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Indonesia's Development Policy in Historical Perspective

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Abstract: Over the past 40 years, Indonesia's development policy has sought to simultaneously resolve the three issues of "sustained growth," "distribution and poverty reduction" and "stability and security." There have always been conflicts in the direction of policy (ideology), between liberalism and nationalism in growth policy, socialism and familism in distribution policy, and democracy and authoritarianism in stability policy. In economic crises, liberalistic growth policy was adopted, and when fiscal funds were of plenty a nationalistic growth policy was adopted along with the implementation of socialistic and familistic distribution policies. In this respect, growth policy is the centerpiece of development policy, and distribution policy has been widely implemented during economic prosperity. After democratization, liberalistic growth policy and democratic stability policy become the twin pillars of development policies. These are combined with the right balance of socialistic distribution policy to provide stability to the country.

Keywords: Development policy; policy-making process; Soeharto regime; democratization

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1 Introduction

This paper aims to macroscopically look back on the past 40 years of development policy in Indonesia and analyze its characteristics and changes. We seek to find answers in to questions such as what was Indonesia's development policy aimed at, what kind of policy conflicts existed in development policy-making, how has development policy been changed, what factors had an impact on this, and who has been involved in development policy-making through what kind of process.

Below, we first define development policy and then examine the Development Trilogy (*Trilogi Pembangunan*) that have been the basic objectives in development policy over the past 40 years as well as policy conflicts within these three central issues and how they have been changed. Second, we analyze differences in policy direction that form the backdrop for such policy conflicts along the lines of policy ideology and policy-making groups. Third, we consider the international and domestic factors that make a particular policy direction superior at one time, and the policy-making structure in which those factors are translated into concrete policies. Finally, we analyze relationship among policy directions under the Soeharto regime and how it has changed since democratization.

2 Categorization of Development Policy

2.1 The Development Trilogy

“Development” is to cause the alternation of a human-being, society, or the state through the application of force from the outside. From around the mid 1960s, Southeast Asian countries formed authoritarian “developmental regimes” to efficiently induce economic development while mobilizing all the people for conducting development along with obtaining their support for the state-led development.

The “developmental regime” in Indonesia was created with the launch of the Soeharto's New Order (*Orde Baru*) in 1966. Soeharto presented “development” as a centerpiece of national goals and attempted to justify its authoritarian rule and its own hold on power through the achievement of these goals.

The issues tackled by the development policy of the Soeharto government are expressed in the Development Trilogy (*Trilogi Pembangunan*). This principle was adopted when full-scale development policy began to be implemented in the second 5-year development plan (*Repelita*) after the first 5-year development plan starting in 1969 succeeded in stabilizing the economy. The Development Trilogy consisted of:

- (1) Sufficiently high economic growth
- (2) Development aimed at realizing social equity among all citizens and equity of

the results

(3) Sound and dynamic national stability

Indonesia's development was conducted in order to resolve these three issues. Throughout the Soeharto era, these three principles served as basic standard for the formulation of development policy.

The Soeharto government gave priority to achieving high economic growth over the long term through agricultural development and industrialization. Economic growth was supposed to create sufficient employment opportunities and to improve the living standard of the people. Meanwhile, with implementing distributive policies to develop human resources conducive to economic growth and extend the fruits of growth to the entire country, the Soeharto government aimed to obtain support for development policy from the people. Furthermore, stability of the country was essential for securing a platform for smoothly implementing development policy. Indonesia's development was supposedly made possible only if these three principles were implemented simultaneously.

2.2 Three Policy Issues in the History of Development Policy

The economic crisis and democratization of 1998 greatly changed the process of development policy-making. Under the Soeharto government, development policy was formulated in 5-year development plans based on the Broad Outlines of Government Policy (GBHN) stipulated by the People's Consultative Assembly (MPR), the country's highest authority. During a period of democratization, when the MPR had no more authority to outline the course of government activities, the Megawati government introduced the national development programs (*Propenas*). And finally, Susilo Bambang Yudhoyono, the first directly-elected president in the history of Indonesia, drafted policy through the formulation of National Medium-Term Development Plans (RPJMN) based on the electoral promises made by the President. Amid this change, the concept of the Development Trilogy fell out of use. In the three post-Soeharto governments of B.J. Habibie, Abdurrahman Wahid and Megawati, the highest priority was given to recovery from the economic crisis, a return of economic stability, and democratization. The Yudhoyono government which has been expected to restart full-scale development also advocates in his campaign pledges "peaceful, fair and prosperous Indonesia," which is not necessarily consistent with the Development Trilogy.

However, the development issues to be carried out in accordance with the pledges made by the Yudhoyono government shows clear continuity with the issues that have existed since the Soeharto government. For example, the "100 Day Agenda" drawn up to outline policy issues to be tackled immediately after the launch of the Yudhoyono government states that the realization of a "prosperous Indonesia" is the highest priority,

clearly stipulating that fair and sustained economic growth is to be achieved through improvement of the investment environment, recovery and maintenance of macroeconomic stability, improvement and reform of the activities of small and medium enterprises and cooperatives, and policies for elimination poverty. For the Yudhoyono government, achievement of economic growth and the elimination of poverty are both essential aspects of development policy, and the “prosperity” achieved through economic growth and poverty reduction should be accompanied by stability through “peace” and “fairness.”

Macroscopically looking back on the past 40 years of development policy in Indonesia, it can be seen that the three above-mentioned policy issues have always been present. In this paper, we classify the three policy issues into “sustained growth,” “distribution and poverty reduction,” and “stability and security.” In the following sections, the policies applying to each of these issues shall be referred to as “growth policy,” “distribution policy” and “stability policy.”

3 Policy Conflicts and Changes in Development Policy

3.1 Three Policy Issues and Policy Conflicts in Development Policy

Since the Soeharto’s New Order, development issues to be addressed by the government have comprised the three pillars of growth, distribution and stability. However, conflicts between policy orientation (ideology) and ideas arise in the process of converting these orientations to specific policies. These conflicts are divided into two, depending on how broadly to assume support base for the government implementing development policy (Table 1). That is, conflicts between policy orientations within each of the development policy issues are caused by differences between those who aim to obtain support from all of the country’s people and those who consider it more important to obtain support from some segments of the people such as certain classes, ethnic groups and regions (See section 4 in this paper for details on each of the policy orientations).

Table 1 Categories of Development Issues and Policy Conflicts

Development Issue Support Base	Sustained growth	Distribution and poverty reduction	Stability and security
Entire population (expanded)	Liberalism	Socialism	Democracy
Some of population (concentrated)	Nationalism	Familisim	Authoritarianism

(Source) Created by Kawamura.

3.2 Changes in Development Policy

Each of the three pillars of growth, distribution and stability in development policy has subcategories that are constantly in conflict. However, this does not mean that the same weighting is always applied to them. The subcategories oppose one another and are affected by external factors such as the international environment and the political and economic conditions at the time, raising and lowering their weighting within development policy.

For example, during the Soeharto regime, the weighting of growth and distribution policies went through the phases of (1) liberalism during the economic recovery of 1966-1969, to (2) nationalism, socialism and familism during the oil boom of 1974-1982, (3) liberalism during the structural adjustment period of 1983-1988, and (4) nationalism and familism during the high-growth period of 1989-1996 (Table 2).

The weighting placed on liberalistic growth policy increased during economic crises such as in the periods of (1) and (3). In times of economic hardship, the government is forced to ask for financial assistance from developed countries and international organizations, but those donors require structural reform as a condition for providing aid. Furthermore, the government must work to open up bottlenecks in the domestic market by promoting export-oriented industries and foreign direct investment through liberalization.

However, in times of continued economic growth and when there is a large influx of capital into the country such as in the periods of (2) and (4), there is room to adopt nationalistic growth policy. As policies aimed at selective protection and development of domestic industries need priority allocation of national resources, they are extremely difficult to adopt in times of economic hardship. However, a large amount of capital flowed into the country during the oil boom in the period of (2) and the period of high growth in (4) in the form of oil revenue and foreign loans. These funds were used to implement nationalistic growth policy.

Distribution policy is also only possible when there is a surplus of national resources. Because of this, it is difficult to implement large-scale distribution policy in times of economic hardship such as in the periods of (1) and (3) above. Put differently, distribution policy is observed in the same periods as nationalistic growth policy. However, the Soeharto government needed to obtain political support for development from the people so that socialistic distribution policy was continually implemented to improve the welfare of the general public (Table 3). In contrast, familistic distribution policies that have a strong tendency to distribute wealth to certain groups and regions were characteristically seen when the economy was strong and there was a surplus in national resources.

Meanwhile, the only option available for the stability policies adopted by the

Soeharto government was authoritarian stability policy in order to support the “development regime.” Furthermore, the international environment of the Cold War supported the continuation of this policy. For the Soeharto regime, securing stability through authoritarian policy was a basic premise for the implementation of growth and distribution policies.

Table 2 Policy Conflicts and Changes in Development Policy of Indonesia

Policy Category	Sustained Growth		Distribution and Poverty Reduction		Stability and Security	
Ideology	Liberalism	Nationalism	Socialism	Familism	Democracy	Authoritarianism
Object of Gaining Support	All people	State, Pribumi	All people	Pribumi, specific groups	All people	Political elite
Subject of Policy	Private capital (foreign, ethnic Chinese)	State-owned enterprises Private capital	Lower and poorer classes	Pribumi entrepreneur, small and medium enterprises, cooperatives	Electorate, political parties, government, legislature, judiciary	President, bureaucrats, military
Policy Tools	Macroeconomic policy Agricultural development policy Deregulation policy Export promotion policy	Agricultural policy Protection of domestic industry (Import substitution policy) Regulatory policy	Social policy (Education, health, population) Poverty reduction, rural development	Protection of domestic industry Regulatory policy Regional development policy	Democratic elections Separation of powers Rule of law Decentralization	Restriction of political freedoms Depoliticization of the people Monitoring by security organizations Control by administrative organizations
Implementation Period	1950- Remnants of colonialism			1950- Party politics	1950- Parliamentary democracy	
	1950s	1959- Nationalization and regulation		1959- Sukarno's politics		1959- Guided Democracy
	1960s				1965 New Order	1966- Suharto's regime
①	1966- Economic recovery		1969- Inpres			1973 Forced merger of political parties
	1970s	1971 Establishment of Krakatau Steel	(Villages, regencies, schools)		1974 Malari Incident	
②	1975 Pertamina crisis	1974 Oil boom 1976 Asahan project started 1978- Development of strategic industries	1974- Inpres (Provinces, health, market, etc.)	1974- Foreign investment restrictions, priority given to Pribumi		
	1980s			1980 Priority given to Pribumi		1985 Five political laws passed
③	1983- Structural adjustment 1984 Rice self-sufficiency achieved		1984 Compulsory elementary education introduced		1989 Debates on opening politics	
	1990s	1989 Set-up of Strategic Industries Management Agency (BPIS)				
④		1990- High growth		1990- Eastern Indonesia development Transfer of shares to cooperatives Priority given to Soeharto's Family		
	1997 Financial crisis		1994- Inpres for less-developed villages		1996 July 27 Incident	
	2000-				1998- Democratization	
	2004- Economic recovery	2003- Economic recovery			2001 Decentralization	
	2020				2004 Presidential election 2005 Election of regional heads	

(Note) The shaded areas denote period in which the policy shown was effective.

(Source) Created by Kawamura.

Table 3 Development Expenditure by Sector (1st-5th 5-year Development Plan)

	(Rp billion)									
	5-year Development Plan (<i>Repelita</i>)									
	1st 1969-74		2nd 1974-79		3rd 1979-84		4th 1984-89		5th 1989-94	
1. Agriculture and irrigation	219.5	20.3%	1,558.1	20.8%	4,049.0	13.2%	6,994.1	13.6%	10,120.3	9.0%
2. Industry	16.1	1.5%	353.0	4.7%	2,429.1	7.9%	2,705.3	5.3%	5,850.7	5.2%
3. Mining and energy	95.9	8.9%	640.4	8.6%	4,582.3	14.9%	8,486.7	16.5%	14,768.1	13.2%
4. Communications and tourism	212.4	19.7%	1,169.4	15.6%	4,013.1	13.0%	8,185.9	16.0%	27,810.5	24.8%
5. Trade and cooperatives	--		25.5	0.3%	378.8	1.2%	1,477.5	2.9%	2,585.1	2.3%
6. Labor and transmigration	3.2	0.3%	123.6	1.7%	1,649.8	5.4%	1,693.4	3.3%	3,181.2	2.8%
7. Regional/village/urban development	189.6	17.5%	1,005.0	13.4%	1,863.1	6.1%	4,698.6	9.2%	12,367.0	11.0%
8. Religion	3.8	0.4%	26.8	0.4%	181.3	0.6%	207.2	0.4%	250.7	0.2%
9. Education and culture	77.4	7.2%	684.4	9.2%	3,233.0	10.5%	5,812.8	11.3%	10,074.9	9.0%
10. Health, welfare, population, family planning	25.1	2.3%	215.1	2.9%	1,028.4	3.3%	1,444.9	2.8%	3,945.0	3.5%
11. Housing and land	37.8	3.5%	164.2	2.2%	649.7	2.1%	1,286.9	2.5%	3,544.6	3.2%
12. Law	5.5	0.5%	30.8	0.4%	210.4	0.7%	244.2	0.5%	685.9	0.6%
13. Defence and security	27.6	2.6%	284.4	3.8%	2,120.4	6.9%	2,523.7	4.9%	3,262.4	2.9%
14. Press and information	9.9	0.9%	65.4	0.9%	220.4	0.7%	172.7	0.3%	1,451.7	1.3%
15. Science, technology and research	--		137.6	1.8%	568.0	1.8%	1,296.1	2.5%	1,824.8	1.6%
16. State apparatus	35.5	3.3%	212.6	2.8%	964.2	3.1%	1,471.4	2.9%	2,389.7	2.1%
17. Corporate development	121.1	11.2%	779.9	10.4%	1,750.0	5.7%	1,512.5	2.9%	5,452.8	4.9%
18. Natural resources, environment	--		--		862.8	2.8%	1,079.3	2.1%	2,488.2	2.2%
Total Development Budget	1,080.4	100%	7,479.2	100%	30,753.8	100%	51,293.2	100%	112,053.6	100%

(Note) The shaded areas are sectors corresponding to distribution policy.

(Source) Sumodiningrat [2006:107].

However, the collapse of the Soeharto regime and the accompanying democratization brought about significant changes in the internal and external environment surrounding development policy and in the policy options available. Democracy became the only viable option for stability policy both internationally and domestically. With regard to distribution policy, familistic policy is being negated as a contradiction of globalism and democratic values while there is a possibility that the political demand for socialistic policy will increase. Globalism and liberalism have been positioned as international standards in growth policy, and it could be said that there is less room to implement nationalistic policy (See section 5 in this paper for details on the factors affecting the transformation of development policy).

We have seen the transformation undergone by the subcategories of development policy, but this brings us to the question of what political weighting was assigned to the three development issues of growth, distribution and stability. Looking back on the history of development policy, even with liberalism and nationalism constantly in conflict, growth policy has always taken a central position. In contrast, consideration has always been given to socialistic policy, but distribution policy has basically been given increased weighting when the economy is strong and the country has a surplus of economic resources. Distribution policy became a priority issue in development with equal or even greater weighting than growth policy in the period between 1990 and the Asian financial crisis (Sumodiningrat [2006: 64-65]). On the other hand, it could be said that stability policy has always been a necessary issue, serving as the “infrastructure” for implementing growth and distribution policy.

4 Ideology and Policy Makers in Development Policy-making

Differences in policy orientation regarding development policy are caused by conflicts in ideology and ideas concerning what should be done to achieve development. However, these also create differences in policy tools and targets (who policy affects). Moreover, these naturally reflect differences in policy makers and in the organizations and institutions to which they belong. Below, we consider the types of ideology supporting each policy orientation and who made each policy.

4.1 Conflicts in Sustained Growth Policy

(1) Liberalistic growth policy

Liberalism is the doctrine that advocates the greatest possible use of markets and the force of competition to coordinate economic activities and achieve the most efficient way to distribute resources. This could be considered to be the stance closest to the neoclassical approach in modern economics. The role of the government is to ensure macroeconomic stability and guarantee free economic activities through deregulation, trade liberalization, and the establishment of the legal framework on property and contract. It is irrelevant for the government whether the actors in economic activities are domestic private enterprises, foreign enterprises or ethnic Chinese enterprises, as long as the enterprises that survive competition drive the economy and create jobs.

The drafting of such liberalistic sustained growth policies is mainly carried out by a group of economists referred to as technocrats. They emerged on the stage of Indonesian politics as a policy group when the Soeharto regime began. As many of them have doctorate degrees from the University of California, Berkeley, they have become known as the Berkeley Mafia¹.

They joined the cabinet when Soeharto's first cabinet was launched in 1968, and were charged with handling the economy. The posts assigned to the technocrats were the Coordinating Minister for Economy and the top positions and director-general level positions in macroeconomic government agencies, including the Ministry of Finance, the National Development Planning Agency (Bappenas) and the Bank of Indonesia (the central bank). Soeharto charged them with policy-making of economic stability policy, development planning and repayment of foreign debt. They were successful in quickly reviving the chaotic economy, and gained much trust from President Soeharto. As a result, technocrats accounted for half of the cabinet members in the 1970s, and were

¹ The main members of these economic technocrats were the five economists that formed the Team of Economic Experts to the President called together by Soeharto in September 1966 to achieve economic recovery and stability. Their names were Widjojo Nitisastro, Ali Wardhana, Mohammad Sadli, Emil Salim and Subroto. Of these, Widjojo Nitisastro, Ali Wardhana and Emil Salim had doctorates from Berkeley.

completely charged with economic matters. Since then, technocrats were given complete charge of macroeconomic policy, and played particularly significant roles during periods of economic trouble such as the Pertamina Crisis, the economic recession and structural adjustments after the oil boom, and the Asian financial crisis.

Technocrats proceeded with macroeconomic policy backed by close relations with developed countries and international organizations. In this respect, economists belonging to international organizations such as the World Bank and the IMF played significant roles in the process of drafting liberalistic growth policy. Furthermore, economists from foreign universities and research institutes such as the Harvard Institute for International Development and Western consulting firms also provided advice to technocrats from the same economic background, and were deeply involved in the formation of policy. Along with the Berkeley Mafia, they formed a large policy group sharing a common background of neoclassical economics.

However, the position of the technocrats began to weaken from around the time Widjojo Nitisastro and Ali Wardhana left the cabinet when the sixth cabinet was launched in 1993, and no technocrats from the University of Indonesia were appointed to the cabinet in the Abdurrahman Wahid government that began after democratization. However, this led to deterioration in the relationship with the IMF, resulting in a reaffirmation of the role of technocrats and the appointment of a new generation of economists such as Boediono, Sri Mulyani and Mari Pangestu in the cabinet of the Yudhoyono government.

(2) Nationalistic growth policy

Nationalism is very strong in Indonesia. Nationalism is a movement that holds the maintaining national independence and unity and political and economic development as the highest values. Economically, this is aimed at increasing national power through active government participation and intervention in economic activities. Nationalism in Indonesia also demands the government's active intervention in economic activities.

State bureaucrats were the ones responsible for market intervention policies by the government backed by nationalistic ideology. In particular, technologist bureaucrats and engineering-educated political elite later referred to as technologists wielded great power in the drafting of nationalistic policy. They are represented by Ibnu Sutowo, who headed the State Oil Company, Pertamina, that implemented a large-scale national project in the early 1970s; Ministers of Industry such as A.R. Soehoed, who advocated sector-based industrial policies and interindustry relation policies, promoting the aluminium industry project centered on the aluminium smelting plant operating in Asahan of North Sumatra since the mid 1970s, and Hartarto; State Minister of Research and Technology B.J. Habibie, who promoted big projects involving aircraft,

shipbuilding and weapons from the 1980s onwards with the aim of building an advanced technology industry; and Ginandjar Kartasasmita, who served as Minister of Mining and head of Bappenas.

However, with the advance of globalization, there became less room for the nationalistic policies advocated by these technologists. In addition, no new generation of technologists has emerged after Habibie and Ginandjar. Rather, the ones beginning to implement nationalistic policy in their place are the entrepreneurial politicians that began to emerge in the 1990s. In recent years, entrepreneurs such as Jusuf Kalla, Aburizal Bakrie and Fahmi Idris were assigned positions such as Coordinating Minister for Economy and Minister of Industry. The parliament and the court also increased their influence over the policy-making process after democratization, and they are increasing their presence as actors with nationalistic policy orientation.

4.2 Conflict in Distribution and Poverty Reduction Policy

(1) Socialistic distribution policy

Socialism places the highest emphasis on increasing public welfare at a grassroots level. Such an approach claims that the promotion of agriculture and industrialization of rural areas can be achieved by directing government budget and investments toward rural areas, and that social change can be brought about in rural areas through social and cultural development.

The history of socialistic ideology in Indonesia can be traced back as far as the establishment of *Pendidikan Nasional Indonesia* (the Association of Indonesian National Education) by Sjahrir and Hatta in 1932. After independence, the Indonesian Socialist Party (PSI) established by Sjahrir became an organizational base for socialistic ideology, from which emerged Soedjatmoko, who served as the ambassador to the United States and the Rector of the United Nations University, and Sarbini Sumawinata, who advocated *Ekonomi Kerakyatan* (people's economy). Their claims had a profound impact on intellectuals outside the Socialist Party.

Under the Soeharto government, whose economic policies were based on capitalism, there were few opportunities for such socialists to directly participate in the policy-making process, but their advocacy of emphasis on social welfare had a major impact on the introduction of the Presidential Instruction Program for Primary Schools (*Inpres SD*) and played a certain role in the formulation of the government's distribution and poverty reduction policy (Sjahrir [1986: 103]).

Meanwhile, the technocrats that had drafted liberalistic sustained growth policy also saw the need for the improvements in people's social welfare advocated by Sarbini (Sadli [2007]). Technocrats based their approach on liberalistic economic management, but realized that unbridled capitalism would not resolve the issues of economic disparity

and poverty, and saw the need for the government to intervene in the market to provide social equality through means such as the redistribution of wealth. This is the reason the technocrats positioned equality as an important target in development, on par with growth and stability.

The technocrats believed that simply providing food and clothing was not enough to reduce poverty in rural areas, and that the fundamental roots of poverty could be eliminated by improving social infrastructure (Prawiro [1998: 174]). Based on this thinking, the National Development Planning Agency headed by Widjojo Nitisastro took center stage in the *Inpres* (presidential instruction) programs implemented to improve social capital in rural areas. President Soeharto, who was from a farm and was sensitive to the socioeconomic conditions in rural areas, also encouraged distribution and poverty reduction policy through *Inpres* directive such as the implementation of the 1969 Presidential Instruction Program for Villages (*Inpres Desa*).

(2) Familistic distribution policy

Familism is a social constructionist principle of “wise” leaders maintaining unity while feeling the aspiration of members in all organizations that exist within society, including state, military, bureaucratic organizations, companies and schools. The unity of leaders and members is compared to that of parent (*Bapak*) and child (*anak*) in a family, and “order and well-being” in the family is brought about when the subordinate-superior relationship between the two becomes one.

The ideology of familism originated from the nationalistic movement in Java during colonial times. This ideology was formulated by R.M. Soetatmo Soeriokoesoemo and Ki Hadjar Dewantoro, who founded the *Taman Siswa* nationalist school under colonial rule. This ideology of familism was incorporated into Article 33 of the 1945 Constitution in the form of “The economy shall be organized as a common endeavor based upon the principles of the family system.” The “common endeavor” here refers to cooperatives.

Policies such as the development of cooperatives and small and medium enterprises that are similarly economically weak often equates to the development of *Pribumi* (indigenous Malay) enterprises able to compete with the ethnic Chinese enterprises that had played a central role in the economy since colonial times. However, such policies had an extremely strong distributive nature more than being growth policies. Since the 1950s, the government has protected and developed *Pribumi* capital in the form of providing licenses, grants and low-interest loans to cooperatives and small and medium enterprises, but these measures had a strong aspect of providing gains to the elite on a regional and village level more than significantly contributing to the development of small and medium enterprises and *Pribumi* capital.

Furthermore, this ideology of familism functioned to justify raising illegal money and its distribution within the state apparatus, such as unfair collection of fees and bribes by the military and bureaucratic organizations, forced contributions to government-controlled foundations (*yayasan*), and procurement of kickbacks such as businesses with vested interests. However, when the children of Soeharto entered the business community in the 1980s, familism served to justify the privileged business activities of the Soeharto family. When the financial crisis hit Indonesia in 1997, dissatisfaction with the monopoly of the familism of the Soeharto family exploded, and was a major factor in pushing forward the collapse of the Soeharto regime.

4.3 Conflict in Stability and Security Policy

(1) Democratic stability policy

A narrow definition of democracy states that it is an ideology in which freedom of political expression and freedom of political participation are guaranteed to the people as basic human rights, representatives of the people are elected through free and fair elections, and the will of the people is reflected in the policy decisions and actions carried out through a legislature made up of the representative chosen in this way. However, a broader definition states that it is an ideology aimed at realizing democratic values, such as equality, fairness, justice, welfare and accountability.

In Indonesia, parliamentary democracy was observed during the nine years from 1950 under the 1950 Provisional Constitution that fully adopted Western constitutionalism. However, President Soekarno declared that the 1945 Constitution would be reinstated in 1959, creating an authoritarian regime in the name of “Guided Democracy” and resulting in the collapse of post-independence democracy².

The ideology of democracy became legitimate again when the Soeharto regime collapsed in 1998. With democratization, the legitimacy of the political regime changed from “development” (*pembangunan*) to “reformation” (*reformasi*) (Kawamura [2000]). Fundamental reviews of the political regime were carried out, and through four constitutional amendments between 1999 and 2002, the 1945 Constitution was almost completely transformed into a new constitution. It almost completely adopted the ideals and systems of liberal democracy, attempting to guarantee basic human rights, strengthen the legislature, limit the authority of the executive branch and strengthen its legitimacy through the introduction of direct presidential elections, establish systems for separating the powers by establishing a constitutional court and ensuring the

² The Soeharto government defined the regime as Pancasila Democracy, that is, “democracy which is wisely guided by consultation and representation” as stated in the preamble to the 1945 Constitution, but there was no difference compared to the Soekarno regime regarding the depoliticization of the people and authoritarian governance by the state institutions. In fact, Soeharto further refined the governing methods employed by Soekarno to ensure a long-term grasp of political power through more refined authoritarian governance.

independence of the judiciary, and promoting decentralization. The first parliamentary elections after democratization were held in 1999, and the second parliamentary elections were held along with the first direct presidential election in 2004, marking the completion of the institutional transition to democracy (Kawamura [2003]; Kawamura [2005]). However, many issues remain unresolved in order to realize democratic values, such as eliminating and preventing deep-rooted corruption, and settling past human rights issues. The realization of ideological democracy is essential for consolidating democracy in Indonesia.

Central roles in the institutionalization of democracy were played not only by the opposition politicians from the Soeharto era, the democratization movement leaders, NGOs and student activists. But the institutional reforms after democratization were actually led by the elite from within the regime during the Soeharto era. The one that actively promoted democratic reform ahead of constitutional amendments immediately after the collapse of the Soeharto government was President Habibie, who automatically rose to his position from Vice President, and the role played in constitutional amendment within parliament by Golkar, which was the ruling party during the Soeharto regime, was by no means insignificant. The military, while placing priority on maintaining its own power, also avoided opposing democratic reform as much as possible. That is to say, democratization in Indonesia has been achieved through agreement and compromise between the established elite and the anti-establishment elite.

(2) Authoritarian stability policy

An authoritarian regime is characterized by (1) limited pluralism only allowing political participation by individuals and groups acknowledged by the state; (2) legitimization of authority through a conservative and traditionalist mentality instead of systematic state ideology; and (3) low level of political mobilization through limited political mobilization and the depoliticization of the people.

The Soeharto regime that began in 1966 maintained its hold on power over a long period through authoritarian governance as characterized by (1) limited pluralism only allowing political participation in two parties and one group (United Development Party (PPP), Indonesian Democratic Party (PDI), and Golkar); (2) legitimization of power through nationalism, anti-communism and developmentalism; and (3) depoliticization of the people through floating mass theory. In particular, because the Soeharto regime was characterized by the mobilization of national resources based on developmentalism and the sharing of developmentalism among the people, it is referred to as a “developmental regime.”

Soeharto’s developmental regime was institutionally supported by the military

and security organizations, interior administration, and Golkar. Soeharto controlled the military through organizational reform and personnel assignments, and put the military in control of domestic security (territorial management) through the regional command of the armed forces. Interior affairs bureaucrats conducted administrative and political supervision on a regional level in cooperation with the military. In order to justify such heavy-handed rule, superficial elections were conducted once every five years, but the government's manipulation of the electoral system and the party system ensured that the ruling Golkar always won.

However, with democratization in 1998, authoritarian stability and security policy was completely rejected. Now, there is no argument for justifying authoritarian policy internationally or domestically. During the post-Soeharto period, the transition to democracy advanced, and political forces seeking interests in authoritarian governance were almost completely eliminated. It could be said that authoritarianism has almost completely lost its strength as an ideology opposing democratic policy.

5 Factors Determining Changes in Development Policy

As indicated in section 3.2, the policies that have an advantage in the development policy conflicts are determined by international and domestic environmental factors. However, external factors do not directly determine policy outcomes. These factors are converted into actual policy through the structure of development policy-making process. Here, we consider the external environmental factors promoting changes in development policy and the policy decision structure that converts environmental factors into actual policy outcomes.

5.1 Development Policy and External Factors

(1) Development policy and the international environment

International factors influencing growth policy and distribution policy include trends in economic thought and globalization. When the Soeharto regime was being formed, economic policy was based on economic liberalism mainly advocated by the World Bank and the IMF, but there was still much leeway for acknowledging intervention by the government. However, the failures of import substitution industrialization in many developing countries and accumulated debt issues have emerged to make neoclassical economics the orthodoxy in economic policy. Meanwhile, economic globalization advanced in the 1990s, making the transfer of goods, money and people easier, and developing countries were faced with the need to actively attract external capital and participate in international production networks. If a country takes too long to fulfill the needs, there is a greater probability that it will be left behind by

the wave of economic development. Because of this environmental change, nationalistic growth policy and familistic distribution policy are losing their viability in development policy.

Meanwhile, the international factors that had a significant impact on stability policy are the Cold War and worldwide democratization. During the Cold War, as there was no interference in internal politics by the United States and other Western countries as long as the government was anti-communist, questions were not asked of whether authoritarian stability policy was right or wrong. However, in the post-Cold War world where the universality of democracy began to be shared internationally, there is almost no room to implement authoritarian stability policy in development policy.

(2) Development policy and the domestic environment

The domestic factor that had the largest impact on growth policy and distribution policy is the economic situation that influences the size of resources held by the state. In particular, the price of natural resources on the international market has an extremely large impact on the domestic economy of a resource-rich country such as Indonesia. If the price of natural resources rises, funds coming into national coffers also increase, and the government has the leeway to adopt major nationalistic growth policies and distribution policies that require the input of national resources.

The relationship between democratization and the selection of domestic policy is not that simple. As the government needs to create jobs, a liberalistic policy is required. Meanwhile, socialistic distribution policy to guarantee the minimum level of living for the people is also required in order to obtain political support. In addition, the need for nationalistic growth policy and familistic distribution policy are expressed through the parliament and the court.

With the diversification of power through democratization, actors with a variety of policy orientations and political interests have come to participate in the policymaking process. The government is faced with a need to coordinate complex interests.

5.2 Development Policy and Policy-making Mechanisms

(1) Development policy-making mechanism in the Soeharto era

Policy-making mechanism functions to convert above-mentioned international and domestic environmental factors into actual policy. As stated above, liberalistic growth policies were adopted in economic downturns and times of crisis during the Soeharto era, but nationalistic growth policies and familistic distribution policies have been adopted when the economy has been strong. Socialistic distribution policy was basically adopted when the economy is strong, but it had continued to be used on a

smaller scale during other periods. This cycle was created by the “segmented policy space in which President Soeharto is a balancer” under the Soeharto regime (Figure 1).

Needless to say, President Soeharto was the highest authority in policy-making during his regime. Soeharto had policy-making groups with different policy orientations under his power, and he decided which group to grant policy initiative according to the domestic and international political and economic conditions at the time.

Under Soeharto, there was a group of technocrats that drafted liberalistic growth policy and socialistic distribution policy. They did not have any political platform under the Soeharto regime, but they were able to autonomously draft policy because they were given institutional spaces isolated from other groups, such as Bappenas, the Coordinating Minister for Economy, and the Ministry of Finance.

On the other hand, groups such as technologists handling nationalistic growth policy were given institutional spaces such as the Ministry of Industry, Pertamina, the State Ministry of Research and Technology and the Strategic Industries Management Agency, enabling them to draft policy without interference from technocrats.

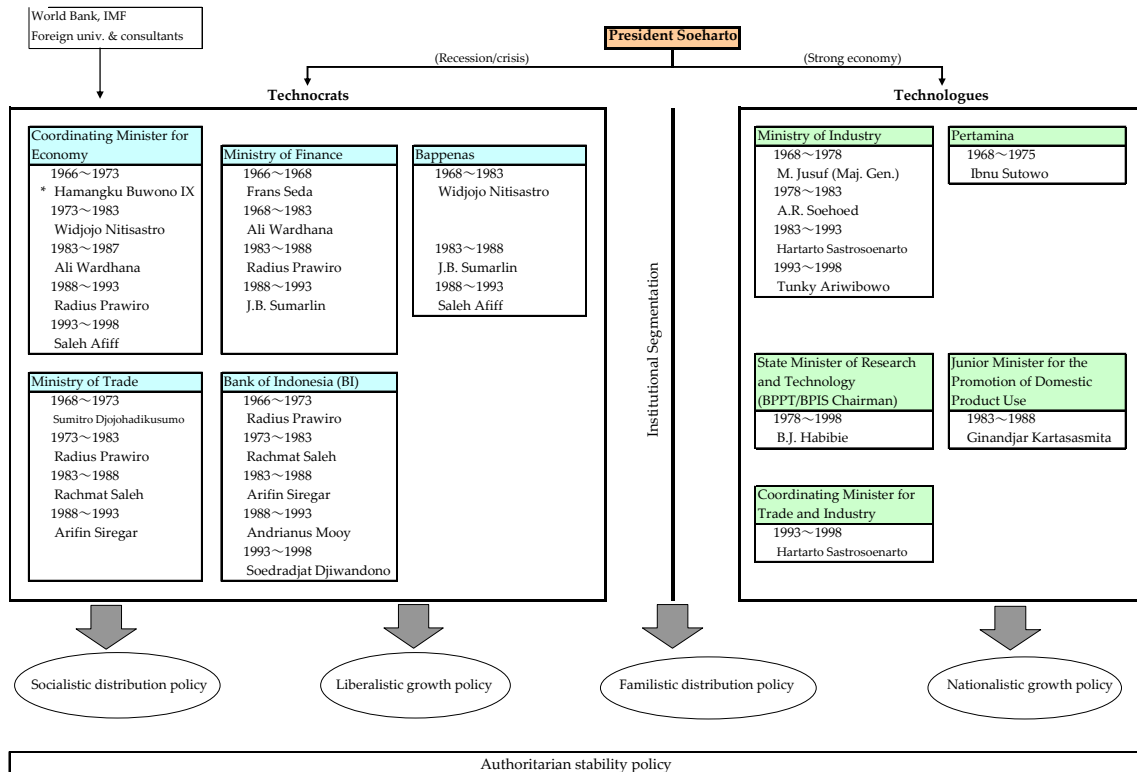
Furthermore, in familistic distribution policy Soeharto himself and the surrounding political elite are direct policy-making groups, and entrepreneurs with personal links to them use their connections to receive permits and priority allocation of interests, providing funds to political elite in return.

President Soeharto charged technocrats with policies such as macroeconomic management and overcoming economic crises, and when national resources such as oil revenue increased, the funds were provided to technologists and some of the political elite for use as government grants in massive national projects. As there were institutional partitions between these policy groups, each group was autonomous, but they were unable to interfere with other groups even if the policies adopted do not comply with their own policies. It was Soeharto himself who acted as an agent for policy changes.

(2) Development policy-making mechanism after democratization

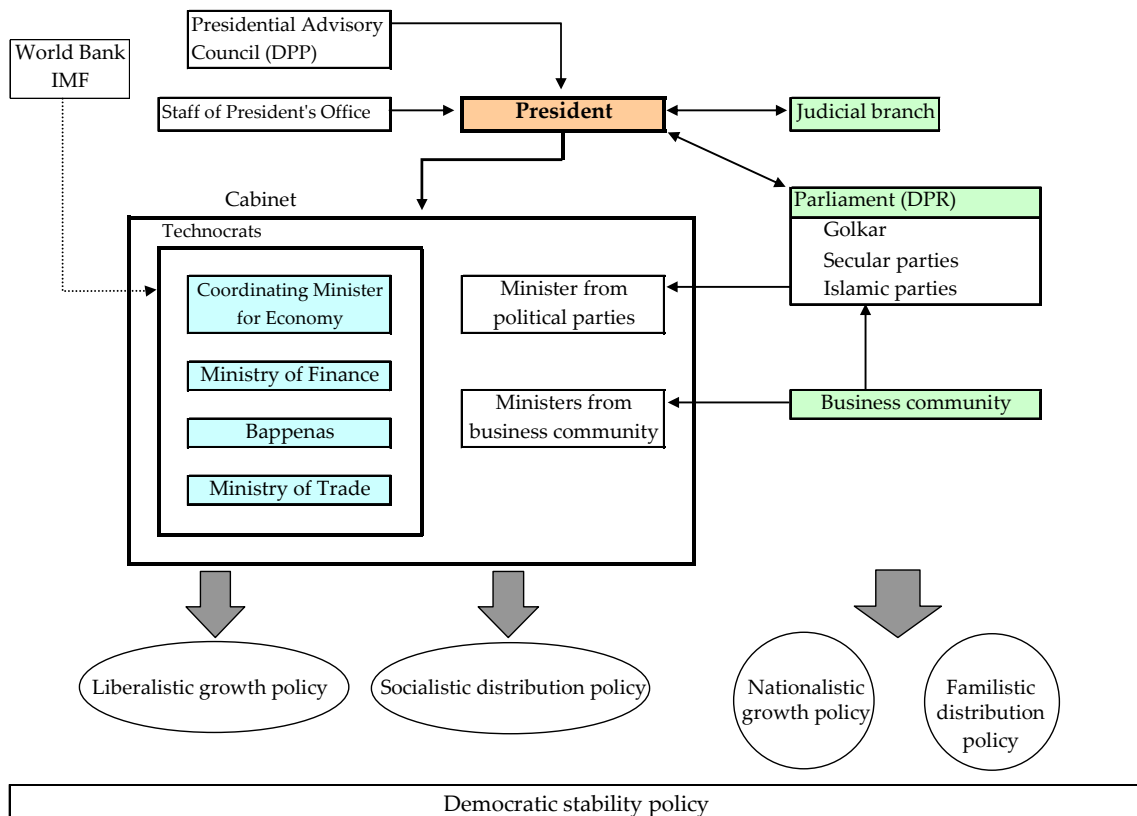
With the coming of democracy, President Soeharto left the political stage as a balancer. The President still plays the most important role in policy-making, but the division of power has forced the President to coordinate with the legislature and judiciary that were not present in the Soeharto era, and to respond to demands made by the business community and society. In these conditions, the President is building a system for ensuring autonomy of the executive branch in order to dynamically implement policy responses. For example, attempts to assign councils and policy advisors directly under the President are an indication of the President’s intentions to increase autonomy by strengthening the President’s Office (Figure 2).

Figure 1 Development Policy-making Mechanism in the Soeharto Era



(Note) Hamangku Buwono IX was not a “technocrat,” but at the beginning of the Soeharto regime, he played a role as a barrier protecting technocrats from political pressure.
 (Source) Created by Kawamura.

Figure 2 Development Policy-making Mechanism after Democratization



(Source) Created by Kawamura.

6 Relationship between Development Policy Directions

As discussed above, there were policy conflicts in each development issue of growth, distribution and stability during the Soeharto government, and these conflicting policy orientations were constantly in opposition. The advantages of policy orientation differed depending on the international situation at the time and changes in political and economic conditions. We have so far examined development policy in terms of historical change. In this section, we focus on the correlation between development policy directions under the Soeharto regime and analyze how it has changed since democratization.

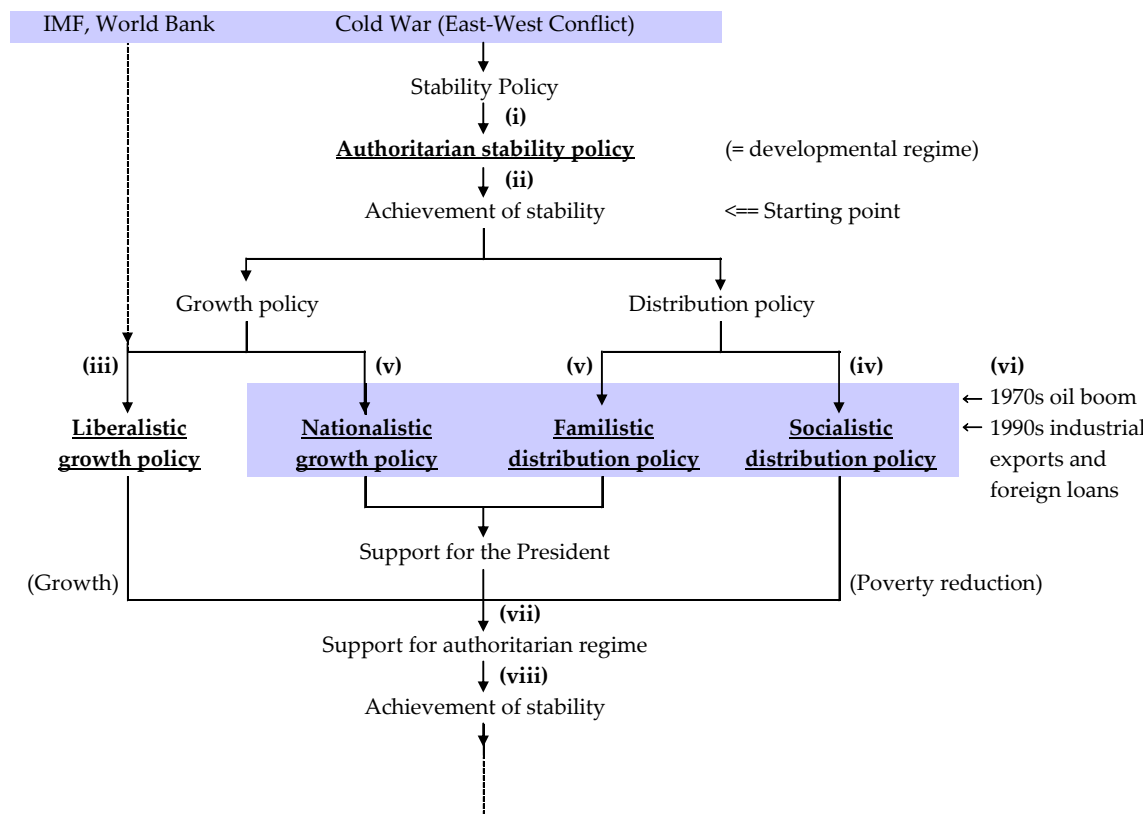
6.1 Relationship between Development Policy Directions under the Soeharto Government

Stabilizing the turbulent domestic political situation was a priority issue for the Soeharto government, and authoritarian stability policy was the most efficient way to achieve this quickly and for a prolonged period. The international situation at the time of the beginning of the Soeharto government made this possible. During the Cold War, the Soeharto government was not condemned by Western countries (particularly the United States) regardless of how heavy-handed its methods for ensuring security were, as long as the regime claimed to be anti-communist. In this respect, the Soeharto government was spawned by the Cold War (see (i) in Figure 3) and this is how Soeharto succeeded in ensuring domestic stability (see (ii) in Figure 3).

Once stability had been achieved, the Soeharto government worked on implementing growth policy and distribution policy. In order to achieve macroeconomic stability and stable economic growth, the Soeharto government received assistance from the international community such as the IMF and the World Bank, while employing a liberalistic growth policy (see (iii) in Figure 3). Meanwhile, the government itself actively implemented socialistic distribution policy in order to overcome the serious issue of poverty (see (iv) in Figure 3).

At the same time, President Soeharto, accepting the claims of the nationalistic state elite, supported the implementation of nationalistic growth policy. Furthermore, familistic policy offering kickbacks in exchange for political support from some political elites and *Pribumi* entrepreneurs was also promoted (see (v) in Figure 3). It was possible to implement these policies requiring great national resources because there was a favorable international environment for Indonesia in which substantial funds flowed into the country due to the oil boom in the 1970s and the strong economy during the 1990s (see (vi) in Figure 3).

Figure 3 Relationship between Development Policy Directions during the Soeharto Government



(Source) Created by Kawamura.

The implementation of nationalistic growth policy and familistic distribution policy proved to be useful for obtaining support for the Soeharto government from political elite. Meanwhile, the achievement of economic growth through liberalistic growth policy and the reduction of poverty through socialistic distribution policy improved the standard of living of the people, and this generated popular support for authoritarian governing methods (authoritarian regime) (see (vii) in Figure 3). This popular support for the Soeharto regime brought stability to politics again (see (viii) in Figure 3), and the Soeharto regime worked on the development policies of growth and distribution under this stability.

Generating this cycle of “achievement of stability --> achievement of growth and distribution, and improvement of the people’s standard of living --> obtaining support for the regime --> achievement of stability” was the essence of Soeharto’s “developmental regime.” Soeharto kept his hold on power for 32 years by maintaining the cycle for a prolonged period.

6.2 Relationship between Development Policy Directions after Democratization

The democratization that began after the collapse of the Soeharto government in May 1998 broke the above cycle in the developmental regime, changing the relationship of development policy into something completely new. It is not a given thing to achieve stability, which was necessarily provided by the authoritarian stability policy under the Soeharto government. Democratization is a negation of authoritarian stability policy and only democratic stability policy is recognized as a legitimate policy. Worldwide trends of democratization and the universalization of democratic ideology has further strengthened the singular adoption of democratic stability policy (See (i) in Figure 4).

Authoritarian stability policy was to be revived if the military took control of the country. However, unless one assumes an unprecedented crisis resulting in the collapse of the nation-state, the possibility of such a turn of events occurring in Indonesia is extremely low. In addition to military intervention in politics no longer being justified internationally, there are no longer any arguments for justifying such action domestically. Moreover, in Indonesia, there is no aloof authority like the Thai king who approved political intervention by the military. The military underwent reform during democratization, and is becoming a more professional organization. Meanwhile, the military has distanced itself from politics and has adopted the approach of protecting its own interests by avoiding being driven by political interests.

However, democratic stability policy differs from authoritarian stability policy in that it does not provide an absolute guarantee of stability. A variety of policies must be implemented through democratic means to ensure stability. For Indonesia, which completed the transition to democracy in 2004, the consolidation of democracy will be an issue in the future.

The range of policy options in growth policy has also become limited. The globalization of the economy that occurred alongside democratization urges to adopt liberalistic growth policy as the orthodoxy for economic policy (see (ii) in Figure 4) Abandoning liberalistic growth policy equates to shutting off the path to economic advancement. Like democratic stability policy, liberalistic growth policy is becoming a given in development policy.

However, nationalistic growth policy has not completely vanished as a policy option. The ideology of nationalism is a deep-rooted presence embedded within Indonesian society. In future, the government will need to address the issue of how to control nationalistic policy orientation that is likely to gain particular momentum when the economy is performing well (see (iii) in Figure 4).

this could bring about populist politics and threaten democratic stability policy (see (vi) in Figure 4) In this respect, the government needs to implement socialistic distribution policy at an appropriate level.

However, there is a low probability that socialistic distribution policy will be taken too far. Implementing this distribution policy on a wide scale assumes substantial fiscal surplus, but the government does not have such a surplus of funds now that it cannot rely upon oil revenue. Furthermore, looking at the structure of the party system, there has been no leftist party able to gain the support of the lower classes in Indonesia since the destruction of the Indonesian Communist Party (PKI), and as the emergence of such a party as a significant political force is improbable, it is unlikely that a populist government assigning priority to socialistic distribution policy will be created.

The post-democratization government is required to find the best mix of development policy that makes liberalistic growth policy and democratic stability policy the main aspects of development policy, while implementing appropriate socialistic distribution policy. Stability will only be brought about when this succeeds (see (vii) in Figure 4).

7 Conclusion

In this paper, we broadly looked back on the history of development policy in Indonesia. By doing this, we revealed that Indonesia has constantly sought to simultaneously overcome the three policy issues of sustained growth, distribution and poverty reduction, and stability and security. However, there have always been conflicts in policy orientation when choosing how to overcome the various policy issues related to development. These were ideological conflicts between liberalism and nationalism in growth policy, socialism and familism in distribution policy, and democracy and authoritarianism in stability policy.

The stronger policy orientation was determined by external factors such as the international environment and the domestic political and economic conditions at the time. In particular, a liberalistic growth policy was adopted in times of economic crisis, and a nationalistic growth policy along with socialistic and familistic distribution policies tended to be implemented when the economy was strong and there was a surplus of national resources.

This policy cycle under the Soeharto government was brought about by the policymaking structure that converted changes in the external environment into policy. However, since democratization, the external environment and the policymaking structure have been changing significantly, and it could be said that the options available to the government with respect to development policy have become more limited. At the

time of universal spread of democratic ideology, only democratic stability policy will be allowed in future development policy. Amid economic globalism, liberal policy has also become orthodox in growth policy. However, the nationalistic policy deep-rooted within Indonesia will gain momentum in future economic upturns. Familistic policy is also deep-rooted, but under the mainstream values of fairness and market-emphasis, the leeway for its implementation is limited. Socialistic distribution policy also takes an important position to overcome a serious problem of poverty, but growth policy can be impaired if socialistic distribution policy is over-emphasized with the aim of obtaining political support. Stability is only achieved when there is an appropriate balance between growth policy and distribution policy.

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