher value-added activities, and in education to create the specific high-

level technical skills that would be needed (Lall, 1996: 18). In this respect, Singapore's Local Industry Upgrading Program (LIUP) has proved to be very successful.

Singapore's development strategy, and particularly its industrial strategy, proved to be highly successful, as reflected by the fact that it has now by far the highest per capita in Southeast Asia, with the exception of tiny, outlier Brunei Darussalam which has only achieved its very high income per capita due to its large export revenues from oil and natural gas.

Singapore's great success with its development strategy against all odds is, amongst others, reflected in Lee Kuan Yew's second volume of his autobiography with its triumphant title '*From Third World to First World*'.

South Korea

When Japan arrived in Korea to trade in the 1870s, a money economy had not yet spread throughout Korea. As a result, the Japanese yen became the accepted currency, replacing barley and rice as the medium of exchange. The ability of Korean manufacturers to compete against Japanese goods was also complicated by a primitive distribution system. Internal trade was carried out by itinerant peddlers, since there were few retail stores in the small villages and towns (Amsden, 1989: 31)..

From 1876 onwards Japan coerced Korea to open its doors to foreign trade, and in 1910 occupied the whole Korean peninsula which lasted until Japan's unconditional surrender on 15 August 1945. The Northern part of Korea was occupied by the Soviet army and was subsequently proclaimed as the Democratic People's Republic of Korea, while the smaller Southern part of the peninsula was occupied by the American army, and was subsequently proclaimed as the Republic of Korea.

During the Japanese occupation Japanese corporations discriminated against Koreans at the managerial and even at the supervisory level. Korean capitalists existed only at the fringes, and were generally unable to compete against Japanese goods. Between 1910 and 1920 manufacturing industry in Korea was also discriminated against by Japan in favour of agriculture. However, after a short-lived Korean uprising in 1919, a very thin stratum of Korean capitalists was deliberately cultivated to further collaboration (Amsden, 1989: 33).

During the Japanese occupation, the Korean economy also displayed several characteristics of a colonial export economy, as a high proportion of export and import trade was conducted with Japan, as reflected by the fact that by the late 1930s 84 per cent of Korean exports went to Japan, while a very large part of Korean imports also originated in Japan.(Booth, 1999: 306 – 307).

In June 1950, only five years after the end of the Japanese occupation, the North Korean army invaded South Korea. The ensuing civil war between North Korea, aided by Chinese 'volunteers' from the People's Republic of China, and South Korea, aided by United Nations forces, primarily American troops, lasted three years and devastated both South and North Korea and costs the lives of millions of Koreans. In mid-1953 a truce was called between the two contending forces, although until today no peace agreement has been signed by the two contending parties.

In 1953 South Korea had an even lesser industrial base than Taiwan had in 1949. South Korea did not reach a per capita income of \$ 1.000 per year until 1963, a decade later than Taiwan. During the Japanese occupation, the Japanese had tamed the Yalu river (bordering China) in the 1930s by building enormous hydroelectric stations, which generated 90 per cent of all of Korea's electricity, and nearby built large chemical plants for the production of fertilizers and munitions. But when the country was divided after the end of the Japanese occupation, all of these facilities went to North Korea. South Korea, on the other hand, until then the nation's breadbasket, had little electric power and little industry aside from textiles (Vogel, 1991: 43).

The Korean push towards industrialization began in earnest after 1961, when General Park Chung Hee through a military coup came to power. General Park (later President Park) was dedicated to rapid economic development and was determined that after the end of American aid, South Korea should be able to produce the goods required for national defense. President Park wanted to improve the life of the common people suffering from poverty, and he also realized that he needed economic progress to defend his political base against those who regarded his seizure of power as illegitimate, so he made economic progress his mission (Vogel, 1991: 51), a mission in which he succeeded spectacularly.

South Korea in the early 1960s was an underdeveloped and resource-poor country and politically unstable.

e. South Korea's economic planners, led by President Park Chung Hee, opted to pursue an export-oriented industrialization, rather than import substitution. South Korea also had the benefit of entering the world market at a favourable time when the advanced countries, particularly the US, were enjoying rapid growth. South Korea also enjoyed the legacy of Japanese-built roads and harbours, although it had also suffered the destructions of the Korean civil war (Kwack, 1990: 19).

South Korea's rapid economic progress, and particularly its export-oriented industrialization, was greatly aided by the emergence of powerful conglomerates (*chaebol*), such as Hyundai, Samsung, LG, Daewoo, and a few others, which had been nurtured and pushed into export-oriented industrialization by President Park. These Korean *chaebol* within a relatively short time were able to compete strongly and effectively with the products of the powerful Japanese business groups, and even gained market share in the world export markets of the Japanese companies. Korea's spectacular economic progress also enabled it to join the Organization for Economic Cooperation and Development (OECD), the world's 'rich men's club', as the second Asian country after Japan.

Taiwan

Like Indonesia, the Philippines and South Korea, Taiwan also emerged from colonial rule after World War II as a poor, agrarian economy with its physical infrastructure severely damaged because of wartime destruction and sheer neglect. In Taiwan, economic reconstruction was only started in the early 1950s, after the Kuomintang government, which had fled the Chinese mainland after its defeat by the communist army in late 1949, had consolidated its power on the island (Sadli and Thee, 1999: 383).

While both Taiwan and Indonesia have been classified as two of the high-performing Asian economies (HPAEs) by the World Bank in its famous but controversial report '*The East Asian Miracle – Economic Growth and Public Policy*' (World Bank, 1993), Taiwan's overall economic performance in terms of combining sustaining rapid economic growth with equity has been superior to that of Indonesia. (Sadli and Thee, 1999: 384).

Following China's defeat during the Sino-Japanese war of 1894-1945, Taiwan became a Japanese colony from 1895 to 1945 and during this period had traded almost exclusively with Japan and Japan's other colonies, including Korea and Manchuria. The Japanese colonial government also spent considerable resources on the expansion of rural infrastructure, such as roads, irrigation, and power, as well as institutional infrastructure, such as agricultural research, experiment stations, and farmers' associations. As a result of these investments, rice yields on average rose by four per cent a year during the period 1921 – 1937 (Ranis, 1995: 511).

During the Japanese occupation the Japanese authorities had built a relatively modern physical infrastructure in the form of roads, railways, harbours, and the like to build on (Myers, 1990: 17). During Japan's colonial rule Taiwan had imported textiles and other manufactured products from Japan and had exported, in return, sugar, rice, and pineapples. After its defeat, Japan could no longer afford to buy Taiwan's exports. Even after Japan had started its economic recovery, it lacked foreign exchange and chose to limit imports from Taiwan (Vogel, 1991: 14).

When in 1949 Chiang Kai-shek retreated to Taiwan along with over one million mainland Chinese, the island's economic prospects did not seem bright. Although Taiwan's bombing damage from the Pacific War had been largely repaired and its GNP was approaching prewar levels, its average per capita was still below US\$ 100 a year. Except for some small textile factories, a few modern sugar refineries and other food-processing plants, Taiwan had no industrial base (Vogel, 1991: 13).

However, in Taiwan the Kuomintang government did have several advantages, some fortuitous, and some achieved by policy and effort, that helped make industrialization successful, both in the 1950s and later. By the mid-1950s the building blocks for rapid industrialization, including political stability, control of inflation, and the rapid development of family agriculture, and a moderate well-developed physical infrastructure and adequately trained human resources, were in place. As a result, Taiwan's manufacturing industries were able to make a good start in producing goods for local consumption (Vogel, 1991: 14).

However, when the domestic market was already saturated with good produced for import substitution, the Taiwan economy began to stagnate. Consequently, in early 1960 the Taiwan government announced a Nineteen Point Program for Economic and Financial Reform that included an expanded four-year economic plan for 1961 – 1964 and a program of incentives for private business that produced and marketed for export. This effort proved to be highly successful (Vogel, 1991: 23), and in subsequent years led to rapid and sustained economic growth fuelled by export-oriented industrialization, particularly by small and medium-scale enterprises (SMEs). While the percentage of manufactured exports in Taiwan's total exports had risen from a mere 8 per cent in 1953 to nearly 94 per cent in 1985, no less than 65 per cent of these manufactured exports were generated by Taiwan's highly competitive and skill-intensive SMEs (Lui and Qiu, 2001: 61).

While in 1960 Taiwan's per capita GDP was only 1,258 international dollars (of 1985), in 1992 it had risen to 8,211 1985 international dollars, which amounted to an average annual growth of 6.3 per cent (Booth, 1999: 302-21), which was higher than the other Northeast and Southeast Asian countries, and only slightly lower than that of Singapore and South Korea with an average annual growth rate of 6.9 per cent, a rate which was generally sustained until the present, particularly as the economic and survival prospects for Taiwan have recently improved with the recent signing of the Economic Cooperation Framework Agreement (ECFA) with the People's Republic of China.

Conclusion

This paper has provided a brief discussion of the role of the state in the transition from colonial rule to sovereignty in Indonesia and has compared it with the role of the state in four other East Asian countries, namely the Philippines and Singapore in Southeast Asia and South Korea and Taiwan in Northeast Asia. Of these five countries, Indonesia's economic performance during the early 1950s was satisfactory, but very poor during the early 1960s. It was only with the establishment of a strong and highly centralized state under the authoritarian rule of President Suharto in 1966 that the Indonesian economy since the late 1960s finally embarked on a rapid path of economic growth, averaging 7 per cent annually, which in general was sustained during the next three decades through 1996, until it was hit by the Asian Financial Crisis of 1997/1998.

Of the four other East Asian countries, the economic prospects of the Philippines during its early independence period appeared to be the most promising, as it was the first Southeast Asian country which had embarked on industrialization. However, during the next few decades the Philippines' economy faltered, recording only sluggish growth during the next few decades as the state was wrecked by political instability and rebellions by communist and Moslem insurgents in the southern island of Mindanao. Even more important, the Philippine political system has made it difficult for pro-economic reform lobbies within the bureaucracy, except for the National Economic and Development Authority (NEDA), to push through needed economic reforms. (Balisacan and Hill, 2003: 19).

In contrast, because of strong and farsighted leadership which were able to establish strong and cohesive states, Singapore, South Korea and Taiwan were able to embark on a path of rapid and sustained economic growth fuelled by rapid export-oriented industrialization which had transformed these economies into newly industrialized economies (NIEs) by the 1980s.

While Indonesia's economic performance has in general been better than that of the Philippines, it has thus far not been able to match the performance of Singapore, South Korea and Taiwan in terms of rapid export-oriented industrialization and overall economic and social development.

(7,778 words).

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