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Topic:

# **The Indonesia-China-Paradox: Indonesia's Variant of Capitalism, its Embedding and its Contrast to China.**

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## Introduction

When comparing the economic performance of China<sup>1</sup> and Indonesia, people are likely to suggest that one is trying to compare apples and oranges. In 2011, a massive gap still remains between the quantitative and qualitative development of the two biggest states in the Asia-Pacific region. Indonesia has been on the borderline between a developing country and an emerging nation for decades, whereas China is undoubtedly the next superpower, an economic giant on a global scale- in a position which the world has perhaps never seen before. Nevertheless, there is well-grounded motivation for comparison.

Indonesia and China are drifting apart, but this widening gap is unprecedented in modern economic history. Apart from Japan, no other Asian country could rival the average Indonesian economic growth rates between 1800 until 1930<sup>2</sup>. Even three decades ago, between 1970 and 1978, Indonesia's short-term prospects for economic development still exceeded China's. The Indonesian GDP overtook China's GDP in total<sup>3</sup>, and was about one third higher than it had been in China in 1978.<sup>4</sup> China, at that time, was facing a problematic economic situation. Utopian politics like the “Great Leap Forward” and the “Great Cultural” Revolution” were considered to have set China's economy back by an estimated ten years<sup>5</sup>, at a time when Indonesia was beginning to harvest the first fruits, the apples and oranges, of a promising economic policy. The former Dutch colony, Indonesia, was impressing the world with the creation of a stable nation, comprising of various ethnicities spread over about 17,000 islands, accompanied by average Growth Rates of 8% per annum.<sup>6</sup> Indonesia's economy seemed to be returning to the times, when they had contributed two thirds of their colonial masters

<sup>1</sup> For reasons of readability, the term „China“ is used instead of the correct „People's Republic of China“ in the following.

<sup>2</sup> p.22 in: Van der Eng: *Indonesia's Growth Experience in the 20<sup>th</sup> century*.

<sup>3</sup> Until the mid 1990s, Indonesia's GDP was constantly higher than the Chinese GDP. Source: United Nations Statistics Division, GDP at Current Prices (USD), URL: <http://data.un.org/Data.aspx?d=SNAAMA8f=grID%3A101%3BcurrID53AUSD%3pcFlag%3A1>

<sup>4</sup> United Nations Statistics Division, GDP at Current Prices (USD), URL: <http://data.un.org/Data.aspx?d=SNAAMA8f=grID%3A101%3BcurrID53AUSD%3pcFlag%3A1>

<sup>5</sup> p.236 in: Bianco: *Das moderne Asien*.

<sup>6</sup> p.151 in: Van der Meulen/ Rodgers/Yana: *Indonesia's Macroeconomic and Trade Performance*.

state revenues.<sup>7</sup> To times when the fourth biggest country in the world<sup>8</sup> was undoubtedly a key region in the world economy, an area of economic importance. However, the next economic giant, which in the 1970s seemed to be following closely in the footsteps of Japan and Korea in its development, suddenly fell asleep<sup>9</sup> and still has not completely woken up.

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## Chapter 1

### Research Design

#### 1.1. Initial Question

This drifting-apart in the development of Indonesia and China within only three decades is paradoxical from several points of view. It seems paradoxical, especially given the heritage of socialist modernisation in China and the fact that Indonesia followed a strategy approved by economic experts from centre economies.

The initial question therefore is the following: Why is the Indonesian economic growth not able to keep up with China any more?<sup>10</sup> In reference to the paradox, this question includes a set of sub-questions. Is it paradoxical that a country whose first phase of modernisation followed radical socialist principles and changed structures of society radically, is more successful economically than a country whose government conducted politics with the presumption that economic modernisation would be followed by a modernisation of society? Or is this in fact not paradoxical but follows a rational pattern? And if so, how do these rationalities, connected with certain variants of

<sup>7</sup> p.70-72 in: Furnivall: *Netherlands India. A study of Plural Economy*.

<sup>8</sup> p.1404 in: *World and Its Peoples: Indonesia and East Timor*.

<sup>9</sup> Bagoglu, *Indonesiens Planer hoffen auf Standortverlagerungen*. URL: <http://www.gtai.de/fdb-SE,MKT201007278008,Google.html>

<sup>10</sup> The focus on answering this question clearly is on analysing *Indonesia's* political economy. Moreover, it should be mentioned the terms of “success“ and “development“ inevitably have a normative connotation.

capitalism, support or impede economic development?

## 1.2. Methodology

The set of initial questions is on the borderline of development economics and economic sociology. This M.A. dissertation will try to combine two approaches in order to find answers to them.

The first part will discuss an Indonesian Variant of Capitalism (VoC)<sup>11</sup>. This approach was chosen because VoCs offer a basis for the contrasting of two economies. In detail, this approach shall be applied through a transformation of a VoC-concept developed by Tobias Ten Brink, who analysed China's capitalism in order to explain the Chinese economic performance.<sup>12</sup> The model he uses is not identical to the one provided by Hall and Soskice, which had been created as an answer to the assumption of liberal capitalism as an universally exclusive claim to salvation.<sup>13</sup> Like other academics of his generation, Ten Brink expands the original VoC concept to get rid of the distinction of economies either resembling “Liberal Market Economies” (LMEs) or “Coordinated Market Economies” (CMEs)<sup>14</sup> to allow more variants, which reflect reality more suitably. This motivation emerged especially with the economic ascension of the often differently structured, rapidly catching-up, BRICS-states<sup>15</sup>, above all China.

To explain China, Ten Brink explored the specifics of the Chinese capitalist system. A specific combination of five levels of political economy leads to a market-liberal, competition-driven state-capitalism as a unique variant of capitalism.<sup>16</sup> Apart from transforming the idea that Indonesia cannot be explained with standard models either,

<sup>11</sup> The spelling VoC is chosen instead of VOC in capital letters because “VOC“ is more commonly for the „Dutch East India Company“ (Verenigde Oostindische Compagnie) in literature about Indonesia.

<sup>12</sup> Ten Brink: *Strukturmerkmale des chinesischen Kapitalismus*

<sup>13</sup> Comp. p.201 in: Hodgson: *Varieties of Capitalism and Varieties of Economic Theory*.

For the term „Exclusive Claim to Salvation“, see the section in the annex „Abbreviations & Explanations & Foreign Vocabulary“.

<sup>14</sup> p.32 in: Hörisch: *Corporate-Governance-Politik in der Bundesrepublik Deutschland, Großbritannien und der Schweiz im Vergleich*.

<sup>15</sup> Abbreviation for “Brasil, Russia, India, China, South-Africa”. Comp. Wasserrab: *Aus BRIC wird BRICS*. URL: <http://www.dw.de/dw/article/0,,14983228,00.html>

<sup>16</sup> p.3/ p.41 in: Ten Brink

and its specifics need to be de-constructed explicitly, the reliance on Ten Brink's concept has another advantage for answering the initial set of questions. With the help of contrasting Ten Brink's Chinese variant with the Indonesian variant of capitalism, mechanisms which could have favoured the divergence are identified. The dynamic which determines the Indonesian economic system can be better understood thereby.

However, determining the mode of operation of Indonesian capitalism alone is insufficient to answer the set of questions.

The second part shall discuss what led to the crystallisation of both variants. It makes sense to discuss this *why*. The contrasts between both variants will be discussed on a level which is referred to in the VoC approaches, but which is not covered by the pattern of analysis: The socio-cultural level.

Capitalisms and political economy are embedded in socio-cultural circumstances. The way in which this level has influenced Indonesian capitalism becomes visible when considering events and the course of modern social history.<sup>17</sup> Therefore, the course of modernisation of society in Indonesia and China shall be de-constructed from a macro sociological perspective, based on a critical discussion of theories of Embedding and Impurities provided by Karl Polanyi<sup>18</sup> and Geoffrey Hodgson<sup>19</sup>.

### 1.3. Latest State of the Art

There is a big patchwork of publications about Indonesia, but no common thread or “unity in diversity”, like the state motto of Indonesia. Diversity in academic literature means especially, that parts of its politics, economy and society are selectively discussed.

Two threads seem to be dominant within this patchwork. Firstly, due to its enormous ethnic diversity, Indonesia is traditionally a popular field of study for cultural anthropology. Studies about economic development therefore often have an

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<sup>17</sup> The period examined is focussed on the time between 1965 and 1998, which are identified as the most relevant core parts in Indonesia's and China's modern history in the formation of their capitalisms. However, it is necessary to expand this frame especially in Indonesia up until 1945, respectively until today at the other end of the spectrum.

<sup>18</sup> Polanyi: *The Great Transformation*

<sup>19</sup> Hodgson: *Varieties of Capitalism from the Perspectives of Veblen and Marx*.



anthropologist background and are restricted locally to certain groups.

This is aggravated by the second thread, that even recent economic literature concentrates on selected issues, often conventional or published by institutions with an interest guided business background. Few try to combine facts to describe Indonesia's political economy as a whole. Those who *do* seem to show little “frontier spirit” comparable to the discourse around China.

Especially, the issue of why Indonesia has not become a high-performing economy (HPE) is neglected. Indonesia is rarely considered explicitly concerning its economic development. Mostly, scholars try to categorise it following common patterns. Typical features like the unique institutional structure which evolved during the thirty years of dictatorship from 1968 until 1998 and its influence are hardly taken into account. They present Indonesia in comparison with neighbours and states which share selected aspects. Others interpret it as an example of failed neoliberal<sup>20</sup> trajectories of the 1980s or resort to externally dominated models from dependency theories. Without a doubt, there are points of connection for this. But they turn out to be problematic after a more detailed consideration. Indonesia has more significant differences than similarities to other ASEAN<sup>21</sup> and BRICS states and to developing countries in Africa and Latin-America. Discussions concerned with an Indonesian variant of capitalism within the “Varieties of Capitalism” framework did not exist at the time of researching for this dissertation.<sup>22</sup>

Further, it becomes clear when researching that there are two poles. One evaluates Indonesia's development as generally positive. From this perspective, Indonesia is in the same category as typical developing countries and thereby, it is suggested that Indonesia shares universal problems. Therefore, it seems astonishing that constant growth over several decades was possible at all.

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<sup>20</sup> The negatively annotated term “neoliberalism” labels a set of various socio-economic theories which are summarised by the partly aggressive proclamation of the withdrawal of the state from economic affairs for the sake of market-regulation. In addition, neoliberalism also describes the era in which those theories became the dominant dogma in the economic politics and the academic discourse accompanying it.

<sup>21</sup> The “Association of Southeast Asian Nations“, transnational organisation for economic cooperation between Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

<sup>22</sup> It was partly argued by some authors (i.e. Röpke & Hefner), that there must be a special type of capitalism which dominates Indonesia, and which differs from western models. Some of these insights are older than the VoC model itself. However, these ideas were not systematised or pursued according to a VoC-framework.

The other pole argues the point of view, that Indonesia has simply not reached its potential yet, and as the fourth biggest country in the world, it is standing in its own way with regard to changing tracks to a speed of development comparable to China.

#### 1.4. Relevance

Apart from the fact, that firstly an Indonesian capitalism in a VoC framework has not yet been discussed and secondly, that the divergence of Indonesia and China seems to be surprising from some points of view, there are further reasons of academic relevance to the chosen theme.

Conventional future-oriented development economics have often failed in recommending adequate policies for reaching high speed development for catch-up. The development philosophy, which is summarised by the “Washington Consensus”,<sup>23</sup> seems to be threatened by a change of paradigm. It became obvious with the shifts in global economy. The success stories of HPEs were created according to patterns incompatible with mainstream development economics. A new reality has become real. The amount of countries raising their income levels, production and wealth seems to be comparable with the European industrialisation of the 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> century, which strongly influences dominant philosophies of capitalism and capitalist development today. These developments were not explained on a mere quantitative level. Their embedding, their foundation, their underpinning were thoroughly discussed. Although a comparable theoretical discussion particularly about the rise of East and South-East Asian economies is just about to start, and this dissertation might not create a new *grande idée*, each long way consists of countless small steps.

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## Chapter 2

<sup>23</sup> p.25 in: Woo/ Hong: *Indonesia's Economic Performance in Comparative Perspective and a New Policy Framework for 2049*.

## The Political Economy of Indonesia

### 2.1. Paradoxes, Contradictions and Dialectics

Newspaper articles from “*The Jakarta Globe*” regularly suggest,<sup>24</sup> that there is a long list of economic paradoxes in Indonesia. Articles like that are concerned with Indonesia not being able to harness its economic potential for no easily understandable reason. In addition to popularised paradoxes, there is a list, just as long, of more complex paradoxes. Despite a number of positive macro economic indicators in Indonesia (GDP growth rate, low inflation, a stable rupiah, booming stock prices and falling unemployment), problems remain in the investment sector. Investors tend to prefer other countries in the region.<sup>25</sup> Despite constant positive macro economic numbers, the country’s economic mood counts as unpredictable.<sup>26</sup> Investment ratios do not adequately match the positive macroeconomic development, nor are they noticed by masses of people.<sup>27</sup> “Paradoxes of Plenty” seem to aggravate this mood. Major energy resource mining provinces (oil, gas and coal) lack energy supplies. Indonesia has large reserves of oil, but was a net importer for a while.<sup>28</sup> It has the longest tropical coastline, but imports 70 percent of the salt consumed.<sup>29</sup> There are huge fertile lands for agricultural production, but rice, soybeans and corn are imported.<sup>30</sup> The potential is huge, but only little is realised. Structural adjustment programmes, launched in order to change this, often had the opposite effect from what they intended and led to more inefficiency.<sup>31</sup> The growing marketisation and democratisation of Indonesia today is said to be possibly leading to the subversion of markets and democracy.<sup>32</sup> And I see the paradox

<sup>24</sup> For example: *Ending the “Shameful” Salt Paradox*, The Jakarta Globe, 13<sup>th</sup> of April 2011

<sup>25</sup> p.13 in: United Nations Conference on Trade and Development (UNCTAD): *World Investment Prospects Survey 2010-2011*

<sup>26</sup> p.214 in: Hill/ Khan/ Zhuang: *Diagnosing the Indonesian Economy: Toward Inclusive and Green Growth*

<sup>27</sup> p.1 in: Tieying, Ma (2011): *Indonesia FDI: More coming, more needed.*

<sup>28</sup> p.1 in: Pallone: *Indonesia’s Oil Crisis: How Indonesia Became a Net Oil Importer.*

<sup>29</sup> Ibid. *Ending the “Shameful” Salt Paradox*

<sup>30</sup> p.1 in: Meylinah/ Slette (2011): *Indonesia Rice and Corn Update.*

<sup>31</sup> Comp. Sumarto (2007): *Social safety nets and economic transition in Indonesia: Paradox of social services?*

<sup>32</sup> p.1 in: Chua, A.: *The Paradox of Free-Market Democracy: Indonesia and the Problems facing*

that the Indonesian development agenda is perhaps causing a slowdown in development.

The last paradox was veiled, while almost no developing country could develop at the desired speed. It was China's development in the last four decades which raised the bar and showed what could be achieved. China's ascension proved that high speed development and catching-up is feasible in practice. It proved that it is possible to break patterns and to break through the obstacles of the past. Instead of comparing Indonesia to states failing at high speed development, the issue is why Indonesia is not able to switch to the fast lane like China did.

Paradoxes and opposite effects emerge in virtually all capitalist economies. Many of them have been explored by economic science. The most famous ones in economics refer to the fact that seemingly rational micro economic action can have negative effects on the macro economic development and vice versa. Generally, paradoxes refer to correlations affecting each other in an irrational seeming way.<sup>33</sup> A pinnacle causal paradox can be defined as an opposite effect, where measures seem to cause the opposite of what they intended to. One of the most famous opposite effect in capitalist philosophy is the one described by Adam Smith (1723-1790), that striving for your individual best can unintentionally be the best for the collective as well.<sup>34</sup>

However, within these paradoxes and opposite effects, there is often a logic, a “logic of contradiction.”<sup>35</sup> The philosophical term for this kind of logic is called “dialectics”. A part of this philosophical concept is concerned with the effect of paradoxes.<sup>36</sup>

It was the German philosopher Hegel (1770-1831) who expanded a dialectical logic to social evolution<sup>37</sup>. Hegel defines dialectics as the tendency of a notion “to pass over into

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*neoliberal Reform.*

<sup>33</sup> A „paradox“ is generally defined as an empirical phenomenon not explained within a model of theory. (About.com Economics, URL: <http://economics.about.com/od/economicsglossary/g/paradox.htm>). However, the definition may vary ( Comp. Panchamukhi: *Five Recent Paradoxes and Anomalies of Economics*)

<sup>34</sup> Comp. p.84-85 in: Muller: *Adam Smith in his time and ours: designing the decent society*

<sup>35</sup> p.443 in: *Brockhaus*

<sup>36</sup> p.693 in: *Theologische Realenzyklopädie.*

In this dictionary, a paradox from Christian theology is chosen to explain dialectical momentums. It is that God's revelation automatically leads to the negation of human truth in existence. The solution of this permanent contradiction accompanying Christians according to Kierkegaard, is God's mercy within a “dialectic of existence“.

<sup>37</sup> p.63 in: *Encyclopedia Britannica*

its own negation as the result of conflict between its inherent contradictory aspects”<sup>38</sup>. This definition was transferred to how seemingly paradoxical social evolution happened. According to Hegel, the tensions between contradictions in an apparently paradoxical situation are the driving force of social change. Eventually, these apparent contradictions are eradicated through this dynamic. Contradictions become a new rationality. Contradictions, therefore, should be considered in interaction with each other rather than separately.<sup>39</sup>

The reference to Hegelian concepts of dialectics may not at first be clear in the context of Indonesia and China. However, many contradictions begin to emerge when Indonesia's development is explored. For example, take the discriminating laws against the Chinese minority<sup>40</sup>, although it is this minority who determines business with the government.<sup>41</sup> Contradictions like these are long-lasting and currently either seen as a sign of a chaotic organisation, an “unreliable government”<sup>42</sup>, or a “lack of institutional skills”<sup>43</sup>. In other words, they are seen as flaws, affecting the economic environment in a negative way. International organisations, such as the International Monetary Fund (IMF), gave recommendations on how to eradicate such flaws. However, it is questionable, if the seemingly irrational economic structure is really a flaw, resulting from bad knowledge or a lack of ability. Such contradictions have existed for decades. There seems to be a pattern.

It is just, therefore, to identify dialectical momentums in the Indonesian variant of capitalism. Just as the dynamic related to dialectical momentums can inhibit long-term qualitative improvement, as in the case of Indonesia over the last few decades, they can also prove helpful.

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<sup>38</sup> Ibid. p.63

<sup>39</sup> Ibid. p.63

<sup>40</sup> p.95-96 in: Heryanto: *Ethnic Identity and Erasure. Chinese Indonesians in Public Culture*.

<sup>41</sup> p.770 in: Suryadinata: *Indonesian Policies toward the Chinese Minority under the New Order*.

What is traced back to financial projections of the Indonesian government in Suryadinata, is an aspect of constant meaning in Indonesian history, already under Dutch rule. The privileged economic position of Chinese Indonesians even affected European literature. In a play by the German poet Goethe (1749-1832) titled „*Der Bürgergeneral*“ such thing is said ”*Chinesen still fleißig (...) alle Handwerker in Batavia von ihnen. Manufacturen desgleichen*“. Source: Seemann: *Indonesien in der deutschen Geisteswelt. Von Goethe bis Emil Nolde*. In this dissertation, their role must be neglected and is only briefly broached, and will not be discussed to that degree it deserves.

<sup>42</sup> p.79-81 in: Basri: *Business in Indonesia. New challenges, old problems*.

<sup>43</sup> p.326 in: Rock: *Reassessing the effectiveness of Industrial Policy in Indonesia. Can the neoliberals be wrong?*

It is argued that from conventional economic viewpoints, many aspects of Chinese policies and structures are contradictory and flawed. In spite of that, they have supported qualitative and quantitative development over the last few decades. In conclusion, it seems that elements which we may find flawed and contradictory are rather unknown recipes for development than contradictions. Both in Indonesia and China. In both recipes, there are combinations of ingredients which were, for a long time, unknown in western cuisine, such as the combination of fruit and meat. However, these seemingly contradictory ingredients do not stop the end result from tasting good. They might be signs of a different development, which is stable and has emerged from intermingling contradictory elements. The term “Socialist-market economy” illustrates that a fusion of contradictions is possible in practice. This is close to the dialectical idea of negation. Dialectical momentums, therefore, should not be ignored, but rather put in the centre of focus when determining the ingredients of a socio-economic recipe, and when determining the dominant political-economic ingredients of Indonesian capitalism. They could be of further importance when analysing the social preconditions of a certain capitalist variant and its core institutions.<sup>44</sup>

Taking dialectical momentums into account is not new in the Variety of Capitalism-concepts on which my dissertation will be based. I will follow the concept of Tobias Ten Brink<sup>45</sup>, presented in a discussion paper about the variant of Chinese capitalism.<sup>46</sup> This concept is particularly suitable for application to Indonesia due to two key insights. First, the dynamics of contradictions which exist in China are discussed.<sup>47</sup> Ten Brink argues that it is necessary to explore Chinese capitalism in detail to better understand these dynamics.<sup>48</sup> Secondly, it is admitted that capitalism exists in more variants worldwide than liberal and coordinated market economies.<sup>49</sup> The Chinese variant is like nothing that has ever been seen before. The economist Douglass C. North is quoted by Ten Brink as saying that none of the standard models of economic and political theory

<sup>44</sup> Comp. p.5 in: Beckert: *The Great Transformation of Embeddedness*

<sup>45</sup> Tobias Ten Brink is a professorial candidate at the University of Frankfurt, Germany.

<sup>46</sup> Ten Brink.: *Strukturmerkmale des Chinesischen Kapitalismus*

<sup>47</sup> Ibid. p.5.

<sup>48</sup> Ibid. p.5. They are addressed and not accepted as given objective facts, but as elements which need to be deconstructed.

<sup>49</sup> Ibid. p.7

are able to explain China.<sup>50</sup> This was due to the fact that the Chinese variant was an odd and unique form of capitalism.<sup>51</sup> The same is valid for Indonesia, yet this opinion has hardly been expressed in scientific literature so far.<sup>52</sup>

In the latest books, Indonesia's economic system is often put into a group with BRICS states, other economies in the process of being industrialised, or its neighbouring states in Asia. These classifications do not help us to understand Indonesia's economic development. Just like China, the Indonesian capitalism has been “formed by its own cultural traditions”<sup>53</sup> rather than by an adoption of a common concept of industrial civilisation. Even if capitalism is an originally western concept<sup>54</sup>, reality has proved that other ingredients, even those which may at first seem to be anti-capitalist, can generate a capitalist meal as well. This seems to be dialectical– and shows that capitalism is too flexible to be pigeon-holed again. Due to these reasons, one has to explore the specific aspects of the Indonesian capitalism.

## 2.2. Varieties of Capitalism according to Ten Brink

Despite flexibility, there are features universal to capitalist economies. These features

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<sup>50</sup> Ibid. p.5

<sup>51</sup> Ibid. p.5

<sup>52</sup> “Indonesia's capitalism deviates from the norm“. p.61 in: Hadiz: *Workers and State in New Order Indonesia*.

<sup>53</sup> p.7 in: Ten Brink

<sup>54</sup> The term “Capitalism“ itself is a historically evolved mode of production, which emerged in 18<sup>th</sup> century Britain. An increased demand for cloth resulted in Enclosures, agricultural reform laws granting the use of land for sheep farming instead of labour-intensive agriculture. Masses of farmers moved to the cities, therefore. This urbanisation and the availability of cheap labour supported the development of manufacturers, concerned with the processing of wool and other goods. Unlike in the previous feudal mode of production, workers were not owners of the means of production, but sold their manpower, for a subsistence wage, to the owners of those means (“capitalists”). This organisation proved to be profitable. Competition led to the re-investment of the profits made. The competition plus technical innovations and foreign trade with colonies led to an industrialisation of society, accompanied by an accumulation of wealth. This kind of organisation was followed by the European mainland and the USA later under slightly different preconditions. (Source: Klausurfrage “Einführung in die Volkswirtschaftslehre”. Teil A: Kurzer Aufsatz:2: Wirtschaftsgeschichte: “Der Übergang vom Feudalismus zum Kapitalismus. Musterlösung.”) Classical economic sociologists like Karl Polanyi or Max Weber later discussed the European developments in an abstract way.

For these reasons, capitalism can be considered as an originally western phenomenon. However, this mode of production spread over the world. Variations of it evolved, which operate capital and labour in their own ways with distinctive features. There are variations of it, which are partly very different from each other. Therefore, questions arise as to whether one can speak of a capitalist mode of production in some countries at all. I argue it is possible, because VoC-models offer a range of comparable factors, which show both the capitalist parallels and the nation-specific characteristics.

are not set in stone, but are rather elastic. The VoC approach by Ten Brink determines that capitalist systems are marked by five structural characteristics universally found, which lie at the interchange of politics and economy. Not all aspects of capitalist societies are covered by this approach<sup>55</sup>, but it is possible to derive a pattern for comparison. The specific combination of these characteristics is responsible for the variant of capitalism in a state, where the transformation of a non-capitalist system to a capitalist system is marked by continuity. Continuity means that a transformation takes place within relatively steady structures instead of radically replacing old structures.<sup>56</sup> Nevertheless, these characteristics are subject to a process of change, differentiation and assimilation.<sup>57</sup> Variants of capitalism can alter throughout time. I am going to examine these five characteristics during the three decades of the “New Order”-regime of Indonesia. During this time, the defining characteristics of Indonesian capitalism today were formed.<sup>58</sup>

The first two characteristics refer to the horizontal and vertical axis of capitalist social relations. The horizontal axis comprises corporate interaction and the institutional preconditions which determine their cooperation, competition and thereby the variant of accumulation.<sup>59</sup> The vertical axis refers to the underlying labour-relations.<sup>60</sup> Both axis cause tension through mechanisms of social sanctions, the definition of advancement opportunities and the determination of how decision-making, planning and control over production, distribution and consumption is organised. The third characteristic accounts for the budget restrictions of vertical and horizontal actors. It focuses on monetary relations, as well as how capital becomes credit, stocks, etc. and gets its typical capitalist elasticity.<sup>61</sup> The first three characteristics are related to power-relations in mutual dependence. Without a political institution administrating the monopoly on the

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<sup>55</sup> p.7 in: Ten Brink

<sup>56</sup> Ibid. p.6

<sup>57</sup> Ibid. p.6

<sup>58</sup> p.xix in: Ananta/ Soekarni/ Arifin: *The Indonesian economy: entering a new era*.

The question, if there is a significant continuity of “New Order” Elements in the recent era called “Reformasi” is controversially discussed. After my research, those voices saying the same patterns in political economy live on were more convincing than those who said that with the fall of Suharto a new political economy has coined Indonesia. The continuity in institutions, persons and mode of operation is too strong for such a presumption.

<sup>59</sup> p.7 in: Ten Brink

<sup>60</sup> Ibid. p.8

<sup>61</sup> Ibid. p.8



legitimate use of force, a functioning accumulation of capital would not be realised.<sup>62</sup> The state has to guarantee social, juridical and infrastructural integration which make a capitalist socialisation possible.<sup>63</sup> Moreover, a capitalist system will be embedded transnationally and internationally and therefore depends on the reaction to changes in this setting as well. It now has to be examined, if these characteristics can clear up the paradox or whether they can show that the apparent contradictions follow a systematic logic unknown in scientific literature about Indonesia so far.

### 2.3. The Indonesian Variant of Capitalism

Indonesia's state slogan is translated as “Unity in diversity”<sup>64</sup>. It is a massive multi-ethnic country, and somehow its diversity is reflected in politics, policies and social, political, economic and institutional structures. Many things were transformed in the first 50 years of the Republic of Indonesia and this process is still under way today. Nevertheless, certain defining features were fortified under Suharto's authoritarian rule from 1965 to 1998.<sup>65</sup> Through these constant elements, it is possible to define an Indonesian variant of capitalism without getting lost in diversity. Speaking of an authoritarian state, a suitable point of departure is its political-economic role in the crystallisation of a certain capitalism.

#### 2.3.1. A Name for the Indonesian Capitalism I

At least since China's capitalist ascension, the role of the state in economic development is highlighted.

“State capitalisms” are a variant of „Political capitalisms“. Often, these variants are to be found in all types of authoritarian states. China is considered as a market-liberal variant of “state capitalism”, driven by competition.<sup>66</sup> This concept is in opposition to western capitalisms, where economic liberalism excludes any involvement of the state

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<sup>62</sup> Ibid. p.8.

<sup>63</sup> Ibid. p.8-9

<sup>64</sup> Javanese: *Bhinneka Tungga Ika*, p.175 in: Yumarma: *Unity in Diversity: a philosophical and ethical Study of the Javanese Concept of “Keselarasan”*.

<sup>65</sup> p.3 in: *Bertelsmann Transformation Index 2003: Indonesia*

<sup>66</sup> Among other features, p.3 in: Ten Brink

beyond supplying basic infrastructure or regulation.<sup>67</sup> Capitalism known as “liberal” is predominantly seen as contradictory to state involvement.<sup>68</sup> China is the latest and perhaps most successful example showing that this widespread western scientific consensus is not imperative.<sup>69</sup> It is a special kind of interdependence between political and economic action<sup>70</sup>, where liberal economic activity is strongly interwoven with and granted by political actors in an authoritarian political system.<sup>71</sup> Political and economic action go hand in hand. Defining for any political capitalism is, that there is no separation of the economic and the political sphere. Executive economic actors hold executive political posts and vice versa.<sup>72</sup>

A cooperation like this seems to be the case in Indonesia, where political and economic actors are interdependent. This cooperation, however, is organised differently than in China. Other features seem to be distinctive.

In Indonesia, the strong influence of a third flexible force standing between the state and the economic actors is special. These are the so called “brokers”<sup>73</sup>, minions in mutual dependence with the state. They are a heterogeneous group of rent oriented state employees in bureaucracy, who arrange the smooth interaction of both interests. Their role is a special feature, firstly because of their institutionalised power, secondly because of their historic role<sup>74</sup> and thirdly, due to their deep integration in Indonesia's current capitalism.<sup>75</sup>

Within these structures, a market-driven accumulation is not realised. It could narrow broker's rent prospects due to the required cost efficiency measures necessary for a

<sup>67</sup> p.15 in: Abramovitz: *Regulating the lives of women: social welfare policy from colonial times to the present*.

Even Coordinated Market Economies (CMEs) are liberal (according to the western definition) to a certain degree.

<sup>68</sup> p.192 in: Coates: *Models of capitalism: growth and stagnation in the modern era*.

<sup>69</sup> Comp. Dometeit, Gudrun: *China kauft ein*. Focus 40/2011.

<sup>70</sup> p.6 in: Ten Brink

<sup>71</sup> Ibid. p.6

<sup>72</sup> In contrast to CMEs, the interaction is interwoven to a stronger degree. Economic action therefore is not possible without political connections, and in a state concentrated on economic development, political decisions must suit economic interest. This is not granted in a liberal democratic way, but in the holding of double positions. (Source: p.173 in: Maurice: *Embedding organizations: societal analysis of actors, organizations, and socio-economic context*)

<sup>73</sup> These brokers should not be understood in the sense of stock brokers, but in the sense of “Cultural Brokers“, who mediate interests on a political economic level. (Source: p.13 in: Randeraad: *Mediators between state and society*.)

<sup>74</sup> Ibid. p.13

<sup>75</sup> p.3 in: Bertelsmann Transformation Index

profitable production in a competitive surrounding. Additionally, due to economic policies focussing on the branches whose returns were relatively independent from efficient organisation, especially in the first years under Suharto (i.e. resource business)<sup>76</sup>, the broker's interest does not lie in a market-driven accumulation. At short notice, their revenue is granted, also by a non-market-driven organisation. On a mass scale, this has consequences for the economy as a whole. Moreover, this kind of accumulation basis differs significantly from China.

### 2.3.2. Indonesian State Capitalism

The variant of political capitalism in Indonesia hence seems to be different from that of China. It is inadequate to speak of a market-liberal state capitalism in Indonesia. The state plays a role as its commercial activity is extensive.<sup>77</sup> However, it does not meet the criteria to be properly called market-liberal. In contrast to China, market-liberal elements are rather held back than used. This might seem to be a controversial insight, since many academics define Indonesia as a neoliberal economy at its core.<sup>78</sup> However, by focussing on the economic role of the state, this prejudice vanishes. In any state economic involvement, in Indonesia the enforcement of liberal market relations does not seem to be an issue. This is manifested in the fact that competition is not enforced by the state. Cooperation is enforced without concurrent competition. An economisation of the extensive state-sector comparable to China never occurred.<sup>79</sup> As a guideline, the saying “Commercialisation without economisation”<sup>80</sup> or ““Yes” to economic activity, but “No” to a liberal one” might be helpful throughout the chapter.

This difference from China's variant is also mirrored in the different roles of bureaucracies.

Weberian concepts of bureaucracy, related to western-rational organisation, just as the Chinese bureaucracy following its own rationalised codex of norms and rules, come to a

<sup>76</sup> Ibid. p.3

<sup>77</sup> Ibid p.9-11

<sup>78</sup> Which implies the implementation of market- and competition- principles. Comp. p.287 in: Large/Mawdsley: *From New Order to New World Order: Good governance and violence in Indonesia*.

<sup>79</sup> p.12 in: Ten Brink

<sup>80</sup> Economisation= Enforcement of profitable capitalist activity.

Commercialisation= Enforcement of rent-seeking economic activity

dead end when looking at Indonesia. The Indonesian bureaucracy resembles the original meaning of the term which can be translated as “power of administration”. It is barely used as a mere means of ensuring efficient operation of policies and standardised rules<sup>81</sup>. Bureaucracy in Indonesia is rather an end, not a means.<sup>82</sup>

Indonesian bureaucracy seems to be deeply commercialised.<sup>83</sup> Formal and informal economic activity related to the bureaucratic position is daily fare.<sup>84</sup> They act economically in a different way to China. Indonesia's bureaucratic mode style of operation during *Orde Baru*<sup>85</sup> can be characterised as “non-modern” or “non-industrial”. Members are not chosen fairly by their formal qualifications, but by favouritism instead.<sup>86</sup> They do not pave the way for the establishment and stabilisation of a fruitful economic environment for the long run nor do they partake in direct activity like in China. Their action is focussed on brokerage rather than on direct or indirect involvement in the production process. From a structural point of view, their position is to be found between the state and company level, whereas in China these levels are rather one. On an abstract level, this kind of extensive rent-seeking industrial brokerage seem to be alien to capitalist-style accumulation, where the re-investment of returns due to competition is a typical feature.<sup>87</sup>

This can be understood in two ways. In some ways, Indonesia's bureaucracy gives a helping hand to state policies, in others it hinders them. Formal policies are not implemented properly by the bureaucracy. Western academics rightly criticise this, but their perspective is often wrong as it is often traced back to flaws in organisation.<sup>88</sup> I argue that it is rather the good organisation for a purpose that is not so good (i.e. rent

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<sup>81</sup> Comp. „Bureaucratic Control“, Business Dictionary.com, URL:  
<http://www.businessdictionary.com/definition/bureaucratic-control.html>

<sup>82</sup> Comp. p.116 in: Lindsey: *Corruption in Asia: rethinking the governance paradigm*.

<sup>83</sup> p.221 in: Röpke: *Die unterentwickelte Freiheit. Wirtschaftliche Entwicklung und unternehmerisches Handeln in Indonesien*.

<sup>84</sup> Comp. p.33 in: Rosser: *The Politics of Economic Liberalisation in Indonesia: State, Market and Power*.

<sup>85</sup> Indonesian term for Suharto's period of governance, meaning “New Order”. See abbreviation-list in the annex.

<sup>86</sup> Comp. p.55 in: Emmerson: *Indonesia beyond Suharto: Polity, Economy, Society, Transition*.

<sup>87</sup> The term “Capitalist Accumulation” is used interchangeably with “Industrial Accumulation”

<sup>88</sup> Comp. p.129-132 in: Sulistiyanto: *Thailand, Indonesia and Burma in comparative Perspective*. / p.166 in: Vatikiotis: *Indonesian Politics under Suharto*.

seeking). Informal, unwritten policies, like the guarantee of the Cronyist<sup>89</sup> structure are efficiently kept alive.<sup>90</sup> That is why it is not quite right to dismiss the Indonesian bureaucracy as incapable. As said, it is a “third force”<sup>91</sup>, integrated into the Indonesian economy.

The core problem for accumulation are the connections to what is usually called “entrepreneurial activity”, but can also be summarised by the term “achievement.” It is often suggested that this kind of bureaucracy prevents wide-ranging entrepreneurial activity<sup>92</sup> rather than supporting it. This means that achievement is not honoured.<sup>93</sup> There can be many ways in which this statement could be discussed. Let me select one, which refers to the structural level important for the definition of state action in economy. This levels concerns the entrepreneurial activity of the state, the point of departure in this chapter.

The primary aim of the *Orde Baru* state does not seem to be the wide-ranging establishment of a nationwide prosperous economy. Via the bureaucracy, the state remains in control of economic activity. Large scale economic activity depends on the bureaucratic benevolence, which is available at costs. Small-scale activity is neglected. This mechanism had been fortified under Suharto's rule. It benefited from the availability of return independent from economic organisation, i.e. resources (for whose exploitation these structures were ideal.) The problematic consequence is that change and ambitious development projects with the opportunity cost of not being profitable are not encouraged in such an environment. Therefore, the accumulation structure in the first tier of Indonesian state activity is not dynamic.

Currents which tried to relieve this structural pressure towards a more industrial<sup>94</sup> basis of accumulation were only partly successful. Attempts like that were set into motion

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<sup>89</sup> “Cronyism“ is a blanket term, related to a number of concepts such as informal networks, political fractions, groups and bribery whose organisation is based on non-market principles. Source: p.441 in: Kang: *Transaction Costs and Crony Capitalism in East Asia*.

<sup>90</sup> p.3 in: Bertelsmann Transformation Index 2003 Indonesia

<sup>91</sup> The term „Third force“ is inspired by Graham Greene's novel “The quiet American“, in which the protagonist naively assumes that the establishment of a strong “third force“ between fighting parties would sweep away contradicting interests of the other forces.

<sup>92</sup> Comp. p.230-231 in: Röpke

<sup>93</sup> Ibid. p.235

<sup>94</sup> And therefore more market-driven.

several years after the oil price drop and resulting debt-crisis. After that, progressive voices regained influence. Starting in the 1980's, reforms were undertaken to foster industrialisation as a source of revenue. Exports at that time grew immensely and the door was partly opened to elements of liberal competition-driven accumulation.<sup>95</sup> The possible high performance of a willing authoritarian state-apparatus in combination with liberal policies was shown<sup>96</sup>, along with its inherent structural flaws. After reforms on an economic level were launched (such as deregulation, etc.), the reforms came to an end. They did not reach the institutional bureaucratic level. The rapidly increasing growth rate removed the pressure for deeper necessary structural reforms to give the boom a foundation.<sup>97</sup> The boom was not accompanied by structural changes. Once again in this setting, revenue could not be re-invested or harnessed. The ever problematic consequences for the long term development of remaining traditional structures, inhibiting market-driven allocation, were ignored. As Stern states

*“Indonesia's progress on reforming its economic structure blinded many observers to its total disregard for improving the political, educational, and institutional base that is a prerequisite for sustained economic growth”<sup>98</sup>*

Stern and other scholars say that the Asian Financial Crisis (*Krismon*<sup>99</sup>), which began in 1997, revealed those weaknesses. Fragilities in economic infrastructure were revealed. State banks were unable to control the capital outflow. No other country in South-east Asia was hit as hard by this crisis as Indonesia. At the same time no other country in the region proved to be as unable to manage the crisis. No other country took as long to recover. Indonesia's institutions were unable to get to grips with the problem because they were unsuitably organised to cope with market-mechanisms as they themselves operated according to inflexible non-market principles.

It is another example for what can be called the “Neither fish nor fowl” (NFNF) aspect of Indonesia which is hard to classify. Growth rates were high, but not as high as they

<sup>95</sup> p.23 in: Hill: *Indonesia's Industrial Transformation*

<sup>96</sup> Seemingly comparable to other Asian Capitalisms, for example Korea or Singapore.

<sup>97</sup> p.4 in: Stern: *The Rise and Fall of the Indonesian Economy*.

<sup>98</sup> p.6 in: Stern

<sup>99</sup> Indonesian term, consisting of *krisis moneter*; which means monetary crisis.

could be. Social progress was noteworthy, but not comparable to a high performing economy. The key to understanding this NFNF-development is that in many fields there remained one significant distinction throughout years of economic growth mirrored in structures: The partial modernisation.<sup>100</sup>

Why was the biggest ASEAN economy at that time hit the hardest? Possibly because its transformation to a capitalist economy was only half-heartedly realised.

On the one hand, Indonesia introduced more and more elements of a liberal capitalist country, for example a liberalised monetary sector at the end of the 1980s. On the other hand, bureaucracy was alienated from this modernisation. The Indonesian government had failed to launch policies liberalising the bureaucracy at the same time. The logical consequence was that they were not able to react as necessary during *Krismon*.<sup>101</sup> It is mirrored in the numbers: The economic downturn was massive, the recession rate hit 14.2 percent. Thailand, considered the country second largest hit by the crisis, suffered a decline of 10.2 percent.<sup>102</sup> The average per capita income shrank from 1200 US-Dollar to 400 US-Dollar.<sup>103</sup> Official unemployment rose from ten to 40 percent.<sup>104</sup> It showed that crucial parts of the successful economic growth were built on sand. *Krismon* showed that many promising macro economic indicators for the development process had been treacherous in this case.<sup>105</sup> At that time, Indonesia metamorphosed from a “Star Performer” to a “Sick Man”<sup>106</sup> in the world's perception. The neighbouring countries in ASEAN began to overtake Indonesia. The crisis eventually led to the fall of Suharto in 1998 after 30 years and gave way to democratic elections.

These, and other structural weaknesses related to the accumulation basis, however, remained ignored in mainstream development economics. For a long time<sup>107</sup>, the

<sup>100</sup> For details of this kind of modernisation, see chapter number three of this dissertation, where the Indonesian modernisation under Suharto will be discussed in detail.

<sup>101</sup> The fact that unforeseen crisis are difficult to counter properly is not denied. The measures are Indonesia's neighbouring countries, who did not have to suffer riots, a political regime change, and recovered more quickly economically from this stroke.

<sup>102</sup> IMF: *Erholung von der Asienkrise und die Rolle des IWF*, URL: <http://www.imf.org/external/np/exr/ib/2000/deu/062300g.htm#box1>

<sup>103</sup> p.1 in: Röpke 2000

<sup>104</sup> Ibid. p.1

<sup>105</sup> p.6 in: Stern

<sup>106</sup> Ibid. p.3

<sup>107</sup> For three decades, because the same problem could be observed after the first push in economic

“blinding” mentioned in the quotation above, worked. Comparable to the “Subprime Crisis” these days, the focus was put on the financial aspects of the crisis, while aspects such as failed, inadequate economic policies for decades were simply ignored. Institutional problems were overlooked as well.<sup>108</sup> Indonesia's approach to tackling the structural weaknesses in policies have barely scratched the surface. No one dared to touch even basic problems, not even with a barge pole. Procedures remained stuck in the patterns established during 30 years of a political economy dominated by informal rent-seeking. Reforms towards getting back to the roots were not promoted. Since roots cannot be pulled up with a barge pole, a structural revolution was, therefore, not set into motion.

This fact is mirrored in recent numbers. An economic recovery, positive macro-economic indicators and a constant growth in Indonesia are recognised by business cycles worldwide.<sup>109</sup> Emphasis is put on the fact that Indonesia will be fulfilling the BRICS-Criterias by 2015<sup>110</sup> But once again, Indonesia fails to be in the same league as Asia's high performing economies (HPEs) such as China. Its growth rates are high, but not as high as they could be. Some argue, it is a question of belief as to whether Indonesia's glass is half-full or half-empty.<sup>111</sup> After analysing the unsupportive role of the Indonesian state, the bureaucracy and the structural weaknesses of the accumulation basis, it seems to be sacrilege to consider the glass as half-full. What if these weaknesses were eradicated? There is well-grounded motivation to assume that there is space for development which could support a faster growth pace (at the price of cutting the privileges related with this accumulation structure). Those observations support the assumption that a “history of missed opportunities”<sup>112</sup> seems to have been repeated since 1998.<sup>113</sup> The contrast to China illustrates further why the glass is rather half-empty.

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growth in Indonesia.

<sup>108</sup> Ibid. p.3-4

<sup>109</sup> p.174 in: Nyman: *Democratising Indonesia: the challenges of civil society in the era of Reformasi*.

<sup>110</sup> Programme for the seminar „Market(ing) Paradox in Indonesia. Anticipating the Market beyond 2014.“ Binus Business School.

<sup>111</sup> Comp. Scarpello: *Ten Years after Suharto, Indonesia is a glass half full*.

<sup>112</sup> Comp. Book-title from: Booth, Anne: *Indonesia's Economy. A History of missed Opportunities*.

<sup>113</sup> The discussion of the Indonesian variant of capitalism is not done chronologically. See “Timeline“ of Indonesia“ in the Annex for a chronological overview of events.

However, Jerouen Touwen from Leiden University and Jochen Röpke identified a pattern in the cyclical reversal of fortune like it happened during *Krismon* which could even be observed in colonial times. ( Source: Touwen: The Economic History of Indonesia, URL:



To name the problem: the commercial bureaucracy, alien to capitalist, market-driven accumulation in past and present. It is justifiable to suppose that the Chinese bureaucracy in 1978 had been as alien to market-driven accumulation as Capitalist economic principles were banned from the institutional level due to the ideological reasons which had emerged in the decades before. In contrast, a capitalist economic development was not as far developed as in Indonesia, but within a relatively short period of time, the Chinese bureaucracy gained the reputation of playing a meaningful role in the Chinese economic miracle.<sup>114</sup> It showed, that in countries with a strong state, the state could transform its capacities to support economic development. However, it also showed, that long-term-success depends on *how* economic policies use their bureaucratic capital.

This form of capital was used more beneficially for economic development in China from 1978 onwards. One big difference is that state clerks in Indonesia do not have incentives comparable to China to encourage them to support economic development in their area. Their positions, up to the highest levels, are secured by personal ties.<sup>115</sup> There are many levels on which this kind of bureaucracy affects capitalist accumulation in a negative way, from transport to customs. The core problem from a liberal perspective is that too many people get shares of the revenue independent of their achievement. Chances of advancement are not linked to it. This is a reason why total production costs in Indonesian industries are a lot higher than in the neighbouring countries, despite similarly low wages.<sup>116</sup> Comparative advantages are blocked thereby. Distribution costs

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<http://eh.net/encyclopedia/article/touwen.indonesia/> p.5-7 in: Röpke: *Ein Tiger im Armenhaus*).

Other scholars like Anne Booth say, that without these cyclical setbacks, Indonesia's economy would be in a different position today:

*“If the growth achieved between 1900 and 1920 would have continued until 1970, Indonesia would be unrecognisable.”*

(Source: p.328 in: Booth)

<sup>114</sup> The question, *why* and *how* a socialist bureaucracy could become a capitalist showcase, and change the direction of the boat in such a short period of time will be examined in the third chapter.

<sup>115</sup> These ties cannot be examined in detail, but it is argued that their roots are deeper and older than in the crony capitalism. In traditional Javanese perception, personal ties guide an individual throughout life. Ties grant stability in an insecure geographical surrounding (Comp. Röpke p.) Parts of this philosophy can be derived in the Indonesian bureaucracy.

<sup>116</sup> p.XIV-XV in: La Botz: *Made in Indonesia*.

represent 14,1 percent of production costs, which is a high percentage according to OECD.<sup>117</sup> Moving goods by truck in Indonesia is 50% more expensive per kilometre than the Asian average.<sup>118</sup> The “bureaucratic customs” even affect some of the highly profitable resource branches. Timber is said to be more expensive in Indonesia than in Japan<sup>119</sup> though in total Indonesia has larger areas of forest than Japan's size in total. From a state-centred perspective, it is not possible to foster development within this bureaucracy.

Direct linkage of bureaucracy to economic activity in the associated catchment area (as in China) is not given fiscally, financially or in any other way. Indonesian bureaucracy, therefore, is not subject to economic categories. Structural economic pressure does not occur in a competition-driven way similar to China, where decentralisation laws link regional companies' profit with a higher fiscal revenue beneficial to authorities.<sup>120</sup> Rationalisation due to this kind of economic pressure has not been an issue in Indonesia so far.

In other areas, the traditional, unchanged organisation of the majority of society since colonial times<sup>121</sup>, has opposed the radical change towards modern organisation which had already been launched under Mao in China<sup>122</sup> and prevents a substantial development towards industrial market-relations.<sup>123</sup> Additionally, the access to vast resources and the integration of a large part of workers in traditional production units<sup>124</sup> eased the pressure of organising accumulation in a competition-driven way. The current system satisfies its actors. It seems to be in balance.<sup>125</sup> Neither the state nor the broker nor the entrepreneur would benefit from a market-driven allocation.

<sup>117</sup> p.344 in: Molnar/Lesher: *Indonesia. OECD Report 2009*.

<sup>118</sup> Ibid. p.344

<sup>119</sup> p.237 in: Röpke

<sup>120</sup> p.14 in: Ten Brink

<sup>121</sup> p.69-70 in: Wessel: *Indonesien- ein aufstrebendes Land. Kosten der Modernisierungspolitik*.

<sup>122</sup> p.10 in: Ten Brink

<sup>123</sup> There is some doubt that an industrialisation, which is accompanied by types of capitalist rationalization, has occurred in Indonesia at all. The establishment of manufactures is not necessarily a proof of industrialisation.

<sup>124</sup> Comp. p.202 in: Saraswati: *Entwicklungspfade einer Übergangsgesellschaft am Beispiel Indonesiens*.

<sup>125</sup> Comp. p.22 in: Chua, C.: *Chinese big business in Indonesia: the state of capital*.

### 2.3.3. Domestic Exploitation and Javanese Cultural Imperialism

An economic decentralisation favourable to a more competition-driven accumulation, comparable to China was not an issue under the *Orde Baru* government. Any reforms did not aim to change the accumulation regime. Though controversially discussed, it seems possible that China under Deng Xiaoping was aware that they had to change exactly this to reach long term substantial economic development.<sup>126</sup> So, whereas China, from 1978 until 1993, subsequently gave more economic freedom to provincial governments, linked with personal and collective benefits, the Indonesian economy remained organised “Javanese”. The assumption that Suharto was a pragmatic politician rather than an ideologist is therefore questionable. At least his policy-texture can be read in an ideological way, which is “exotic” for Western categories of ideology, but seems to reflect large parts of Javanese tradition institutionalised and instrumentalised.

The role of Java is a special feature of Indonesia. Java, as the central island, with two thirds of the population, counts as *leitkultur* of the whole archipelago in many ways. This is mirrored economically. With the exception of Bali and parts of Sumatra, all of Indonesia's islands are lagging behind Java. Although more resources are to be found on the bigger islands of Sumatra, Kalimantan or Sulawesi<sup>127</sup>, these modern cash crops are not re-used to attain their economic development. The exploitation of their resources is still determined by the central government in Jakarta. Through “Transmigration”<sup>128</sup>-Programmes, Javanese people were resettled on other islands. These programmes officially served to ease the population pressure on the densely populated island of Java (approximately 136 million people living in an area slightly bigger than Eastern Germany, leading to a higher density of population than in Japan).<sup>129</sup> Informally, this also granted the central governments another method of control over the exploitation of

<sup>126</sup> Comp. p.11 in: Wu: *China's emerging cities: the making of new urbanism*.

<sup>127</sup> The abundance of resources on these islands increases the per capita income, why some scholars falsely attribute an even development and denounce the Javanese economic domination as a rumour from the past. Considering other statistics like the industrial share, it becomes clear that Java is the centre of capitalist and industrial development.

<sup>128</sup> *Transmigrasi*

<sup>129</sup> *Population growth 'good for Papua*. In: The Jakarta Post, 23.08.2010. URL: <http://www.thejakartapost.com/news/2010/08/23/population-growth-%E2%80%98good-papua%E2%80%99.html>

resources for their profit and constituted the Javanese hegemony.<sup>130</sup> Among farmers given land, also Javanese brokers entered high bureaucratic positions outside Java, known to be connected with unofficial brokerage payments, as incentives to leave Java. In addition, with the establishment of military bases nationwide, Javanese generals followed and could fulfil their *dwifungsi*<sup>131</sup>, which was guaranteed by constitution and law.<sup>132</sup> This kind of domestic cultural imperialism, in interaction with institutional structures, aggravated the distinct style of political capitalism.

Decentralisation, meaning giving power to inferior areas, is alien to this self-conception. Regional interest is shifted aside. This means in practice, that the central government gives out contracts for private exploitation under government supervision.<sup>133</sup> Supervision in this matter is the redistribution of profit under local minions, central government authorities and their brokers. Although this guarantees constant economic revenue for the state, it is not a dynamic form of accumulation. A massive share of profits are not re-invested and get stuck in private pockets of public servants for private spending. Rent-seeking seems to be in the centre of interest. Many Western companies are excluded from these exploitative structures. That is why possibly much criticism about the Indonesian bureaucracy is uttered in Western business circles. Although their interest might not be the long-term development of Indonesia's potential, the insight is the same: Indonesian bureaucracy is an obstacle. The often-criticised inhibiting bureaucracy was re-enforced with policies like *transmigrasi* and others rather than being restructured as in China since the end of the 1970s.<sup>134</sup>

That is why industry is focussed on the resource poor western Java. The start-up of industrialisation on islands other than Java faces a structural barrier. Actors in key positions benefit more easily from the existing set of structures. Rationalised

<sup>130</sup> This domestic Javanese imperialism is a source of conflict, criticised before and throughout Orde Baru and until today. (Source: p.118 in: Heiberg/O'Leary/Tirman (2007): *Terror, insurgency, and the state: ending protracted conflicts*/ p.265 in: Nasution (1992): *The aspiration for constitutional government in Indonesia: a socio-legal study of the Indonesian Konstituante, 1956-1959*.)

<sup>131</sup> „Double-function“, officially referring to military personnel acting on other levels than military operations, in practice this often referred to commercial activities.

<sup>132</sup> Comp. Sidwell: *The Indonesian Military: Dwi Fungsi and territorial operations*. URL: <http://www.fas.org/irp/world/indonesia/indo-fmso.htm>

<sup>133</sup> p.224 in: Encyclopedia Britannica

<sup>134</sup> p.12 in: Ten Brink

maximisation of possibilities is not encouraged by this structural problem typical of third-world countries. In terms of accumulation this means that the formation of a profitable domestic market and a domestic industry is prevented<sup>135</sup>, another observation not unusual in many developing countries.

#### **2.3.4. Capitalism of a Failing State?**

The structural interaction of resource availability and centralist control is related to the “Paradox of the Failing State”, a paradox typical for third-world countries. This normative paradox means that a state is powerful in its regulatory and interventionist role, but not in a political economic sense that could implement a strategy with goals beneficial for the whole state.<sup>136</sup> The state instead marches to the tune of interest groups, in Indonesia the aforementioned bureaucracy, military and government. The consequential problem is that long-term development is made more difficult within such structures. However, this only refers to the tier of resource business in Indonesia. It would be too superficial to reduce Indonesia to a failing state and to a mere variant of third-world capitalism.

#### **2.3.5. Special public-private Partnerships**

This is because the image drawn so far still insufficiently describes the structure of the Indonesian state capitalism.

In economic areas other than resource exploitation, the state plays a role significantly different from comprador-regimes known from many third-world countries. Though relatively small, there is industry in Indonesia and there is an active state involved in it. Its role differs from that of a classic start-up entrepreneur. The Indonesian state was rather an active entrepreneur in the establishment of conglomerates and monopolies, granted to the supporters of the Suharto regime.<sup>137</sup> In this establishment, the state follows a rational cost-utility calculation, which can be understood on an informal level rather than in direct monetary terms. The costs are a waste of potential, the utility is an

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<sup>135</sup> p.131 in: Röpke

<sup>136</sup> p.4 in: Pranab: *Political Economy*

<sup>137</sup> p.341 in: Emmerson

aligned and centralised industrial-economic power base.

The degree of control the state has over the economy is higher than in China because of the centralised corporate structure. Apart from the resource sector, many branches of successful industries are directly connected with the government. This is similar to China, where indirect control through stocks held by the state guarantees control<sup>138</sup>.

Indonesia's *Orde Baru* government supported a political capitalism. This happened in two ways, depending on the branch. The first tier comprises agriculture, irrigation, transport and communication projects, in which the government executed direct control.<sup>139</sup> Private activity was kept out of these branches. International aid was used by the government as a means of financing these. In businesses such as oil, fertiliser, cement, chemical production, paper and industrial textile-spinning, the government established self-financing state owned enterprises (SOEs), which collaborated with private entrepreneurs,<sup>140</sup> either foreign or of mostly Chinese origin.<sup>141</sup> This collaboration is typical for “political capitalisms”.<sup>142</sup> In Indonesia, it is often referred to as “cronyism”<sup>143</sup> or “crony capitalism”. The term refers to crucial conglomerates and enterprises being in the hands of “friends” of Suharto. Crony capitalism is rent-seeking.<sup>144</sup> It is not sufficient to capture the full nature of Indonesian capitalism. But crony forms of capitalism have disturbing consequences for accumulation, especially if they are widespread. Conglomerates emerged in tier two and three, as a result of Indonesian crony capitalism and enforced growth in the beginning. By bundling (human and financial) resources, they are said to be able to overcome the typical starting difficulties of developing countries.<sup>145</sup> That is one structural reason why Indonesia was able to present high growth rates despite so many weaknesses. Some of these conglomerates, like the Sieo Long Sahin Group contributed up to five percent of the

<sup>138</sup> Comp. p.15/ p.20 in: Ten Brink

<sup>139</sup> p.224 in: *Encyclopedia Britannica*

<sup>140</sup> *Ibd.* p.224

<sup>141</sup>  $\frac{3}{4}$  of economic activity without direct state involvement is said to be controlled by Chinese enterprises, which should not be identified as transnational companies from the PRC. When we talk about Chinese businesses, we refer to the Chinese minority living in Indonesia. The reason for Indonesian Chinese (“*peranakan*”) and Chinese Indonesians (“*totok*”) holding a privileged position in society can be traced back to their illusionary way to formal political power due to strong anti-sinoist feelings cultivated and widespread during and before *Orde Baru*. (Sources: p.229-230 in: Röpke 1982, p.11 Röpke 2000, p.234 in: *Südostasien aktuell*)

<sup>142</sup> Comp. p.89 in: Thakur: *Weber's theory of Social Economics*.

<sup>143</sup> Comp. p.332 in: Rock

<sup>144</sup> *Ibd.* p.340

<sup>145</sup> *Ibd.* p.335

GDP<sup>146</sup>. Acquisition of industrial competence, internalisation of external economies, overcoming of shortages of entrepreneurial talent and an increase in exports of manufactures are seen to be advantages of this growth strategy<sup>147</sup> which is different from China, where political capitalism is regulated in a different way.

But this growth strategy has two significant disadvantages, which have not been solved yet. On the one hand, it is a group-growth strategy.<sup>148</sup> This means that some groups are included in development, others are excluded. Groups with connections to the conglomerate succeed. Development is limited to groups of society thereby, which is enforced by a lack of efficient institutions of redistribution. A two class growth pattern is the result. Such a pattern cannot be attributed to China, although there too exist severe inequalities between those who benefit from growth. In China however, one could speak of a “lifting-up-effect”, whereas in Indonesia the majority remains poor and possibilities to ascend are limited.<sup>149</sup>

On the other hand, substantial economic inefficiency was a further result.<sup>150</sup> Suitable institutional structures of a state could set boundaries for these undesired effects. In Indonesia however, this does not seem to have worked so far.

With these three tiers, the establishment of a mixed economy was realised during *Orde Baru*. This kind of entrepreneurship, however, does not reflect the classical western entrepreneur,<sup>151</sup> nor the new type of Chinese state-capitalist. In all of the tiers, economic activity is less subject to economic interests than to diverse particular commercial interest. This trio-separation distinguishes Indonesia from developing countries and suggests that a special form of political capitalism is being realised in Indonesia rather than a typical third-world capitalism.<sup>152</sup>

### 2.3.6. Macro and Micro Economic Policies of Indonesia

<sup>146</sup> Year of reference: 1990, p.179-180 in: Vatikiotis

<sup>147</sup> p.335 in: Rock

<sup>148</sup> Ibid. p.336

<sup>149</sup> The official poverty numbers illustrate this; they differ significantly from Indonesia (13.3 percent) to China (2.8 percent). Source: Index Mundi, URL: <http://www.indexmundi.com/g/r.aspx?v=69>

<sup>150</sup> p.335 in: Rock

<sup>151</sup> p.230-231 in: Röpke

<sup>152</sup> A typical third-world capitalism would be coined by a more unilateral rent-seeking structure without an institutionalisation comparable to Indonesia.

I argued before that this form of capitalism in Indonesia is not market or competition driven. This might seem contradictory to the popular classification of Indonesia as a typical failure of the neoliberal trajectory, a victim of globalisation and dependence due to the opening for international capital.<sup>153</sup> But putting Indonesia into the role of a victim does not match reality.

As shown, the presumption of typical neoliberal by-products is partly valid for the capital intensive resource tier, whose function depended on the inflow of foreign monetary and technical capital.<sup>154</sup> Thereby, the presumption is also partly valid for the liberalised and deregulated financial relations before the Asian Financial Crisis in 1997. It is connected to the macro economic policies of the state. Until *Krismon*, macro economic stability had been a guideline for the Suharto government.<sup>155</sup> It was reached by conventional liberal macro economic policies, following the IMF-advice. Based on the “Washington Consensus”, the development ideology of the World Bank, this advice contained fiscal discipline, tax reforms, interest rates liberalisations, liberalisation of inflow of FDIs, securing of property rights, deregulation and a competitive exchange rate at its core.<sup>156</sup>

Following IMF advice had been revolutionary in Indonesian policies, which had been torn between two currents since independence in 1945. Röpke identified these fundamental currents, which I referred to as a significant distinction crucial to understanding Indonesia's development<sup>157</sup>, as the tendencies of

1.) *Dissolving of old Javanese traditional norms in economy*

*versus*

2.) *Reconnecting of hierarchical structural dependences alien to capitalist*

<sup>153</sup> p.14 in: Kenen: *The International Financial Architecture. What's new? What's missing?*

<sup>154</sup> And whose profitability is enormous, which is partly reflected in GDP distribution after sources.

<sup>155</sup> p.6 in: Stern

<sup>156</sup> p.25 in: Woo/Hong: *Indonesia's Economic Performance in Comparative Perspective.*

<sup>157</sup> See p.18



*accumulation with institutions of the new Indonesian state such as the military.*<sup>158</sup>

These general tendencies are the basic dialectic of Indonesia's political economy and its partial modernisation. Point 1.) and 2.) reflect the poles between which the Indonesian political economy is torn. Point 1.) mostly refers to the ideas of the so-called technocrats. This group of elites in government, educated at western universities, focussed on using more western liberal policy ideas for accumulation<sup>159</sup>, i.e. expanding unpopular liberal ideas to micro-sectors, whereas 2.) summarises the tendency to rely on authoritarian patterns of economic action, spiced with traditional Javanese ideas. 2.) is supported by the bureaucracy and military. From all the groups, people are to be found in government. Instead of recognising this dialectical momentum, the inconsistencies of Suharto's economic policies are highlighted.<sup>160</sup> From a western point of view, these policies indeed seem inconsistent. But taking into account the patrimonial network forming Suharto's power base, it seems to be rational to satisfy their claims in economic policies as far as possible. In this sense, Suharto's policies were pragmatic.<sup>161</sup> Ideological economic reason might tend to take more aspects of 1.) into institutional policies from the beginning on.

<sup>158</sup> p.220-221 in: Röpke, summarised in own words. The colouring shall additionally illustrate the contrast.

<sup>159</sup> p.33 in: Wie: *Recollections: The Indonesian Economy, 1950s-1990s*

<sup>160</sup> p.57 in: Vatikiotis

<sup>161</sup> His pragmatism (from pragma= action/ thing) refers to the colloquial definition of pragmatism, which means actions not bound to ideology or principles but to the needs of a situation. In the original meaning, Suhartos action are rather the opposite of pragmatic. Pragmatism originally is the philosophy of using the intellectual capabilities for utile creations. Searching for profit of its by altering policies to situations is not within this concept as it puts the emphasis on the spiritual achievement as well. (Source: Lexikon der Bundeszentrale für Politische Bildung . URL: [http://www.bpb.de/popup/popup\\_lemmata.html?guid=JPDRHY](http://www.bpb.de/popup/popup_lemmata.html?guid=JPDRHY))

### **Distribution of Tendencies in Policy-Making**

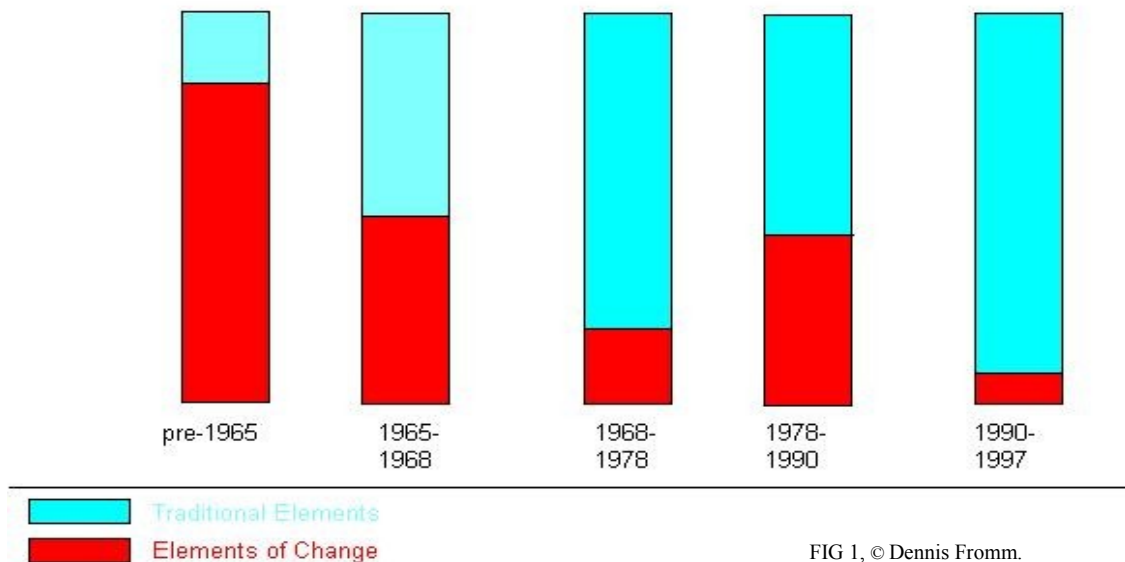


FIG 1, © Dennis Fromm.

As figure number one shows, the balance of power between these two poles shifted twice in Indonesian history between Suharto's ascension to power and his demise.

The first period was right at the beginning of his governing period. His power base had to be founded economically as well. At that time in 1965, ending the economic recession was a primary aim of Suharto's politics.<sup>162</sup> Without a strong economy, the young state of Indonesia and the destinies of its leaders, would not have had long-term prospects. Therefore, the first generation of technocratic experts was allowed to launch modern policies, such as a liberal investment law in 1967 and the re-implementation of the right to private property.<sup>163</sup> These measures were quickly successful. The GDP and revenues grew at a high speed between 1968 and the mid 1970s.<sup>164</sup> In that time of relative economic prosperity, the influence of 2.) was shifted back and patrimonial networks benefiting from this prosperity were extended according to tendency 2.). Further basic reforms for long-term development could not be fostered. This fact was

<sup>162</sup> p.6 in: Stern

<sup>163</sup> China guarantees private property since 2008 (Source: Kahn: *China approves law that protects private property*, NY Times, URL: <http://www.nytimes.com/2007/03/16/world/asia/16iht-web-0315china.4927191.html?pagewanted=all>). Therefore such a basic right in western capitalism is not an universal feature of successful capitalist development.

<sup>164</sup> See table in the annex, p.101

further supported by three other details.

Firstly, the young Republic of Indonesia had had negative short-term experiences concerning radical structural reforms under Sukarno in the time between 1945 and 1965. Secondly, the Javanese concept of *mufakat*<sup>165</sup>, stated in the constitution as a guideline<sup>166</sup>, did not give ideological support to radical structural change. Thirdly, idealistic technocrats were majorised by integrating them into the paternal network as well.<sup>167</sup> In combination, the continuous success of the reforms over a decade financed the overlooking of weaknesses. One of these was the basically non-existent tendency of industrialisation. Exports were determined by oil and other resources, which inhibited the creation of an industrial organisation of the domestic economy. When oil and other resource prices fell in the mid-1970s, the Indonesian government was confronted with a significant decline in revenue. This led to the second shift from 2.) to 1.).<sup>168</sup>

Even more influential events which led to the pursuit of more IMF ideology in Indonesian policies after the time of resource-price-decline were the rising debts of powerful, but wasteful and inefficient state industries at that time, for example the state oil company Pertamina<sup>169</sup>, plus a slowdown in growth in the beginning of the 1980s. Therefore, there was pressure to counteract this. Strategies by the so called technocratic economic groups in the government<sup>170</sup> gained importance again. They advocated that a change of direction in economy, away from resource based allocation, was necessary.<sup>171</sup> To meet these challenges, at first more parts of the macro economic surrounding were designed in a liberal way.<sup>172</sup> Thus, deregulation of the finance sector in the late 1980s was a consequence. Exports were promoted and efficiency of production was improved.<sup>173</sup> Growth rates returned to a faster speed quickly. Further reforms were not

<sup>165</sup> A type of compromise reached by discussion and the formal agreement of all relevant groups.

<sup>166</sup> Abstract of: Kawamura: *Consensus and Democracy in Indonesia. Musyawarah-mufaka revisited*.

<sup>167</sup> The later President Haibibie is a poster-boy for such a development

<sup>168</sup> Comp. p.18 in: Stern. The traditional elements are called „nationalist“ in Stern's text.

<sup>169</sup> p.33 in: Wie

<sup>170</sup> Also referred to as “Berkely Mafia”, because they attended universities in the USA. (Source: p.115 in: Schwinghammer: *Neue Wirtschaftskonzepte in Indonesien und Malaysia: Voraussetzungen und Auswirkungen im Vergleich*) It seems to be interesting that also many members of the Chinese elite received education in the western world, but this did not reflect in their policies later. Unfortunately, this issue cannot be discussed in this dissertation.

<sup>171</sup> Comp. p.63 in: Hadiz

<sup>172</sup> p.329 in: Hofman/ Zhao/ Ishihara: *Asian Development Strategies. Indonesia and China compared*.

<sup>173</sup> Comp. p.326 in: Rock

followed. The power shifted once again from 2.) to 1.).

These kind of liberal politics worked, until the macro economic stability was interrupted by the *Krismon* in 1997/1998. This crisis hit the Indonesian economy at a weak point, because once again, Indonesia had failed to get rid of the inhibiting rent-seeking patrimonial networks, based on a fusion of traditional values and modern capitalism, in favour of rationalised institutions able to steer Indonesia away from dangerous external events. *Krismon* was followed by a massive decline of the Indonesian currency, a recession of around 13 percent<sup>174</sup>, and the fall of Suharto.<sup>175</sup> China was not touched by this event due to the different strategy to maintain macro economic stability. The main difference were the strict non-liberal financial and money politics.

### 2.3.7. Monetary and Financial Relations

It does make sense to discuss the money relations of Indonesia within this cluster of bureaucracy. Their effects last until today and are only to be understood within the framework of what we have found out about the Indonesian variant so far. The Indonesian monetary system has also been coined by a partial modernisation.

Three policy principles were a priority in monetary politics under Suharto. These were the balanced budget rule, the open capital account and the adjustable pegged exchange rate.<sup>176</sup> They were established at an early stage to create a stable macro economic environment. The inflexibility of Indonesia's political economy is mirrored in the course of these principles. They were not altered sufficiently over the years to allow them to react adequately to a changed situation.

The balanced budget rule was intended for the Ministry of Finance to have legitimate and accepted protection from the demands of the government. The seduction of deficit spending was given into during periods when the Indonesian economy seemed to be robust and financially stable.<sup>177</sup> The obligation to have a balanced budget was aimed at

<sup>174</sup> See p.101

<sup>175</sup> IMF: Erholung von der Asienkrise und die Rolle des IWF, URL: <http://www.imf.org/external/np/exr/ib/2000/deu/062300g.htm#box1>

<sup>176</sup> p.6 in: Stern

<sup>177</sup> Ibid. p.7

preventing this seduction, which did not happen however. Off-budget accounts were maintained by the government to get around the balanced budget rule. They were used to finance costly politically motivated economic projects (like the attempt to establish a state-owned aircraft industry)<sup>178</sup> which would have blasted legal budget restrictions. Moreover, such accounts were used for propaganda campaigns. The financing of public enterprises in deficit by borrowing from state banks was also excluded from this rule.<sup>179</sup> Therefore, the balanced budget rule was subject to the particular interest of Suharto's networks and existed in name only. The rule was undermined by the complex bureaucracy. It created a façade of fiscal discipline, although the actual content of the balanced budget rule became a mere slogan hiding the true situation.<sup>180</sup>

The step towards an open capital account was already on academic radar when it was launched in 1971.<sup>181</sup> Indonesia was one of the very few developing countries to allow a free capital flow. Even stable developed countries were hesitant to eliminate all controls on foreign exchange transactions. The Indonesian idea standing behind it was creative. It would hold up a mirror to Indonesia. Monetary and economic mismanagement would show up immediately in an efflux of foreign currency. Like many other Indonesian policies, the true effect became visible in the long run. In 1971, international capital movement was still slow and therefore it was feasible to maintain an overview. When international capital movements became more popular and quick, states like Malaysia, who used to have an open capital account, restricted its movements again.<sup>182</sup> Indonesia rejected the restrictions of a seemingly proven institution. In *Krismon*, the open capital account aggravated the devastating effects on economy.<sup>183</sup> At that time, the monetary deficits were also revealed by the open capital account, but the institutional infrastructure was not able to react quickly or adequately enough. Creating an open capital account without an efficient institutional infrastructure proved to be deadly. This political mismanagement, crucial for economic events, was not revealed by an open capital account.

<sup>178</sup> p.156 in: Robison/ Hadiz: *Reorganising power in Indonesia: The politics of Oligarchy in an age of markets*.

<sup>179</sup> p.7 in: Stern

<sup>180</sup> Ibid. p.7

<sup>181</sup> Ibid. p.7

<sup>182</sup> Ibid. p.7

<sup>183</sup> p.23 in: Worldbank: *East Asia: recovery and beyond*.

The third main monetary instrument under *Orde Baru* was the adjustable pegged exchange rate. Its aim was the maintenance of the real international value of the rupiah and the granting of a stable currency. A side aim was to keep inflation under control.

There were three factors in Indonesia which made the peg difficult. Firstly, the efficiency of a peg depends on the credibility of a currency regime. Secondly, a great deal of skill is required to steer the realignment in an economically reasonable way. Such skills were less important than personal connections in the Indonesian Central Bank, which was integrated in the patrimonial network, when it came to getting a position of responsibility. Thirdly, the combination with accelerations in capital flows and an open capital account made pegged exchanges more and more difficult. In the mid 1990s, this system was no longer able to cope.

In 1973, 1978, 1983 and 1986 depreciations were executed, whereas in 1994 and 1996 massive appreciations were undertaken by the Indonesian Central Bank. Especially the appreciations at the end of Suharto's governing period were the pinnacle of inherent difficulties.<sup>184</sup> The appreciations were of 16 and 20 percent,<sup>185</sup> and doubt began to arise as to whether this really reflected the Rupiahs value. The Rupiah was bound to the US-Dollar among other currencies. At the time of the rupiah's appreciation, the Japanese Yen was devalued against the US-Dollar. The simultaneous devaluation of the Yen increased doubts about Indonesia's monetary practices and soon it was acknowledged that the exchange rates did not reflect the real value of the Rupiah.<sup>186</sup>

These appreciations in 1994 and 1996 set an unforeseen vicious circle into motion. The appreciation led to a slowdown in exporting manufactured goods and a rapid rise in imports<sup>187</sup>, which weakened the developing domestic industrial base. The current account deficit deteriorated. Domestic investors borrowed money offshore because of rising interest rates launched by the Central Bank to equalise pressure on the Rupiah. On the other hand, this led to an influx of foreign capital due to higher interest rates. This supply of money was too much to be absorbed by the Indonesian economy without

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<sup>184</sup> p.8 in: Stern

<sup>185</sup> Ibid. p.8

<sup>186</sup> However, it is reflected again how interests of the ruling patrimonial network determined institutional action. The appreciations can be interpreted as serving the interests of the patrimonial network in the way that their monetary assets rose in value.

<sup>187</sup> p.9 in: Stern

a simultaneous industrial expansion which was not attained. It led to even higher inflation rates than usual (traditionally, these rates were already higher than in China or ASEAN), structurally caused high prices for commodities, political pressure, and contributed to the fall of Suharto and a movement towards a new currency regime. Although the pegged exchange rate was abandoned in favour of a floating exchange rate in 1997,<sup>188</sup> the other two features of the old regime continued to exist

The fiscal regime also has a similar tendency of being stuck. The insight that state revenues should be diversified not to depend on oil and gas domestically and internationally was promising. So was the idea of a simple tax system to further this diversification. However, it was only partly successful.

Starting to be modernised in the early 1980s, most of the simple tax system fell short due to structural barriers. Four pillars were established to form the foundation of tax revenue. In 1983, a trinomial self-reporting income tax was launched (15, 25 and 30 percent).<sup>189</sup> Low income groups were excluded from this system. A simple VAT (Value Added Tax) of ten percent for domestic producers followed in 1985. In the same year, the elimination of tax holidays for foreign investment was launched, which did not reduce FDI (Foreign Direct Investment) in the medium and long run.<sup>190</sup> The last pillar was property taxes, due to an increased value of urban properties which gave constant profit for landowners, but little revenue for the state.

State revenues diversified afterwards, but efforts to strengthen the fiscal system further came to an end in the early 1990s, when the crony networks regained influence in policy-making. Within the existing networks, taxes became another source of possible structural corruption. Negotiations of tax bills and tax evasion were common.<sup>191</sup> Exceptions are the rule. Even today, as a brochure by the German Chamber of Commerce from 2009 reveals, it is the Minister of Finance who has the last word.<sup>192</sup> Fiscal discipline thereby suffers from the power structures, plus fails to use its integrative force. The exemption of low income groups from the tax system is, given the facts known about Suhartos regime so far, unlikely to be an act of philanthropy. It seems

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<sup>188</sup> Ibid. p.9-10

<sup>189</sup> Ibid. p.12

<sup>190</sup> Ibid p.12-13

<sup>191</sup> Ibid. p.14

<sup>192</sup> p.26 in: *Wirtschaftspartner Indonesien*.

to be rather the fear of claims of the masses, justified by their taxation. The slogan “No taxation without representation” from the American struggle of independence can be appropriately inverted to read: “No representation without taxation” in Indonesia.

### 2.3.8. Banking Sector & Capital Markets

The Indonesian banking sector is no exception. Structurally inherent problems are present here as well. Low business transparency, management inefficiency due to an “inadequate distance” from group companies and from an involvement in state affairs<sup>193</sup> contradict the neoliberal façade of formal deregulation. Corruption and nepotism is common throughout the sector<sup>194</sup>, which is, therefore, also torn between traditional and modern elements.

There is a coexistence of state banks, semi-private banks and private banks. From 239 banks in 1996, there were seven completely state-owned, 27 semi-private regional development banks, 164 private and 41 foreign.<sup>195</sup> State-ownership additionally to informal networks is legally granted by shares. After the Asian Crisis, banks were regrouped into those who had received public support and those who had not. The number of banks was significantly reduced to 151. The top 23 represent 90 percent of total assets in the banking sector.<sup>196</sup>

Under Suharto, individual banks were supervised by Bank Sentral Indonesia, Indonesia's Central Bank. Banking business licenses were issued by the Ministry of Finance and the affiliated Currency Committee Secretariat. Regardless of the strict domestic regulation, the private banking sector showed a boom at the end of the 1980s. From 66 private banks in 1988, its number more than doubled to 164 within eight years. This development was linked to the liberalisation of interest rates as a part of the deregulation policies<sup>197</sup> at a time when capital to finance industrial expansion was needed.<sup>198</sup>

<sup>193</sup> p.35 in: Harada/ Takatoshi: *Rebuilding the Indonesian Banking Sector- Economic Analysis of Bank Consolidation and Efficiency*.

<sup>194</sup> Ibid. p.35

<sup>195</sup> Ibid. p.33

<sup>196</sup> Ibid. p.34

<sup>197</sup> Ibid. p.39

<sup>198</sup> As shown in the section before, industrial expansion did not keep up with an expansion of financial activities. As a result of these uncoordinated, ungradual measurements, there was an abundance of capital later.



It's the banks who play the main role in financing and in administering savings in Indonesia. Before deregulation in the 1980s, banks had the monopoly on corporate finance. Since then, capital markets have been gaining importance however. Reopened in 1977, market-capitalisation, private sector activity on financial markets and thereby financial markets grew. Between 1988 and the 1990s, private companies were allowed to go public just as foreign investors were given access to Indonesian stocks.<sup>199</sup> Trade with shares, corporate bonds, government securities and derivatives<sup>200</sup> is organised by the Indonesian Stock Exchange (IDX), which is based in Jakarta after a fusion of the Stock exchanges in Surabaya and Jakarta. It is supervised by the BAPEPAM (Capital Market Supervision Agency), which is directly linked to the Ministry of Finance.

In 2010, the IDX was elected South-East Asia's best stock exchange. Currently roadshows are undertaken by the IDX to "socialise" possible investors and issuers with possibilities of still relatively unpopular stock trading.<sup>201</sup> 400.000 domestic investors are active on the Indonesian Stock Exchange<sup>202</sup>, a small share considering the over 230 million inhabitants. Capital Markets thereby are relatively young institutions and it will be interesting to see if capital markets get majorised in the Suhartonian accumulation regime or whether at one point they will cause a more financially driven accumulation.

So far, monetary institutions blend into the accumulation structure. They work cooperatively without liberal competition. As seen from the balanced budget rule, the taxation system, and the banking sector, the state has the last word. What this means in detail is multilateral. In a mutual dependence, the state determines bureaucracy, ministers, ministries, integrated favourites or all these things. This is contradictory to liberal capitalism. It seems to be the case that many of the principles which are called liberal *vorschnell*, is only a façade. When determining the Indonesian variant of capitalism, this has to be kept in mind as it seems to be common to unquestioningly rely on these popular presumptions.<sup>203</sup> This monetary system is evaluated as being full of so

<sup>199</sup> History of IDX, URL: <http://www.idx.co.id/Home/AboutUs/History/tabid/72/language/en-US/Default.aspx>

<sup>200</sup> p.10-13 in: *IDX Factbook 2011*

<sup>201</sup> *Ibid.* p.13

<sup>202</sup> From: Novianto, Ardhian (02.07.2011): *Hot Money*, Newspaper Article in: The Jakarta Globe

<sup>203</sup> These presumptions are most popular in economic literature about Indonesia, where more detailed discussions are an exception. Those who were concerned with the effects of a special authoritarian regime, torn between old and new, were cultural anthropologists. Economic literature ignores these

called “orthodox policies”.<sup>204</sup> It does not seem so simple in reality. When integrating the Indonesian monetary relations into a wider VoC-framework, several incoherences to orthodox policies emerge.

However, this is not problematic when determining an Indonesian variant of capitalism. VoC suggest that various combinations of the five factors determining a system are possible in order to function. Crucial is that they are complimentary. This is where this approach touches slightly normative terrain. “Functioning” actually has to be discerned from “successful”. However, both terms are often used interchangeably.

The Indonesian monetary system functions as it has been able to reproduce itself over three decades. But is it successful? Success depends on the definition of an aspiration<sup>205</sup>, success is normative. If the aspiration is to maintain Suhartonian power structures, commercially beneficial for cronies, this monetary system is very successful. The price society has to pay does not play a role from this perspective. Purpose, means and goals are in accordance. If, however, the aspiration was to step towards a high performing economy, then the monetary relations are not successful.

It, therefore, strongly depends on the viewpoint. The first viewpoint is unpopular in academic literature about Indonesia. Success in Anglo-Saxon dominated economic literature about Indonesia had mostly been measured either by numeric indicators<sup>206</sup> or by the degree of how close its economy comes to a liberal variant. Indonesia's monetary policies seemed to be close to liberal concepts at first glance. Due to this proximity, incoherences with classic liberal concepts<sup>207</sup> were not used according to a dialectic logic, which suggests another form of capitalism.

### 2.3.9. Neo-Liberal or Neo-Traditional? From a Basket Case to a Special Case

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insights, though they might seem to have economic consequences which become apparent in the retrospective.

<sup>204</sup> p.1 in: Ramli: *The IMF's Indonesia's Myths*.

<sup>205</sup> “Success“ in: Encyclopedia Britannica

<sup>206</sup> Comp. p.83 in: Van Ierland/ Van der Straaten/ Vollebergh: *Economic growth and valuation of the environment: a debate*.

<sup>207</sup> The original VoC-concept was a reaction of Hall and Soskice to the “End-of-history-atmosphere“ after the fall of the Berlin Wall, when liberal capitalism was academically disputed to be the only universal goal to material success. With the establishment of the “Coordinated Market Economy“, a first alternative for material success was academically accepted. The concept was expanded from this day on, and the discourse about how development occurs was enriched. However, in the Anglo-Saxon dominated economic literature about Indonesia, this concept seems to be still alien and new.

The contrast between the traditional networks in new clothes and the modern macro policies have become apparent on many levels of political economy. The relatively liberal macro economic environment is only one side of Indonesia's economic development. On a micro economic level, it looks completely different. The micro economic development is coined by the structures described above. The micro economic environment is not liberal at all. It is not competition driven, but is dependent on patrimonial networks, a cooperation between high ranking government officials and businessman of mainly Chinese descent.<sup>208</sup> This side is often ignored in development studies about Indonesia. But to get the full picture of Indonesia, it seems to be helpful to recognise the opposed politics in micro and macro economic development. It makes Indonesia a special case, rather than a irrational basket-case.<sup>209</sup>

To summarise, the micro and macro economic policies of Indonesia and China seem to be opposite. The simplified table (FIG 2) shows how. Though simplified, it illustrates the different tendencies of the form of capitalism in both countries.

	Indonesia	China
Micro	Authoritarian	Liberal
Macro	Liberal	Authoritarian

FIG 2, ©Dennis Fromm

“Liberal” in this figure does not refer to the classic western notion. It refers to the special type of guided liberal activity, as liberal as a dog on a long lead. Political liberality is excluded. Whereas China has developed its own version of liberal micro-policies, like the decentralisation programmes in the early 1980s leading to the massive support of independent but obliged regional-owned companies, Indonesia has stuck to a

<sup>208</sup> p.327 in: Rock

<sup>209</sup> p.61 in: Hadiz/ Comp. Pincus/Ramli: *Indonesia: from showcase to basket case*.

more authoritarian micro policy. “Authoritarian” shall not be understood in the classical sense. Authoritarian in this matter means, that the state and the bureaucracy remain in control of economic affairs (or a short lead). Economic activity and accumulation, thereby is only possible within their range of interest. This structural constraint is the reason why economic achievement is not the base of economic success.<sup>210</sup> This structural constraint opens doors to corruption instead of competition. Cooperation exists without competition. This structural constraint is the reason why Indonesia attributes a disruptive bureaucracy to its economic progression.<sup>211</sup> Economic success on a large scale depends on their benevolence. State subsidies, distributed by brokers, are scarcely available for small and medium enterprises. The brokers monetary personal benefits in this accumulation system are not linked to the success of local businesses. The lack of incentive system for the bureaucratic class, comparable to that of China, means that the optimisation of local businesses is prevented. Masses of people remain excluded from modern capitalist economic activity.

The result is visible in sectoral shares. The industrial base in Indonesia is not as big as that of China.<sup>212</sup> The country has still not met the vast industrialisation of economy and society. Expansion and modernisation of production is not being made easier, but is rather being discouraged. This is in other words the wasted potential of Indonesia from a structuralist perspective.

### **2.3.10. Mechanisms of Social Sanction in Indonesian Bureaucracy**

We have to bear in mind that one individual private force is yet to be discussed. We have only looked at the accumulation system and the institutional preconditions for cooperation and competition, which are identified as the universal landmarks of any capitalist structure.<sup>213</sup> Capitalist economies are, however, also coined by the mechanisms of social sanctions. These mechanisms ensure a constraint of accumulation for each individual. The constraint means that the existence of the individual is endangered if it does not take part in capitalist accumulation. I have already stated that vast groups of

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<sup>210</sup> Comp. p.xx in: Röpke

<sup>211</sup> Comp. Pincus/ Ramli

<sup>212</sup> Comp. p.224 in: Encyclopedia Britannica

<sup>213</sup> Comp. p.7 in: Ten Brink

Indonesian society do not seem to be integrated in modern economic activity, and that politics have so far failed to foster large-scale integration so. During *Orde Baru*, this activity and social sanctions were still being framed within traditional contexts rather than by capitalist ideals. Traditional social sanctions played the role of modern, achievement-based ones. (Tendency number 2.) was dominant.) The integration into the new state of Indonesia was carried out under the banner of many traditional Javanese elements.<sup>214</sup> This is manifested differently on different levels of political economy.

*Mufakat*, the aim of coming to a consensus as in village societies, is influenced by hierarchies and was established on a political level. *Rukun* was the term for all norms of harmonious unity of society on a social level which influenced private socialisation. On an institutional level, this was guaranteed by the *Pancasila-Ideology*<sup>215</sup>, the recontextualised base of the Indonesian nation, which was taught in schools. All have a common root in the Javanese set of values. The Javanese world view influenced views about organisation of economy.<sup>216</sup> These views and economic organisation seem to be complimentary and coherent. They suit the special bureaucratic structures. Their consequences on the mechanism for the social sanction, which should theoretically support rapid capitalist accumulation<sup>217</sup>, is called dysfunctional in their influence on capitalist development.<sup>218</sup> Social sanctions do not occur according to achievement-principles. Status is gained by favouritism instead. Integration of people of low status into modern economic activity is thereby made more difficult. The mechanism of social sanction in this set of value is not competition-driven. Many argue, that Javanese values are not compatible with capitalism.<sup>219</sup> This is not quite true as a more diverse notion of capitalism reveals. They *are* compatible with capitalism, as values do not hold capitalism back. But in many ways, they do not seem able to support capitalist accumulation. It is better to be happy with less<sup>220</sup> and personal material ambition should be hold back.<sup>221</sup> In short, these traditional elements are difficult to use productively in a

<sup>214</sup> Comp. p.16 in: Birch: *Asia: Cultural Politics in the global Age*.

<sup>215</sup> The role of this ideology will be discussed more thoroughly in chapter three.

<sup>216</sup> p.116 in: Röpke

<sup>217</sup> p.7 in: Ten Brink

<sup>218</sup> p.121 in: Röpke

<sup>219</sup> p.290 in: Booth

<sup>220</sup> p.120 in: Röpke

<sup>221</sup> Ibid. p.112/116

capitalist way, no matter what the variant.

The constraint of accumulation thereby seems to be inhibited on two sides. From this point of view, it seems sure that the Indonesian potential, despite some remarkable improvements, is still sleeping. The consequence of Javanese crony capitalism is that an acceptable average growth was possible over several decades, but a consistently *high* average growth, as in China has not been achieved and has not been structurally supported. The turning point, in 1978, can be understood as a result of that. In Indonesia, at that time, the disadvantages of the crony group growth strategy were about to become obvious. A change in institutional structures according to the needs of the national economy as a whole was more difficult within such a strategy and fortified set of institutions. Returns had been used by the state to stabilise the Suhartonian accumulation regime instead of being used for a new combination of economic resources.<sup>222</sup> That is why the Indonesian economy, though having vast space for development possibilities no longer matches the Chinese growth rates, but has been relatively setback. Politically, this is supported. Instead of a dynamic form of state dirigisme like in China<sup>223</sup>, which is necessary to encourage and master the change accompanied by widespread capitalist development, the Indonesian state-government-economy cooperation is harmonious, opposing dynamic development, and restraining its expansion. Expansion is not in accordance with stability, this is the rationality behind it. The concerns about economic stability can be seen as a result of the crony structure.

But it is not only the economic stability which is a result of Suhartos economic policies.<sup>224</sup> Observers connect the economic development under Suharto with fortified political stability.<sup>225</sup> For them, the positive economic development (i.e. the often quoted “*end of economic chaos*”<sup>226</sup>) is responsible for that. Surprisingly, apart from minor conflicts in the outer areas, the newly constructed state of Indonesia seems to be stable. This presumption should not be discussed here. But in terms of political economy, the

<sup>222</sup> Ibid. p.131

<sup>223</sup> Abstract in: Ten Brink

<sup>224</sup> It is argued, whether it is the combination of liberal macro-economic policies and authoritarian micro-economic policies OR only the liberal elements of the Indonesian policies OR only the authoritarian aspects which are responsible for a stable growth over decades.

<sup>225</sup> p.5 in: Cederroth: *Elections in Indonesia: The New Order and beyond*.

<sup>226</sup> p.62 in: Hill: *The Indonesian Economy*.

Indonesian capitalism indeed seems to support a “balance of power”. This “balance of power” has granted both the stability of the Indonesian economy for three decades on a medium high level and the failure to use more of its potential like other high performing economies of East Asia. It seems to be a matter of opinion, whether this structure is seen as good or bad. Roughly, two positions can be identified in how this balance is evaluated. Optimists might tend towards criticism, pessimists towards appraisal. Either way it suggests features of a functioning pattern.

### **2.3.11. A Name for the Indonesian Capitalism II**

Though deeply involved in commercial activity, the role the Indonesian state has played in economic trajectory is different to China's state capitalism.

The Indonesian state is weak, because it did not establish central planning or supervisory institutions to ensure high performance.<sup>227</sup> Economic policy therefore was not led by national nor regional interest, but by the private sector. The private sector cannot be seen as separate from the state as the discussion of interaction has shown. The state is organised privately in an exclusive crony network, and private commercial activity thereby part of state action.<sup>228</sup>

The private sector thereby could be efficiently institutionalised. The conglomerate corporate structure bundled industrial interests into fewer groups. Looking at the institutions of planning gives further evidence of that. There are at least four institutions which determined the planning. There was the “Bank Indonesia”, the Ministry of Finance, the National Development Planning board (BPPNB) and the presidential office with its cabinet secretariat. In the knowledge that posts were distributed not according to formal qualification but by “merit”, it is likely that particular private interests will find four doors to enter the policy-making process. It granted the satisfaction of interests of each particular powerful group, which conflicted with more liberal policies in the 1980s.

In fact, there was successful resistance to policies aimed at changing the micro

<sup>227</sup> p.185 in: Hofman, /Zhao/ Ishihara: *Asian Development Strategies: Indonesia and China compared*.

<sup>228</sup> The “third force” bureaucracy is the connecting piece between private and public (state)commercial activity. The term “public” is misleading as well because the public talked about is a group limited in numbers and not the same as the Indonesian people.

economic environment in a more liberal way.<sup>229</sup> As said before, structures were not changed at the core. Particular interests had been institutionalised over the years, so that lobbyism could influence politics structurally and not only informally. Moreover, because this kind of lobbying is institutionalised, it is difficult to fight it on an institutional level. So, these structures proved not only to be an obstacle for fruitful economic dynamics, but also limited the space of political action of the government. In *Orde Baru*, no attempt was made to use these dynamics like in China. This is currently being tried out by attempts for more regional autonomy and it will be interesting to see whether this measurement is suitable to overcome the structural interdependence between political and economic actors.<sup>230</sup>

### 2.3.12. Labour-Relations in Indonesian Corporatism

Despite regional disparities in development, different degrees of capitalist integration, and a relatively small manufacturing industrial sector<sup>231</sup>, determining features of labour relations can be described within the Indonesian capitalist framework.<sup>232</sup>

According to Ten Brink, the vertical axis of work-relations in China is marked by the corporatisation of industrial relations, with the state being partially active in equalising workers' and corporate interests with the legal regulation of hired labour and social securities on a mostly corporate level.<sup>233</sup> The structures underlying this form of regulation are fundamentally different.

Firstly, Indonesia's industrial base is relatively small. The reasons for this small base were discussed from a state-centred perspective. But this imbalance has some problematic consequences for the working sector, too.

Indonesia's workforce is compromised of 166.6 million people, of whom 102.6 million work in registered work-relations.<sup>234</sup> This amount is huge in ASEAN comparison, but

<sup>229</sup> p.185 in: Hofman, /Zhao/ Ishihara

<sup>230</sup> Comp. p.24 in: Ten Brink

<sup>231</sup> 12 percent of total workforce is employed in this sector. Source: *IHK-Report*, Section: *Arbeitsmarkt und Löhne*

<sup>232</sup> Comp. p.24 in: Ten Brink

<sup>233</sup> Ibid. p.28-29

<sup>234</sup> IHK Report 2009, Section: Arbeitsmarkt und Löhne.



small in contrast to China which has 200 million workers in manufacturing alone.<sup>235</sup> Out of the 102.6 million, an estimated 40 percent work in agriculture and only twelve percent in manufacturing industries. In 1990, the quota of people working in the manufacturing sector was basically the same as in the 1930s.<sup>236</sup> Within thirty years of *Orde Baru*, there were only small shifts in the distribution of the workforce despite shifts in the contribution to the GDP. An urbanisation is happening without offering an industrial use for masses heading to the cities. Despite low wages as a potential base for labour intensive production, the probable rate of unemployment in Indonesia is 30 percent<sup>237</sup>. This supports the formation of a vast low wage tertiary sector, the formation of third-world style urban slums and the emigration of unskilled workers for low paid jobs preferably to Singapore, Hong-Kong, the United Arab Emirates or Saudi Arabia.<sup>238</sup> In economic terms, the creation of less employment opportunities than needed, and a bigger industrial sector, leads to work potential continuously laying idle.

Secondly, the physical infrastructure of this small industrial foundation has qualitative flaws. Public spending on education shrank in comparison to neighbouring states and nothing more than a basic education is made available for those who cannot afford access to private schools.<sup>239</sup> As a result, only four percent of Indonesians have a higher education degree.<sup>240</sup> Therefore, there is not yet enough human capital for an industrial expansion. Even if they wanted to introduce one<sup>241</sup>, existing industries would have difficulties in filling leadership positions with people with adequate skills.<sup>242</sup>

The low level of education does not only affect higher positions. The level of knowledge of unskilled workers is said to be low.<sup>243</sup> Production of more advanced products is therefore limited. Formalised in-house training is not common either.

<sup>235</sup> p.24 in: Ten Brink

<sup>236</sup> p.129 in: Mannning: *Indonesia Assesment 1993. Labour: Sharing the Benefits of Growth?*

<sup>237</sup> In contrast to 8.4 percent officially in 2008, Source: IHK-Report 2009, Section: Arbeitsmarkt und Löhne.

<sup>238</sup> p.44-46 in: Hugo: *International Migration in Indonesia and its Impact on regional Development*.

<sup>239</sup> p.212-213 in: Hill

<sup>240</sup> Framework for categorising “higher education“ is the western notion of education, which is used in an uncritical way in this dissertation.

<sup>241</sup> Which was said is not the rule because of cronyism and nepotism .

<sup>242</sup> The contrast to China at this point is enormous. Although inequalities because of privileges exist in China as well, the possibility of social ascension by mere education is formally supported by the state, who furthermore has a vast network of colleges and universities established in the country. The social permeability is higher thereby.

<sup>243</sup> IHK-Report 2009, Section: Arbeitsmarkt und Löhne.

Thirdly, though total factor productivity (TFP) increased by about a third during the 1980s reform period<sup>244</sup>, the productivity of workers Indonesia is constantly subject to severe criticism. This kind of criticism is unknown from the debate about workers in China, whose diligence is hardly questioned. Whether the criticism uttered about Indonesian workers is a subjective estimation based on orientalist “Kuli”-images or based on measurable facts, is a point differently treated in relevant literature. What can be derived for certain is that human capital is not used in an efficient way when compared to China.

Fourthly, in the mid 1990s and after the fall of Suharto, a lot of formal concessions were made to workers in the manufacturing sector. The fall of Suharto was accompanied by workers' protests. Unions, formerly restricted to one state-union, thereby regained some political influence and could diversify.<sup>245</sup> Employers views on the legal foundation of labour relations today call them “employee friendly.”<sup>246</sup> The contrast to China at this point is immense. The perception of Chinese capitalism being employee friendly by law is uncommon.

This friendliness is mirrored in elements such as sectoral minimum wages, restrictions of working hours, prohibition of unpaid extra working hours, 12 days of paid holidays, an obligatory 13<sup>th</sup> salary as “Religious Holiday Allowance”, similar to a Christmas bonus in Western states, allowances for travel and food and maternity protection.<sup>247</sup>

However, in labour relations the Indonesian capitalism reveals the problem between claim and reality, law and implementation, between formal guarantees and informal practices. This is another consequence of the complex bureaucratic-commercial institutional framework. The implementation of laws like these<sup>248</sup> face structural barriers which are hard to navigate.

Work regulations exist formally, but are not implemented. The implementation of such

<sup>244</sup> p.176 in: *Indonesia and China compared*.

<sup>245</sup> p.544 in: Lindsey 2008/ p.5 in: Rahayu/ Sumarto

<sup>246</sup> IHK-Report 2009, Section: Arbeitsmarkt und Löhne

<sup>247</sup> Ibid.

<sup>248</sup> The obligations are summarised in the Manpower Law 13/2003. Source: Ibid.

laws is in opposition to employers' interests. There are no serious consequences for ignoring them. Institutional frameworks to press these laws through do not exist. In practice, the aforementioned obligations are easy enough to get around within the existing structural framework. In an analogy to minimise the effect of the “Balanced Budget rule” by “off-budget accounts” for non-viable economic projects, temporary contracts are excluded from social benefits. In practice, many companies rely on temporary contracts to avoid the additional costs connected with permanent contracts. This is valid mostly for unskilled workers. The permanent abundance of unskilled workers is not being absorbed by industries and this weakens their position in negotiating proper implementation, as replacing workers is easy. Breaking laws has less severe consequences for employers and companies than for employees. So far the state has not actively helped to equalise these developments in practice.

In terms of social security, the matter of fact seems similar. By law, companies with either more than ten employees or salaries exceeding one million rupiah in total are obliged to take care of the social security of their employees. Healthcare, accident insurance and life insurance have to be completely covered by the employer through the payment of fixed shares to the responsible authority, PT Jamsotek. For pension contributions, the employee has to contribute a share. PT Jamsotek reports about the common and frequent practice of companies who do not pay the social insurance costs.<sup>249</sup>

All in all, labour relations in Indonesia's capitalism can be summarised as liberal in the way that social securities and benefits are not granted by fiscal redistribution, but by the direct engagement of companies. Though formally strictly regulated, in practice labour relations seem to be liberal, and depend on the company's attitude.

The state plays a Janus-faced role, since there is growing political pressure from the dissatisfied masses on the one side, but the state is interwoven with the horizontal axis interests to a strong degree on the other side. The formulation of protective laws without securing their implementation can be seen as another compromise typical for the balance of power in this special system.

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<sup>249</sup> Ibid.

### 2.3.13. Indonesia's Economy in International Contexts

Now I will explore *how* the special structure of Indonesian capitalism presents itself in a regional and global context. Apart from domestic interdependences, there are international interdependences which influence economic systems. Determining a variant of capitalism merely from national aspects is likely to mean arguing from an all too narrow perspective.<sup>250</sup> International aspects play a decisive role in shaping the core elements of a certain capitalist system.

The international integration of Indonesia has to be seen from two dimensions. Firstly, in its role in the region and secondly in its position in developments in the global economy.

### 2.3.14. The Failure of Exportism

The same as China, Indonesia is part of a macro economic region which is becoming more and more the economic growth engine worldwide. No other region worldwide seems to have a comparable dynamic performance. In no other region, is there a comparable density of high and medium-high performing economies<sup>251</sup>. Ten Brink argues that even China's outstanding development has to be analysed in the context of the establishment of East Asian economies to a new centre of global economic activity.<sup>252</sup>

The economic rise of Japan in the 1950s marked the beginning of an interregional snowball-effect, which let more and more countries in the region integrated themselves into new trade and production chains within Asia.<sup>253</sup> Japan and especially China are the dominant economies in this greater region. The first question, therefore, is how Indonesia is integrated in this environment.

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<sup>250</sup> Comp. p.8-9 in: Ten Brink

<sup>251</sup> Measured in terms of growth-rates

<sup>252</sup> p.37 in: Ten Brink

<sup>253</sup> Ibid. p.3 in: Ten Brink

The Indonesian archipelago is located close to East and South-East Asian regions of growth. It marks the south-eastern end of this macro region, which stretches over five thousand kilometres from east to west. Its extent and its land-mass is only comparable to that of China. This, and other features of its geography, distinguish Indonesia hugely from other ASEAN states, from its closest neighbours. Indonesia also marks the connection between South-East Asia and Western Australia, giving it a unique strategic location. This connection could be identified as a possible geo-structural opportunity. In addition to these special geographic features, Indonesia has geological differences of importance for its economic structure and its global integration, which are special in regional contrast as well.

Indonesia suffers a “resource curse” which is a phenomenon more known from Latin-America and Africa. Unique to this region, Indonesia is abundant in several natural resources, above all coal, bauxite, oil, gold, copper, manganese and the world's largest supplies of tin and nickel.<sup>254</sup>

Economic Growth was stimulated by the export of these resources. Growth by a big share was the result of exploitation of non-renewable resources<sup>255</sup> like oil. In the mid 1970s, 70% of the state revenues came from oil.<sup>256</sup> In the 1990s, one eighth of the GDP was provided by mining.<sup>257</sup> Unlike in neighbouring countries, economic revenue did not depend on industrial economic organisation. Therefore, Indonesia did not have to follow sustainable industrial policies of development for a long time<sup>258</sup>. This had consequences for regional integration.

On a very abstract level, an “Asian Capitalism” is spoken of when describing the systematisation which coined the macro-region between Japan and Indonesia. This capitalism was coined by Exportism and an accepted strong development state<sup>259</sup> as general feature among varieties. Exportism means the dominance of export orientation

<sup>254</sup> p.5 BPS: *Statistical Yearbook of Indonesia 1998*

<sup>255</sup> p.27 in: Hill

<sup>256</sup> p.176 in: Susetiwani

<sup>257</sup> p.224 in: Encyclopædia Britannica

<sup>258</sup> p.87 in: Dung: *Malaysia und Indonesien: Wirtschaftliche Entwicklungsstrategien in zwei Vielvölkerstaaten*

<sup>259</sup> Ibid. p.37

in development, while economic industrial activity is directed towards export. Beginning with labour-intensive production, exports in this region constantly moved up the value-added chain. At the beginning there is export of processed agricultural goods, followed by manufactured goods, which transform from low-tech to high-tech manufactured products.<sup>260</sup> Indonesia does not suit this pattern of East-Asian Exportism.

When speaking of Exportism, it is necessary to analyse Indonesia's export performance. There is one point which immediately marks a distinction: Indonesia's industrial development does not seem to be as diversified, competitive or advanced as other countries in this region. The manufacturing industry has developed sub-standardly.<sup>261</sup> Though able to present a positive current account bill most years<sup>262</sup>, the volume of exports and imports is relatively low in comparison to other nearby countries which are much smaller. This is due to the small industrial base.

An Exportism, or an export-led industrialisation, faces structural problems in Indonesia. The first one is the aforementioned resource based paradox of plenty, which is not to be found anywhere else in this region.

The second one is the currency regime's role during the time, when Exportist regimes emerged in Asia.

The rupiah's exchange rate should mirror economic performance. This rate was kept artificially high by the positive current account, which did not mirror real economic performance but is based on resource exports. Therefore, the Rupiah, just as the economic performance in general, tends to be overrated. An overrated currency adds another barrier to competitiveness in the industrial export sector and thereby makes export-led industrialisation more difficult to realise in Indonesia.<sup>263</sup>

The third problem is that efficient industrialisation is difficult to realise, not due to deficiencies, but within the mode of operations of the domestic bureaucracy.

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<sup>260</sup> p.14 in: Woo/ Hong

<sup>261</sup> Report IHK 2009, Section „Wirtschaftsstruktur und Geschäftschancen“

<sup>262</sup> ca. eight billion USD in 2010, Source: Index Mundi, URL: <http://www.indexmundi.com/map/?t=0&v=145&r=as&l=en>

<sup>263</sup> This phenomenon, a problematic combination of resource-led exports and the definition of exchange rates is also named “Dutch Disease”. (Source: p.15 in: Woo/ Hong)

As a consequence, Indonesia is ranked 93<sup>rd</sup> in terms of industrial production growth rate.<sup>264</sup> The idea of Exportism therefore seems to be an inadequate concept for the Indonesian capitalism. Although the comparably small trade volume has increased rapidly in recent years, planning structures in the years after *Orde Baru* have not been altered.

The absence of structural change becomes generic in the following policy. In 2009, the Indonesian government planned to support 15 branches (textiles, machinery, electronics, steel, car parts, coffee, manufactured wood, cocoa and rubber) in expanding their export trade volume further. Doubt is justified, as to whether economic vitality played a role in these considerations. The procedure, in which those branches were chosen, evokes memories of past business failures of heavy industry subsidies. It was the “National Export Team” in cooperation with the “Coordinating Ministry of Economy” who named these branches.<sup>265</sup> Often, when several official institutions with unclear domains guide economic production in Indonesia, a large part of private rent-seeking in a collaboration with bureaucrats and government officials determine decisions.

It is therefore open as to whether a policy like that is a step towards the creation of a sustainable industrial base. To do more than just scratch the surface, the subsidy policies would have to successfully implement a rise in productivity and an increase in labour productivity on all levels.<sup>266</sup> Moreover, the domestic supplying industry is underdeveloped for competitive export. The current dependence of export sectors on imported semi-finished goods is a barrier indicating a lack of coordination in industrialisation.

So far, due to the special capitalist structures, Indonesia's industrial export has been walking on clay feet. When one looks more closely at export statistics, one sees that the export of manufactured goods is not robust. Exports have diversified since 1985, when trade reforms were launched. Manufactured exports share has increased, while their

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<sup>264</sup> Index Mundi, URL: <http://www.indexmundi.com/map/?v=78>

<sup>265</sup> Report IHK 2009, Section „Wirtschaftsstruktur und Geschäftschancen“

<sup>266</sup> Comp. Ibid

absolute value has decreased.<sup>267</sup> Though shares rose from eleven percent in 1984 to 51.1 percent in 1993 and 71 percent in 2011<sup>268</sup>, export in general thereby does not seem to have been a reliable growth engine. In 2011, the share of exports in GDP was as high as in 1982. The percentage is around 25 percent<sup>269</sup>, a number which is significantly lower than in China. After a peak in 1998, it is on the decline. A possible conclusion is that a fostered regional integration faces difficulties due to a lack of competitiveness.

This lack of crucial export competitiveness is further fostered by a kind of domestic protectionism undermining trade reforms and reflecting the powerful conglomerate structure interwoven with the government.<sup>270</sup>

The effective rate of protection fell from 410 percent in 1984 to 20 percent in 1997.<sup>271</sup> The costs of importing were reduced thereby, giving foreign producers incentives to relocate facilities to Indonesia.<sup>272</sup> But this did not affect many of the most profitable industries controlled by relatives and “cronies” of Suharto. Their profitable, but inefficient, monopolies on regional markets were not blasted, nor were they rationalised similar to Chinese state-enterprises to expand their activities internationally.<sup>273</sup>

In the concerned industrial branches (i.e. steel, palm oil, cars, car parts, cloves, etc.) with the help of import tariffs, export controls, bank loans, government orders or tax exemption, often billed as efforts to protect employees<sup>274</sup>, the concept of secure revenue independently from economic organisation continued to be realised politically. In some cases, this led to conflicts with the World Trade Organisation (WTO).<sup>275</sup> This reveals that the Indonesian trade reforms did not go deep enough to realise the foundation for an Exportist regime.

As a conclusion for its integration into Asian Capitalisms, Indonesia's capitalism does

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<sup>267</sup> p.20 in: Stern

<sup>268</sup> p.18 in: Hong/ Woo

<sup>269</sup> p.20 in: Stern

<sup>270</sup> This kind of protectionism is different from the support of Chinese state industries by the Chinese government, who are protected against disadvantages in global competition.

<sup>271</sup> p.15 & p.17 in: Stern

<sup>272</sup> Ibid. p.17

<sup>273</sup> p.40 in: Ten Brink

<sup>274</sup> p.17-18 in: Stern

<sup>275</sup> p.461 in: Macrory/ Appleton/ Plummer: *The World Trade Organization: legal, economic and political analysis*.



not have the fundamental aspects of exportism in its structures. An industrialisation process similar to China and the macro region has not taken place in Indonesia. The secondary sector did not grow in pace with the growth rates.<sup>276</sup> The industrial base is mainly concerned with mineral and forestry production<sup>277</sup>, controlled by conglomerates. This reinforces the position of Indonesia as a predominantly rent-seeking supplier of raw materials for regional and world markets.<sup>278</sup> No long-term attempt has been made to extend the scope of industrial activities on other large scales or a broader international competitive base.<sup>279</sup> Indigenous private economic activity in manufacturing has not grown at the same speed as the general growth rate.<sup>280</sup> In the last years of *Orde Baru*, a significant proportion of manufacturing was done by small-scale and medium-scale industries.<sup>281</sup> It was focussed on clothes and food<sup>282</sup>, mostly for domestic consumption and not as a driver of export growth.

Within this framework, the importance of the Indonesian domestic market for growth is to be found. Atypical in the Exportist region, private consumption is said to be the most important growth engine for Indonesia.<sup>283</sup> Revenues from resource export in private pockets, the “Dutch Disease”, plus a naturally large domestic market due to the 230 million inhabitants mark this fundamental difference in ways to achieve economic growth. Estimates say, that 60 percent of the GDP is based on private consumption. Ten percent of the population, that is approximately 23 million people, have a yearly per capita income of at least 7,000 US-Dollar.<sup>284</sup> This is a relatively large number of people, especially in comparison with the total number of inhabitants in other ASEAN states. These people are another non-economic reason why Indonesia's economic performance, despite its apparently paradoxical structural elements, holds up relatively

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<sup>276</sup> This threw oil on the fire to all those who relate healthy economic development to the “Three Sector Hypothesis”, where a healthy economic development has to happen from the dominance of the agricultural sector via a dominant industrial sector to a service sector, measured in the total share in the economy. Indonesia does not follow this pattern. The industrial share was never at the cutting edge.

<sup>277</sup> p.224 in: *Encyclopedia Britannica*

<sup>278</sup> ibd. p.224

<sup>279</sup> ibd. p.225

<sup>280</sup> ibd. p.224

<sup>281</sup> ibd. p.224

<sup>282</sup> ibd. p.202

<sup>283</sup> IHK-Report 2009, Section: Wirtschaftsstruktur und Geschäftschancen

<sup>284</sup> Ibid.

well in international comparison. However, it seems to be this group of 23 million people, often referred to as middle-class, who can be identified primarily as those who benefit from the commercial bureaucratic class which evolved in the three decades of *Orde Baru*.<sup>285</sup>

As mentioned in labour relations, economists have observed that the tertiary sector grew stronger than the secondary one during these years<sup>286</sup> (despite progress in total in all sectors.) The tertiary sector contributed to growth, without contributing a sustainable industrial base for it. It gave work to people moving from the countryside to the city, mainly as servants, maids, in transport, or in restaurants and reduced population pressure.

Due to the reasons of the important domestic market and the strong tertiary sector, economic growth in Indonesia is also called “Purchased Growth”.<sup>287</sup> The strong tertiary sector was a result of the “Dutch Disease” and an underdeveloped secondary sector<sup>288</sup> which was unable to absorb workers and capital. The tendency that economic rationalisation and directing of activities towards a sustainable rationality is not the key element of Indonesian capitalism can be seen in interregional relations as well.

### **2.3.15. Another Curse: Global Over-Accumulation and Foreign Investment**

It had been shown in which way the “purchased growth” has consequences on regional integration. But who paid the price for this “purchase of growth” globally?

Ten Brink argues that China's economic ascension has to be seen within the framework of a global over-accumulation of capital. In search of profitable investment possibilities which were becoming rare in centre-economies, investments rose globally in the 1970s. China's ascension began with these effects of this phenomenon called globalisation. The beginning of globalisation, with a re-structuring of global economies and forms of regulation, has supported China's capitalist reforms from 1978 onwards. Foreign direct

<sup>285</sup> The possible consequence if more than ten percent of the entire population could benefit economically underlines the immense potential of Indonesia in comparative ASEAN-perspective.

<sup>286</sup> p.160 in: Saraswati

<sup>287</sup> p.27 in: Hil

<sup>288</sup> ibd. p.201

investment rose to make up five percent of the Chinese GDP in the 1990s. China's capitalist transformation was financially re-enforced by capital, mainly from Hong-Kong, Taiwan and Macao. Additionally about 25 percent came from Europe, the USA and Japan.<sup>289</sup> This boom ensured capital for industrial expansion policies. Investment in general contributed up to 40 percent after the year 2000.<sup>290</sup>

Indonesia could benefit from the global over-accumulation in terms of investment as well. Its potential as a possible suitable investment opportunity is realised by centre economies.<sup>291</sup> Rates of investment constantly increased during *Orde Baru*.<sup>292</sup> However, there are significant differences to China.

Firstly, Indonesia's capitalism began to evolve as one of the earliest in the macro-region. Its shape started to form roughly ten years earlier than China. The global setting in which its structures developed thereby was different. Indonesia's ascension did not begin with investment scarcity in centre economies. Globalisation at that time was in its infancy at the most.

Thereby, the purpose of Indonesia's integration, from an external perspective, was not to make it a profitable place for the enlargement of invested capital, but rather to become a classic supplier of raw materials. For this purpose, there was institutional infrastructure available from the colonial past. Authoritarian<sup>293</sup> structures under Suharto took advantage of this source of revenue and actively based the first decade of their period of governance on resource-based allocation.<sup>294</sup>

Nevertheless, as described, there were partly successful currents in Indonesia's policy-making which tried to get rid of this mono-economy in favour of inciting a more diverse and substantial industrialisation. In terms of international integration, this meant that foreign investment was encouraged. The formal statutory basis for foreign investment in Indonesia was given since the beginning of *Orde Baru*.<sup>295</sup> The incremental capital output

<sup>289</sup> p.34-35 in: Ten Brink

<sup>290</sup> Ibid. p.36

<sup>291</sup> Comp. IHK-Report 2009, Section Investitionsklima

<sup>292</sup> p.17 in: Hil

<sup>293</sup> As I said before, "authoritarian" has to be understood in an economic interventionist sense here.

<sup>294</sup> p.60 in: Hill 1997

<sup>295</sup> Since 1967, Source: p.243 in: Pompe: *Indonesian law 1949-1989: a bibliography of foreign-language*

ratio (ICOR), which measures the productivity of investments, seems to be higher than in neighbouring economies.<sup>296</sup> Low at the beginning of *Orde Baru*, it rose sharply in step with the growth of investment in the 1980s. But due to the missing reforms of basic economic structures, it could not be fruitful for the nationwide development and cause an “Adding-Up-Effect” like in China. The role of foreign investments in the Indonesian variant has to be explained within the framework of the crony and special bureaucratic structure.

Similar to China, not all branches are open to foreign investment. Each foreign investment has to be verified by the BKPM (Badan Koordinasi Penanaman Modal), an authority directly subject to the Indonesian president. Generally, direct investment is possible in shares, joint ventures or in businesses without local partnerships. The latter sort of business is subject to legal restrictions.<sup>297</sup>

More relevant is the fact that the granting of it seems to be arbitrary in practice if one does not take the special institutional structure into account. Just like the redistribution of investment profits, permissions for investment do not seem to follow trust-creating principles. This is problematic, since investment is not only connected to institutional preconditions but to a large degree to non-measurable variables like “trust” or “confidence”.

Though officially welcomed, the general opinion about investment in Indonesia in investment businesses therefore remains divided. Unlike in neighbouring economies, Indonesia counts as full of potential, but difficult. “Non-transparent practices, a difficult execution of investment-friendly laws in practice and a weak institutional infrastructure” causing delays and unforeseeable problems, are for example listed by the German Chamber of Commerce about investment prospects in Indonesia.<sup>298</sup> The fact that many indigenous businessmen do not trust these structures but rather funnel their profits overseas (26 billion dollars are said to be in a fund in Singapore.<sup>299</sup>) gives further evidence of the missed opportunities of investment in Indonesia.<sup>300</sup>

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*materials with brief commentaries on the law*

<sup>296</sup> p.18-19 in: Hill

<sup>297</sup> p.214 in: USA International Business Publications: *Indonesia Business Law Handbook*/ p.250 ff. in: Pompe

<sup>298</sup> IHK-Report 2009

<sup>299</sup> p.166-167 in: Vatikiotis

<sup>300</sup> Currently, attempts are being undertaken to establish Special Economic Zones (SEZs) in analogy to

For these reasons, Indonesia was able profit from the global over-accumulation, but unlike China did not manage to turn foreign investment into a high-performing dynamic. Due to the lack of a suitable institutional framework, it did not integrate regionally and internationally in a position favourable for high performance. Exportism cannot be realised within the sort of developmentalism seen under Suharto and afterwards. The international integration, regional and global, is determined by its successful accordance to the principles determining the variant of capitalism, such as horizontal, vertical political and financial integration into a diversified patrimonial network.

### **2.3.16. Conclusion: The Indonesian Variant of Capitalism**

In Indonesia during *Orde Baru*, a special variant of capitalism evolved. It had specific preconditions and marked a unique economic path of development<sup>301</sup>, which did not lead to the adoption of classical models, but constitutes a new distinct style. The Indonesian capitalism combines ingredients of third-world capitalisms, LMEs, political capitalisms and some elements of “Asian Capitalisms” plus some unique aspects. Though complex, the common presumption that Indonesia's capitalism is too arbitrary to describe a pattern, is not true.

The Indonesian political capitalism is marked by its special interventionist bureaucracy as its “superstructure”, securing the profitable non-competitive corporate activity on a micro level, for the sake of state officials and cronies. This causes an informal regulation of the micro-sector. All formal policies, no matter whether they are liberal, progressive, regressive or coordinated, have to go through this mill, which prevents market-driven, competition-driven, and entrepreneurial-driven accumulation on a mass-scale and creates dynamics which often achieve the opposite of the forecasted effect.

The unique and unusual elements, which cause special dynamics, are firstly an undynamic, patrimonial state dirigisme in public and private corporate organisation in

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China. These zones are located on the islands of Batam, Bintan and Karimun, which are close to and easily accessible from Singapore. In these zones, foreign investment should be incited by a liberal surrounding not given in the Indonesian core regions. (Source: p.37 in: Oxford Business Group: *The Report: Indonesia 2008*)

<sup>301</sup> Comp. Ten Brink

combination with a liberal financial and trade sector, who affect each other differently than in the virtually vice-versa organised China. The following table shows a contrasted overview of Indonesia's and China's variant of capitalism, and a summary of their different forms of regulation.

INDONESIAN CAPITALISM	CHINESE CAPITALISM <sup>302</sup>
<ul style="list-style-type: none"> <li>- predominantly authoritarian (macro-liberal, micro-strict)</li> <li>- patronage driven</li> <li>- bureaucratic-capitalism</li> <li>- undynamical, equilibrium-oriented political dirigisme</li> <li>- particular forms of keeping competition away</li> <li>- particular form of private-public-semiprivate corporate organisation</li> <li>- liberal-harmonic corporatism in labour relations</li> <li>- liberal regulation of money and finance</li> <li>- non-competitive approach towards international &amp; domestic integration</li> <li>- protectionism on domestic markets</li> </ul>	<ul style="list-style-type: none"> <li>- predominantly market-liberal (macro-strict, micro-liberal)</li> <li>- competition driven</li> <li>- state-capitalism</li> <li>- dynamic, social revolutionary political dirigisme</li> <li>- particular forms of competition</li> <li>- particular form of private-public corporate organisation</li> <li>- specific corporatism in labour relations</li> <li>- strict regulation of money and finance</li> <li>- conflictive-cooperative approach towards international &amp; domestic integration</li> <li>- protectionism from global markets</li> </ul>

## 2.4. A dialectic Variant? Dismantling a paradox

At the beginning of this chapter, it was suggested that the Indonesian variant presents a paradoxical image, full of contradictions. But is this still the case? In the end, it seems that many of these paradoxes have now been resolved. They are no longer contradictions, when we consider the structures. Contradictions in the Hegelian dialectic are said to be dissolved by the social change accompanying them. In Indonesia, this variant has lasted for more than 30 years. The key elements have even survived the fall of Suharto.<sup>303</sup> All these years were a period accompanied by social change. The contradictions seemed to have become a capitalist reality; a special Indonesian capitalist reality. The contradictions are no longer contradictions in transition but an established

<sup>302</sup> p.41 & p.5 in: Ten Brink

<sup>303</sup> Comp. The Economist, „Corruption everywhere“, 02.11.11., Author: J.C., Jakarta (URL: <http://www.economist.com/blogs/banyan/2011/09/indonesias-politics>)

rationality. By discussing them, it becomes clearer that they follow a rationality.<sup>304</sup> Just like the Chinese regime, Indonesia copes with contradictions from their system of accumulation in a special way. Many of the Indonesian economic paradoxes, seen in the light of this variant, are therefore no longer paradoxical.

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<sup>304</sup> And partly it becomes clearer in which way this rationality works.

## Chapter 3

# The Crystallisation of the Indonesian Variant in the Light of two Modernisations

## 3.1. Expanding Ten Brink's conception

The first step in shining some more light on why Indonesia can no longer compete with China economically has been undertaken. Mechanisms which seem to encourage this ongoing divergence have been discussed. The dynamics which determine the Indonesian capitalism and Indonesia's political economic environment have been classified according to a VoC pattern. Many dialectics and seeming paradoxes have been shown to have a rational meaning within the context of this specific Indonesian variant of capitalism. This variant is also the basis for further conduct of research in this dissertation.

However, as Ten Brink states about China, there are more crucial factors to a capitalist system<sup>305</sup> than current VoC patterns of analysis cover. What has so far been left out is a closer look at the events in Indonesian society which determine the system. The Indonesian variant is embedded, not only in its political economic context, but also in its general social surrounding. This is important because it has emerged that many

<sup>305</sup> p.6/7 in: Ten Brink. Quotation: „Dabei ist auf Erkenntnisse zurückzugreifen, die (...) Prozess in modernen Wirtschaften (...) in ihrem Verhältnis zum Staat bzw. zum Recht, und erweitert, zu den soziokulturellen und normativen Rahmenbedingungen zu fassen versuchen.“

Therefore, it is adequate to discern different levels of the embedding of a specific variant, which are:

- 1.) Institutional
- 2.) Action of the State
- 3.) Law
- 4.) Norms
- 5.) socio-cultural surrounding

The focus will be on level 5.)



pivotal aspects of Indonesia's variant have re-established connections to traditional mechanisms. A look at the special path of modernisation which Indonesia's society has taken since its independence will show this aspect of socio-cultural embedding.<sup>306</sup> The course of modernisation is deliberately given the preference in examining social embedding. This is due to a particular reason.

The initial question has not yet been sufficiently discussed. The contrast between the Indonesian and the Chinese speed of development shall be discussed within the framework of two modernisation processes. The particular reason is the sharp contrast to China. Firstly, when discussing the Indonesian variant of capitalism and its development it can be seen that many policies of Indonesia basically stand in contrast to the Chinese trajectory.<sup>307</sup> There was the authoritarian micro economic action in opposition to the enforcing of competition-driven accumulation in China. There was also the liberalisation of the financial sector and the macro economic environment in opposition to a strict regulation of the aforementioned. This tendency either seems to be mirrored or embedded in the different ways in which modernisations took place in both countries.

Secondly, when looking at the modernisations, both reveal an inflexion in their course. Such an inflexion can also be observed in a diagram (FIG 3), with graphs of modernisation contrasting the annual GDP growth rates. Each graph of modernisation has an inflexion, which is marked with an a.). This inflexion marks the change from social to economic modernisation. After these inflexions, the pattern of economic growth seems to change. This suggests that crucial events in modernisations of society could interact with economic growth.

Furthermore, three periods can be identified according to the graph. This is visualised in FIG 4. In the first section, Indonesia's growth rate is predominantly higher than the Chinese growth rate. In the second section, whose beginning is marked by the year of the official Chinese capitalist transformation, the tables start to turn. However, GDP growth rates are still comparable. In the third section, where China's graph is constantly

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<sup>306</sup> The term “social surrounding” is too general. It moreover would be narrowed if equated with modernisation. It is clear that there is a lot more to it than modernisation or the extent of this discussion will cover. It does not raise a claim to completeness.

<sup>307</sup> Such a tendency is mirrored by the embedding.

above Indonesia's, the divergence of both growth paths is visible.

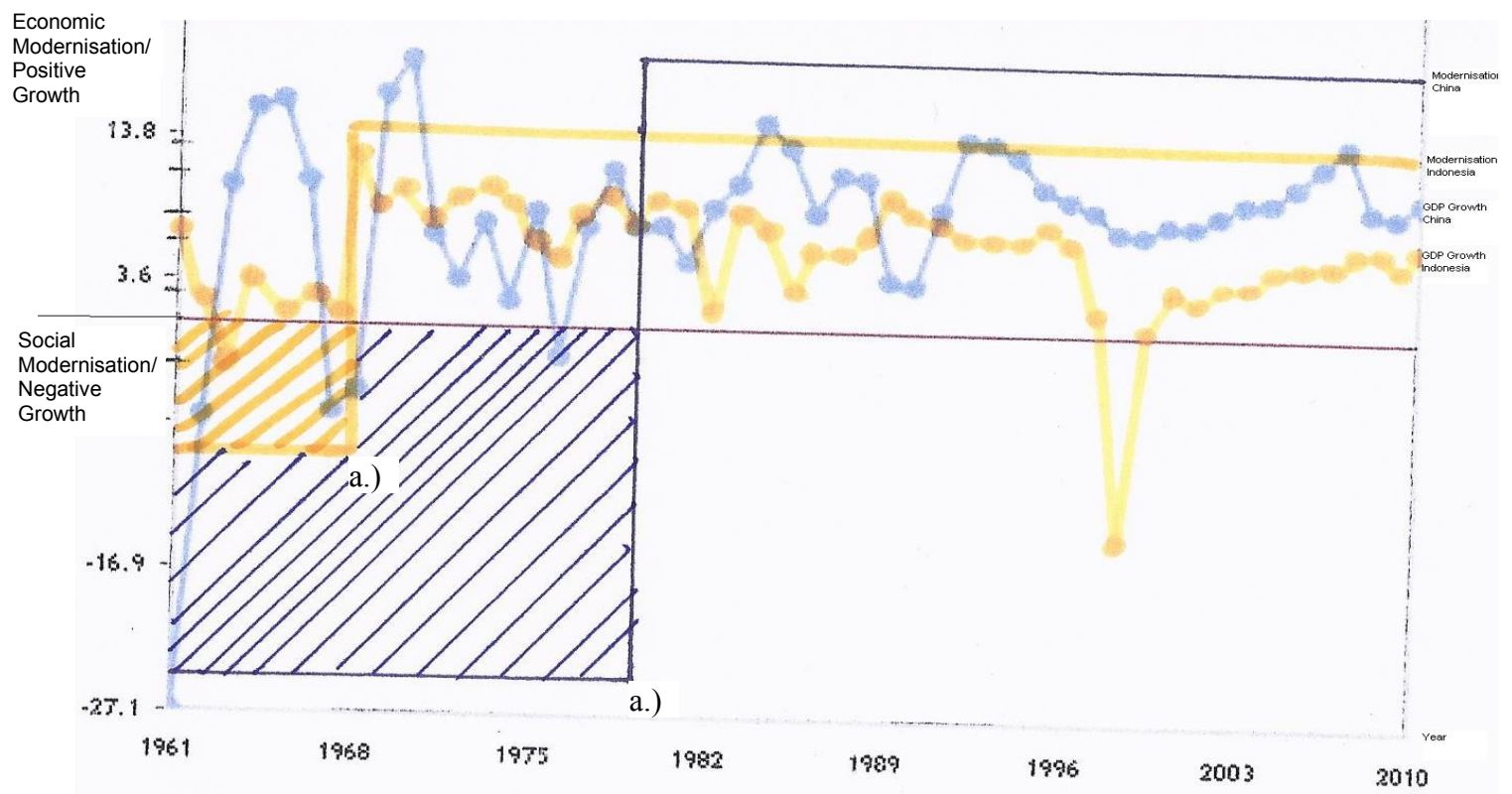


FIG 3, Source: Index Mundi/ © Dennis Fromm

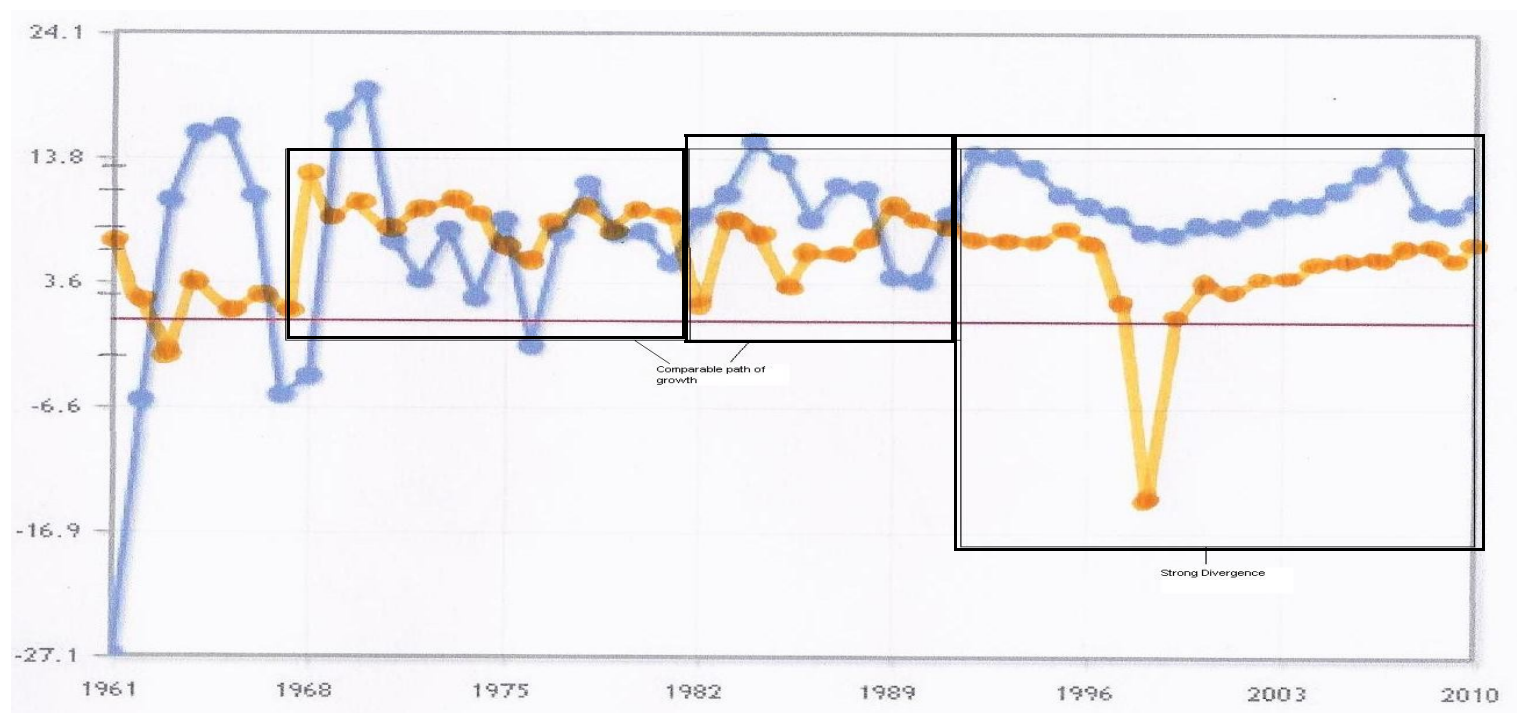


FIG 4, Source: Index Mundi/ © Dennis Fromm

Such a correlation goes one level further than the five characteristics determining a variant of capitalism. The level which will now be discussed now can be referred to as a “capitalist society”.<sup>308</sup>

It includes more dimensions and institutions.<sup>309</sup> It goes deeper into the question of *why* and *how* a certain variant could develop. The chosen dimensions of capitalist society are linked to a capitalist system. As the course of the graph also shows, economic growth seems to be embedded in areas not directly linked to economic policy or institutional surrounding. The crystallisation of certain variants seems to be influenced by these embeddings in modernisation.

Thirdly, the approach of looking at the different modernisations opens up a new dialectic momentum which has not yet been taken into account. This momentum refers to the “Impurity Principle.”

### 3.2. The Underpinning of Capitalist Systems

In all societies, there are elements which at first glance do not appear to be in accordance with a capitalist system. Some argue that these elements are necessary.<sup>310</sup> Such “Impurities” describe limitations in the operation of industrial principles. They are basically the leftovers from past modes of operation which continue to exist in some ways, influencing each subsequent economic system. They are sociocultural aspects crucial for the understanding of societies with a certain capitalist system. Radically interpreted, it suggests that “*every (...) economic system must rely on at least one structurally dissimilar subsystem to function*”<sup>311</sup> It means that every system is not only influenced by, but also relies on, its impurities. There has to be a coexistence of modes of production for the functioning<sup>312</sup> of a capitalist system.

The reason for this is that structures and regulations are great indicators. However, they are unable to reproduce and to cope with changes themselves. They demonstrate a

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<sup>308</sup> p.7 in: Ten Brink

<sup>309</sup> Ibid. p.7

<sup>310</sup> p.577in: Hodgson 1995

<sup>311</sup> Ibid. p.577

<sup>312</sup> Ibid. p.577

dynamic, but are not dynamic themselves. Their gaining of independence is always subject to human action. They are only versatile to a certain degree. A part of them is amorphous. Institutions on the horizontal and vertical axis, in financial relations, in the role of the state and in international integration rather reflect the amorphous part. The specifics of human motivation are slightly neglected when considering them. Also, the question of *how* a specific variant emerged is not put at the centre of interest. By empirically capturing the fact that industrial principles of any kind, just as their realisation in accumulation systems, are always socially and culturally embedded<sup>313</sup>, those aspects are accommodated.<sup>314</sup>

The role of impurities as the social underpinning of economic systems was earlier described by the Austrian sociologist Karl Polanyi (1886-1964) in the 1930s. It was he who first coined the term “embedding”. Originally, he was concerned with the embedding of markets. He was inspired by the failure of the world economy during the Great Depression in 1929. This crisis was not due to economic failure. The reasons for its failure were a social transition which was not in accordance with an ideal market economy.<sup>315</sup> This transition could be seen in the changing role of institutions such as banks and the role of the state in this process. Within these institutions, power had been more of a guiding theme than capitalist economic reason.<sup>316</sup> Unlike neoclassical theory had believed, economic rationality, or reasonable economic action, had been inferior to non-economic interests. Otherwise, these institutions would have acted differently. In other words, the economic crisis during the Great Depression had its roots in institutions<sup>317</sup>. And institutions have their roots in social relations.

Through these observations, Polanyi summarises the connection between an economic system and socio-cultural relations with two pointed hypothesis.

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<sup>313</sup> Comp. p.47/ p.43 in: Furtado: *Akkumulation und Entwicklung. Zur Logik des industriellen Zivilisationsprozesses*

<sup>314</sup> This phenomenon will be discussed from a macro-sociological point of view. The micro-sociological perspective is neglected in this dissertation.

<sup>315</sup> p.21 in: Polanyi: *The Great Transformation*

<sup>316</sup> *Ibid.* p.31

<sup>317</sup> *Ibid.* p.21. This presumption is a parallel to those seeing the effects of the Asian Crisis in 1997 in Indonesia aggravated by institutional action.

- 1.) An economic system is sustained by non-economic motivation.
- 2.) Human economic activity is embedded in social relations.<sup>318</sup>

An economic system is always linked to the socio-cultural sphere. Like the “Impurity Principle”, Polanyi suggests that the economic material sphere is less important for its development. He founds this by reminding us that Europe, before its capitalist transformation, was on a low level from an economic-material point of view. Ancient Egypt had been superior.<sup>319</sup> At the beginning of all western variants of capitalism, there was an “intellectual, political, and spiritual progress”<sup>320</sup>. So it was not oil, soil, or money, but rather human capital, which marked the starting point of the crystallisation of any type of economic system. An economic system has to be discussed as embedded as part of this cluster. But also the aim of the economy has to be seen as embedded. According to Polanyi, the aim of economy and development is to back-up hierarchies, secure the satisfaction of demands and a certain moral concept.<sup>321</sup>

These are the two slightly distinct aspects of embedding. Both are mirrored in structures. Thereby, Polanyi gives connection points to expand embedding to different capitalisms.<sup>322</sup>

He suggests that the reasons for the pivotal effects of embedding are a universal capitalist feature. Generally, it is valid for other capitalisms as well.

However, readers of Polanyi's “*The Great Transformation*” are likely to get the impression that he realised that either LMEs or CMEs could never be a universally emerging variant or a role model for the capitalist transformation of other regions. Polanyi might be the last to wonder about seemingly paradoxical variants of capitalism such as in Indonesia or China. Firstly, he puts emphasis on the fact that liberal capitalism is embedded in a unique framework. In Europe's market-economies, Polanyi observed the discerning feature that socio-cultural relations are embedded in an utilitarian rationality, which comes from the western utopia of a market-based society. Secondly, he argues that regions with different rationalities as preconditions for economic activity, which integrate in a western style market-based society will end in

<sup>318</sup> Both Ibid. p.75

<sup>319</sup> Ibid. p.74

<sup>320</sup> Ibid. p.74

<sup>321</sup> Ibid. p.75/ Comp. p.49 in: Furtado

<sup>322</sup> See the explanation of capitalism and its distinctive features in chapter two.

catastrophe.<sup>323</sup> This is due to the fact, that modern capitalist institutions, like markets, inextricably led to the destruction of patriarchal authority<sup>324</sup> in Europe and elsewhere with partly dire consequences.

This destruction leads to a dynamic. It is based on an irresolvable clash of interest in a stage of transformation. Transformation in this matter is the change of a socio-cultural paradigm, the change of a traditional pattern. This stage is referred to as a “cultural intermediate status”.<sup>325</sup> In this status, society is torn between traditional institutions and modernity, meaning that society is torn between embedding, dis-embedding and re-embedding.<sup>326</sup> Several fractions in society have different ideas of how to over-come this contradiction.

Influenced by the radical changes happening in Europe, Polanyi interpreted fascist regimes as a radical attempt to solve this clash of interest. This attempt was marked by creating a new society; a society which was still embedded in traditional ties, which had to be dis-embedded from these by all means, and which had to be re-embedded in a modern context. Similar and complimentary to ideas postulated by the “School of Frankfurt”, fascist periods would be inevitable during a capitalist transformation.<sup>327</sup> To Polanyi, this was because there was no alternative other than to assimilate completely with modern values or put another suitable set of values in its place to over-come the contradiction of the European style of accumulation. This seemed to require a radical, coordinated change in practice. And there was no way around this. He prophesied the decay of traditional embedding and the systems accompanying them in the long run because of the intensity of this great transformation, whereby “great” refers to the range of it.<sup>328</sup>

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<sup>323</sup> p.384 in: Polanyi

<sup>324</sup> Ibid. p.381

<sup>325</sup> Ibid. p.382

<sup>326</sup> Dis-embedding and re-embedding are terms not used by Polanyi himself, but derivations from his works drawn recently by economic sociology to expand the terminology to a theoretical model. Comp. p.7 in: Beckert: *The Great Transformation of Embeddedness. Karl Polanyi and the New Economic Sociology.*

<sup>327</sup> p.38 in: Tomberg: *Habermas und der Marxismus: zur Aktualität einer Rekonstruktion des historischen Materialismus.*

<sup>328</sup> p.382 in: Polanyi

A transformation to capitalism occurred in Indonesia and China. The question now is how this transformation was mastered in these places. Ten Brink writes that the Chinese state regulates these basic contradictions of capitalist accumulation in a remarkable way<sup>329</sup>, which seems to be different from Polanyi's scenarios. The Indonesian VoC seems to follow another pattern as well. Though Suharto's regime has itself also been called “fascist”<sup>330</sup>, the embedding, dis-embedding and re-embedding occurred in a unique way. This will be shown by the fact that Chinese and Indonesian economies are interwoven in different processes other than the ones Polanyi observed. Modernisation in both countries have reached a stage where it is possible to identify how it dis-embedded and re-embedded its economic system and thereby created two different variants of capitalism.

The identification and discussion of these embeddings is less focussed and more controversial than the VoC-characterisations. But since it is justified to try to understand economic processes “*in their relation to socio-cultural framework conditions*”<sup>331</sup> to analyse specifics, it is necessary to approach this level as well. Despite running the peril of becoming too fragmentary, leaving this level out is not an option. In discussing the socio-cultural embedding, this approach ties in with theoretical insights popular in older epochs of capitalism.<sup>332</sup> Economic sociologists like Karl Polanyi (1886-1964) or also Joseph Schumpeter (1883-1950) and Max Weber (1864-1920) asked how special features of societies transformed to establish new forms of economic activity. Their description of transformation (Weber), destruction (Schumpeter) and embedding (Polanyi) in Europe should not be literally applied to Indonesia. The context of their discussions was a different one, but the root of the matter was similar. The root of the matter is to describe new types of economic systems and how these had been constituted.<sup>333</sup> Such thing is the interchange of economic sociology to the VoC-approach, whose advantage is to offer a general pattern with which capitalisms can be compared. By expanding it to more dimensions, it can only become more complete<sup>334</sup>,

<sup>329</sup> p.11 in: Ten Brink

<sup>330</sup> p.71 in: Aspinall: *Opposing Suharto: compromise, resistance, and regime change in Indonesia.*/ Comp. p.117 in: La Botz

<sup>331</sup> p.7 in: Ten Brink

<sup>332</sup> Ibid. p.10

<sup>333</sup> Ibid. p.10

<sup>334</sup> An expanded approach of VoC is also part of the concept of “New Political Economy“, which tries to

especially when there seems to be a concrete occasion (see figures 3 and 4).

### 3.3. Embedding in Variants of Modernisations

Modernisation classically means the change of tradition, the change of structures, the change of behavioural patterns towards values of modernity.<sup>335</sup> These are inextricably linked to features of an industrial society.<sup>336</sup> From experience in Europe, their core components are defined by technological change, the replacement of physical labour by inanimate sources of energy, freeing of the labourer from customary ties and obligation together with the establishment of labour markets for a factory system and a crucial role for entrepreneurship.<sup>337</sup>

These components still seem to be the underlying forms of any variant of capitalism, whereas their concrete appearance just as their institutional and regulative interpretation can vary between different capitalist systems.

In economic sociology, modernisation is a development classically referring to the process of change of determining factors of society towards an industrial capitalist society. This change is called transformation, referring to the symbiosis of new industrial and old elements. Modern values are a symbiosis of traditional values and the new core components of industrialism. In some places, this change is accompanied by radical upheavals, in others the process happens more smoothly. Each society puts its own stamp on a process which does not follow universal patterns.<sup>338</sup> There are variants of modernity and variants of modernisation. In analogy to VoCs, there is a Chinese Modernity and an Indonesian Modernity, which re-interpret features of classical industrialism.

However, all these variants evolved in processes of change. Within any process of

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contextualise the emergence of certain variants to a stronger degree in the tradition of classical economic sociology. Source: p.175 in: Adam: *The Political Economy of Development. An assessment.*

<sup>335</sup> The philosophical debate about Post-Modernism is not discussed in this dissertation because it is more pivotal to identify the fact of a change of values and tradition towards a productive instrumental rationality. (Comp. p.43 in: Furtado)

<sup>336</sup> p.43 in: Furtado

<sup>337</sup> p.283 in: *Encyclopedia Britannica*

<sup>338</sup> See the keyword „Modernist Approaches“ in the footnote afterwards.



change, tensions are inevitable. Just as modernisation is linked to values of industrialisation, transformations are inextricably linked to a shift in power structures.<sup>339</sup>

A modernisation affects economic activity and the sphere of production, state, politics on the one hand and tradition, individuals and worldviews on the other hand.<sup>340</sup> Regulation systems and institutions embrace these changes within this process. They are embedded in modernisation. Not all of these components are of equal importance. How and to which degree a transformation occurs varies.

To define these variants, categories have already been established. There are, for example, the concepts of “partial modernisations”, “delayed modernisations”, “economic modernisations” or “social modernisations”. Such categories are helpful and will be used. But it is not decisive for the initial question to analyse the Indonesian modernisation with the help of such categories.<sup>341</sup> Pivotal is the question, whether or not the Indonesian modernisation is sustainable.<sup>342</sup> This becomes especially interesting when contrasting China with Indonesia.

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<sup>339</sup> Comp. p.49 in: Furtado

<sup>340</sup> Looking at the process of modernisation has been a popular concept in development economics. This mostly occurred in a dogmatic way, which makes it problematic at first glance to talk about modernisation at all. The notion of “modernisation” is full of prejudice in the academic discourse because of flawed modernisation theories which influenced the explanation of economic success and failure significantly in the past. This dissertation does not aim to take these so called “modernist” approaches into account. These “modernist” approaches go a lot further than where the relatively neutral notion of “modern” does. For decades, the path of modernisation which countries took was said to be universal, according to the pattern which occurred in the Western Hemisphere. Modernisation did not semantically occur in its plural “modernisations”. A dominant Western tradition of modernisation was being established, where certain factors were identified as crucial to accelerate modernisation in a Western way. Other factors were not thinkable. One of these factors is Western economic rationality. Such factors basically became a synonym of modernisation. Many states in the world tried to catch up by following these factors in their modernisation politics. In practice, this caused difficulties and did not lead to the theoretically promised result. At the beginning of the Chinese modernisation, it was conceivable that states following the ideals of this ideology would fail in practice. China on the other side did not follow a classical western path of modernisation, but gained a leading position in the capitalist world economy by the millennium. The effect marked a change of paradigm. It showed that Western style modernisation was not the only option for material success. Modernisation remained important, but the days of an universal modernisation were numbered. Western modernity got a counterpart, not an analogy. The result is the same: Success in a capitalist words, numbers and world economy.

<sup>341</sup> Or to develop a complete framework for comparability of different variants of modernisation.

<sup>342</sup> The phenomenon connected to unsustainability is referred to as „growth without development“. It can be observed in several societies worldwide. Comp. p.XI-XII in: Schweers: *Kapitalistische Entwicklung und Unterentwicklung*.

### 3.4 Lineages of Modernisation in China and Indonesia I

To structure both modernisations, turning points within these processes will become the point of departure.

Turning points in Indonesia seems to be subject to personal choice. They are not as apparent as they are in China. But the crucial turning point of Indonesian society relevant for its VoC, was the change in modernisation which took place after Sukarno was edged out of office between 1965 and 1968.<sup>343</sup> Embedding of policies seems to differ significantly before and after his fall. The equivalent in China was the “Great Cultural Revolution.” When seen in an evolutionary pattern, the Indonesian turning point happened at the beginning of its modern history.<sup>344</sup> In China, it happened a lot later.

#### Regimes in Indonesia and China

1. Sukarno	1945-1965	20 years	1. Mao	1943-1976	33 years
2. Suharto	1965-1998	33 years	2. Deng	1979-1997	18 years

In this simplified model, approximate time periods of government which coined the regime of modernisation are illustrated. All periods can be contrasted sharply with each other, either by duration, time or content. They can be also seen as analogies. This is marked by the colouring:

- The periods in the red bar are comparable due to their anti-capitalist sentiment which turned into modernisation politics. Sukarno and Mao shared the social revolutionary aim of modernising traditional ways of society. This period lasted more than one decade longer in China.
- The periods in the blue bar are the periods during which both countries fostered capitalist development. Suharto and Deng Xiaoping both discredited the social revolutionary policies of their predecessors.<sup>345</sup> Economic development moved to the centre of their interests. Measurements aimed at socio-cultural changes had to move to

<sup>343</sup> p.6 in: Legge: *Sukarno. A political biography*.

<sup>344</sup> „Modern History“ in this dissertation refers to the time period since the current Chinese and Indonesian state exist constantly.

<sup>345</sup> p.181 in: Hofman/ Zhao/ Ishihara

the back of the queue. Though their strategies differed, these regimes can be classified as being coined by a kind developmentalism. Deng is quoted as saying “*Development is the hard truth*”, whereas Suharto said “*Development yes, democracy no.*”<sup>346</sup> This period in turn lasted more than a decade longer in Indonesia.

The illustration shall not convey the impression that China was shaped more by Mao than by Deng. However, it shall help us to realise that due to their duration the events under Mao cannot be ignored. This has to be kept in mind when examining the social embedding, or the impurities of both variants. There are significant differences. The transformation in Indonesia came after a relatively short, interrupted period of time, whereas in China a turn towards capitalism followed a long period of social-revolutionary modernisation. In this long period, social-revolutionary modernisation was radicalised and peaked in the “Great Cultural Revolution”. From a demographic point of view, it must be the generation raised during this regime which is now leading China as a global economic superpower. On the contrary, in Indonesia it must be the generation raised during a time of economic modernisation which is now in charge of their lagging national economy. At first glance this does not make sense. The country's priority had been economic modernisation at the cost of social modernisation. It seems to be logical to assume that economic expertise rose. In practice, however, it seems to be another paradox, or a dialectical momentum, suggesting that the social-revolutionary policies in constituting years created a suitable framework for accumulation in China, whereas the developmentalist modernisation failed to foster long term high speed development in Indonesia. It seems to be impure, not according to general presumptions about an incapable Indonesia<sup>347</sup>, but in accordance with the idea that only an embedding in at least one different social subsystem can grant economic development.

### 3.5. Lineages of Modernisation in China and Indonesia II

From a distant perspective, there are two periods of modernisation in both countries.

These contents are decisive features of modernisation.

<sup>346</sup> Ibid. p.181

<sup>347</sup> Comp. p.191 in: Lindsey 2008

- |   |                                  |
|---|----------------------------------|
| 1. Sukarno's interrupted cultural modernisation | 1. Mao's cultural modernisation  |
| 2. Suhartos economic modernisation              | 2. Deng's economic modernisation |

Both periods have their distinct character. However, they cannot be understood as separate events, but should be seen in interaction with each other. As I said, it is not helpful to divide modernisation in both countries into periods independent from each other.

The point of departure for this consideration is the “Great Cultural Revolution”, for short “Cultural Revolution” of China, as the most obvious turning point in both modernisations.

It is beyond the scope of this dissertation to give a detailed discussion of this event. It is more oriented on the terminology. The term “Cultural Revolution” goes beyond the event. It comprises measures such as the “Great Leap Forward” as well.<sup>348</sup>

A cultural revolution has two sides. Firstly, it comprises change, or the transformation of a social subsystem. The social embedding of a country by the semantics of the term is suggested to be subject to transformation. The social subsystems change in a process of modernisation. Social relations, values and organisation are subject to change. But transformations like this are nothing special. They happen in many countries. The question is *how* this happens.

The other side of the “Cultural Revolution” refers to this *how*. The social transformation in China happened in a deeply radical and revolutionary way. The theoretical denial of traditional virtues<sup>349</sup> plus the practical realisation of extinguishing them is unique.

To this extent, it cannot be denied that China must have experienced a massive change within this time frame. The “Cultural Revolution”, which is dated as having lasted from

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<sup>348</sup> Interestingly, the attempts in Indonesia of catching up in industrial development in the 1980s were called “Leap-frogging”. By establishing high-tech industries, financed by resource revenue, the cost advantage would make such industries competitive in world economy. However, it did not work due to problems in the manufacturing process, which were related to the insufficient amount of educated workers for this purpose. In opposition to the “Great Leap forward”, which ignored economic laws of development in China, „leap frogging“ ignored the social sides underlying development.

<sup>349</sup> p.784 in: Encyclopedia Britannica, Vol.13/ p.216 in: Bianco

1966 to 1976<sup>350</sup> is considered to be the most crucial event in modern Chinese social history and conscience<sup>351</sup>.

In many evaluations of the “Cultural Revolution”, its undeniably destructive consequences, the countless number of dead people, the suffering and the pain are at the centre of evaluation.<sup>352</sup> The consequences for development of this troubled, chaotic, and destructive time on an institutional, an individual and the level of society have not yet entered the VoC discussion.<sup>353</sup> By highlighting distinctive aspects of the “Cultural Revolution”, also in relationship to Indonesia's development, one is inevitably reminded of the term “creative destruction” by Josef Schumpeter (1883-1950).<sup>354</sup> Though referring to the background of innovation, I argue that a sort of “creative destruction” could also be considered as a pivotal part of the development of a certain variant of capitalism. Was the Cultural Revolution more of a paradoxically creative destruction rather than a destructive creation?<sup>355</sup>

If so, the presumption of “Impurites,” that an economic system relies on a social subsystem (which can even be contrary to it), would be strengthened. An economic consequence is that the modern Chinese economic system relies firmly on a social subsystem which at first glance seems to be the opposite of classical economic rationality. This shall now be examined.

### 3.6. Chinas Modern Caesura: The Cultural Revolution

The Great Proletarian Cultural Revolution was launched by Mao in his last period of governance at the eleventh plenum of the eighth Central Committee in 1966 and

<sup>350</sup> p.149 in: Encyclopedia Britannica, Vol.24.

<sup>351</sup> Comp. Bundeszentrale für politische Bildung: *Informationen zur Politischen Bildung*, „China“

<sup>352</sup> p.178 in: Law: *The Chinese cultural revolution reconsidered: beyond purge and holocaust*.

<sup>353</sup> There are some academics who attribute positive effects of Mao's infrastructure projects for the capitalist transformation. They hardly refer to the event of the Cultural Revolution. Comp. p.38 in: Porter: *From Mao to Market: China reconfigured*.

<sup>354</sup> p.77-78 in: Zafirovski: *The Enlightenment and Its Effects on Modern Society*

<sup>355</sup> The issue whether the Chinese “Great Cultural Revolution” can be called a “creative destruction” is being discussed at the moment. Source: p.501 in: McCraw: *Prophet of Innovation: Joseph Schumpeter and Creative Destruction*/ p.159 in: Campanella: *The concrete dragon: China's urban revolution and what it means for the world*

formally lasted for ten years.<sup>356</sup> Its aim, in the beginning, was the renewal of values of the Chinese Revolution in institutions and society.<sup>357</sup> The word “cultural” in its official definition refers to the radical effect it should have on the behavioural patterns of Chinese society. Revisionism of traditional structures, instead of a continuing class struggle had been observed in the society of the Soviet Union. Tendencies like that should be fought according to Mao. For this aim, primarily young people from all over the country were mobilised. They were given *carte blanche*, supported by the approval of the party and army.<sup>358</sup>

The “Cultural Revolution” was not a unified movement however. Some fractions were fighting for mere material improvements in their poor living conditions, whereas others had set the aim of cleansing the party plus the ruling elites (i.e. Bosses, teachers,...) of bourgeois and traditional feudal leftovers. Some motivations were more ideological, others more pragmatic, and sometimes these two motivations mingled. Purely economic demands often had some ideological content.<sup>359</sup> For example there were a lot of workers with temporary contracts, something both challenging their personal material security and the socialist ideal. Supported by the groups of young people and students called „Red Guards“ and groups of politicians, longing for more power within the party, the uprising became a mass movement out of control at its peak in 1969.<sup>360</sup> By 1976 the struggles were officially declared to be over at the same time as Mao's death<sup>361</sup>.

The “Cultural Revolution” deeply affected the life of hundreds of millions of people. Several million schoolchildren took part in degrading their teachers instead of attending classes, in destroying traditional heritage such as Buddhist temples, monasteries and shrines and challenging old party elites. It was a mass movement, consisting of several rebellions rather than one big revolution that shook China for more than a decade. It was unique in history. Due to this importance in modern Chinese history, its effects on the political economy and because of its occurrence in the time frame examined in this

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<sup>356</sup> p.783 in: Encyclopedia Britannica, Vol.13

<sup>357</sup> Ibid. p.783

<sup>358</sup> Ibid. p.783

<sup>359</sup> Ibid. p.122

<sup>360</sup> p.20 in: Law

<sup>361</sup> Ibid. p.20

dissertation, it is inevitable that the ideas which stood behind it, and how these ideas could have affected changes occurred afterwards, should be examined.

Most interesting for the “Indonesia-China-Paradox” in this matter is the possible meaning of these struggles. Also apparent in the terminology, it was a mass-movement “revolving” Chinese tradition towards radical new values. In this regard, the “Cultural Revolution” can also be seen as an expression of modernist conscience of the less privileged people in social hierarchy,<sup>362</sup> in the inevitable clash of interest in an intermediate state defined by Polanyi.

*„What emerged for a short time was a genuine, bottom-up mass movement, and the momentum of it carried some workers into all-out rebellion against the entire authority structure in their enterprises and beyond (...)“<sup>363</sup>*

Such an event is inextricably linked to the socio-cultural level, and thereby to the embedding of a variant. First of all, it must be asked whether there is an equivalent to the specific social subsystem which emerged from the cultural revolution in Indonesia? And if not, what are the crucial factors in modernisation leading to its VoC?

### **3.7. The Indonesian Way: Defensive Modernisation instead of a Revolution**

In answer to this question, such a revolution did not occur in Indonesia. The course of its modernisation differs. As said, the modernisation is said to have been coined by a modernisation of economy for most of its time. Social revolutionary aspects were put aside. Economic modernisation was in the centre of interest, due to the belief that it would certainly be followed by a modernisation in other fields of life. In specialised literature, this is confirmed.<sup>364</sup> The focus of Indonesia's modernisation, therefore, was on economic development during this time.

“Economic” is the stamp which Sukarno's dictatorship put on Indonesia's modernisation. In general, during the whole 30 years under Suharto's rule, more

<sup>362</sup> Whereas a mere consideration as an expression of a modernist conscience is definitely narrowing.

<sup>363</sup> p.115 in: Sheehan: *Chinese Workers: An new History*.

<sup>364</sup> For example p.195 in: Hil 2002

emphasis was put on economic modernisation than on social modernisation. That explains why economic indicators comparing Indonesia to the rest of the world are regularly a lot more impressive than the social indicators. Optimists thought that an economic modernisation was supposed to change Indonesia's social landscape as well.<sup>365</sup> In the spotlight of the official intentions of the Indonesian policy-makers and of what we can see today, this optimism was a *denkfehler*<sup>366</sup>. Undoubtedly, there was a massive improvement on a social level in Indonesia as well (i.e. the reduction of poverty<sup>367</sup>), but, taking into account the potential and speed of economic development, the social improvement or change could not keep up. This can be observed even today. Indonesia's economic growth rates in the region are mostly only exceeded by China.<sup>368</sup> Still, Indonesia is rated little above developing countries in the Human Development Index (HDI). In 2010, Indonesia was ranked 83<sup>rd</sup>. In numbers, Indonesia's position in the index has doubled since 1970.<sup>369</sup> This singular perspective gives room for optimism. But income per capita rose 230% from 1968 to 1982<sup>370</sup>; in a period of time where China faced several deep economic recessions.<sup>371</sup> Now it is all-different. China overtook Indonesia in the HDI ranking in the mid 1990s, just about the time when the Chinese GDP overtook Indonesia again. The relation in the tendency between HDI and GDP seems to be closer in China than in Indonesia.<sup>372</sup>

HDI not being in pace with GDP refers to a type of modernisation known as “Defensive Modernisation”.<sup>373</sup> In a defensive modernisation<sup>374</sup>, a regime manages the transformation

<sup>365</sup> p.11 in: Hadiz

<sup>366</sup> Denkfehler= „Wrong presumption despite thorough consideration“, literal translation from German: „Mistake in Thought“

<sup>367</sup> p.4 in: Hil

<sup>368</sup> Ibid. p.7

<sup>369</sup> International HDI Indicator, URL: <http://hdr.undp.org/en/data/trends/>

<sup>370</sup> p.11 in Hill 2002

<sup>371</sup> Comp. Annex: Economic Growth of China

<sup>372</sup> In Indonesia, the modernisation of society did not keep up with the modernisation of economy. In China, it was the other way round in the first period of modernisation. The modernisation of economy could not keep up with the modernisation of society within the socialist command economy. It distinguishes China from most other developing countries at that time and maybe is a further tile in the mosaic of the “Indonesia-China-Paradox.”

<sup>373</sup> King 1979, quoted in: Hadiz: p.60

<sup>374</sup> A consequence of the defensive modernisation is a “delayed modernisation“. Delayed refers to effects the old-fashioned structural remains which had not been modernised, but survived in a modern capitalist economy. Classically, these remains are firstly the interference of military forces in politics, secondly by an arbitrary ideological foundation (whereas arbitrary means non-western), thirdly by a government acting economically and fourthly by a “development state“, where everything is



with authoritarian control. Political modernisation in the classic way of avoiding an increase in political participation because any mass-based action is evaluated as a threat for the decisive element of development, which is a cooperation between corporatist interests and authorities. This creates an “exclusionary model of accumulation”. This familiar tendency, seen in many third world countries, has been described in the Indonesian VoC. It refers to the tier of Indonesian economy concerned with resource exploitation described in the last chapter. It is found in the general modernisation process of Indonesian society as well. From a socio-cultural point of view, it has the effect that masses of people are actively not being modernised, or to be precise disembedded and reembedded. This is clearly visible in the Suhartonian period of modernisation in Indonesian, which, therefore, is also called a “floating-mass”-modernisation.<sup>375</sup>

### 3.8. An interrupted Cultural Revolution?

However, before Suharto's ascension to power in 1965, the track of Indonesia's modernisation seemed to have been distinct from a defensive modernisation. Before 1965, the track seemed to be offensive, closer to the offensive concept of a cultural revolution. Although there is a lack of similar events when compared to China, there are some resemblances.

	Indonesia	China
<b>1945-1965</b>	<b>Offensive</b>	<b>Offensive</b>
<b>1965-1998</b>	<b>Defensive</b>	<b>Offensive</b>

During the struggle for independence in the 1940s, and in the first decade of the Republic of Indonesia, old power structures were challenged in a more forceful way than in 1998.

Sukarno, leader of the movement for independence and first president of the Republic

subordinated to economic development. This constellation is said to cause problems for long-term sustainable and substantial development.

<sup>375</sup> In Indonesian: *massa mengambang*. Source: p.10 in: Bunte: *Democratization in post-Suharto Indonesia*/ Comp. p.253 in: Kahin: *Rebellion to integration: West Sumatra and the Indonesian polity, 1926-1998*

of Indonesia and influenced by Socialist ideas<sup>376</sup>, wanted to modernise society, even at the cost of temporary economic chaos. He had a mass base for this endeavour. His politics mirrored the aversion of a big part of the Indonesian people towards capitalism, which was connected with the Dutch exploitation of Indonesian human resources. In 1956/1957, almost every Dutch company in the archipelago had been occupied by Indonesian workers.<sup>377</sup> A militant wing grew within society<sup>378</sup>, the social-revolutionary Communist Party of Indonesia (PKI) claimed to have 25 million members above and beyond several million members in the Nationalist Party of Indonesia (PNI)<sup>379</sup> showing a distinct politicisation of Indonesian society at that time<sup>380</sup>. Furthermore, instead of following Western theories for future development, Sukarno's period of governance was coined by the search for a customised path for the modernisation of Indonesian structures. The results of this search can be seen in the formulation of concepts like “Guided Economy” or “Guided Democracy”<sup>381</sup>, which were not given a long-term chance.<sup>382</sup>

These concepts should not be explained in detail, but reflect a similarity to the Chinese government and their search for their own way,<sup>383</sup> in a “trial and error” procedure rather than by copying a Western recipe. New traditions, especially those acquired during the four year guerrilla war against the Dutch re-occupation after the end of WWII, like *aksi* (“action”), *mogok* (“strike”), *perjuangan* (“struggle”), *kedaulatan* (“sovereignty”), *vergadering* (“mass assembly”), *semangat* (“spirit”) and *sarikat* (“union”)<sup>384</sup> were preferred instead of old traditional Javanese values as a basis for modernising and unifying Indonesian society in Sukarno's ideology. These new traditions dominated the Indonesian identity, which is said by some to have been born in this period.<sup>385</sup> They are similar virtues to those proclaimed by the Red Guards in China.<sup>386</sup> “Finishing the

<sup>376</sup> p.153 in: *Das moderne Asien*

<sup>377</sup> p.26 in: Lane: *Unfinished Nation*.

<sup>378</sup> *Ibid.* p.27

<sup>379</sup> *Ibid.* p.30

<sup>380</sup> *Ibid.* p.31

<sup>381</sup> *Ibid.* p.37 In this matter, also see the description of the “Bandung Conference” on page 85 of this dissertation

<sup>382</sup> *Ibid.* p.37

<sup>383</sup> p.39 in: McLean/ Fangtong/ Songjie: *Philosophy and modernization in China*.

<sup>384</sup> p.21 in: Lane

<sup>385</sup> *Ibid.* p.20

<sup>386</sup> For example: „*To rebel is justified*“, p.58 in: Lu: *Rhetoric of the Chinese Cultural Revolution: the impact on Chinese thought, culture and communication*.

Revolution” as a slogan<sup>387</sup> summarises the *leitmotiv* of the time. The vocabulary used resembles words used by Chinese officials and Red Guards during the Great Cultural Revolution. Sukarno's Prime Minister Mohammed Hatta for example said:

*The tough struggle, which the Indonesian people is leading against capitalism and imperialism, is a struggle against evil*<sup>388</sup>

Though not widely recognised<sup>389</sup>, it is important to mention these currents as important events in the course of Indonesian modernisation. Its similarity to later social-revolutionary developments in China and the contrast to what was about to become the social underpinning of Indonesia's capitalism, are significant.

In a conclusion, ideas from the Sukarno-period did not have a modernising effect on power structures. The challenging of these structures was interrupted. The challenging was discarded with the coup d'état by Suharto's regressive forces in 1965.<sup>390</sup> The coup d'état marked a turning point, affecting the politics between 1965 and 1998 in Indonesia towards an inversion in the path of modernisation. A power structure, often classified as feudal, was fortified.<sup>391</sup> The term “feudal” might seem to be over the top because these structures were not similar to feudalism in Europe.<sup>392</sup> Unlike in China, the radical modern currents did not last long and were not intensive enough to affect the organisation of the state-apparatus<sup>393</sup>, where on this institutional level massive changes were executed during (in terms of a change of personnel) and after the end (in terms of new laws of organisation) of the Chinese “Cultural Revolution”. In Indonesia, traditional structures were reimplemented and redefined in a new state. A new state based on an unfinished, interrupted modernisation of society. That is why modern

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<sup>387</sup> Ibid. p.26

<sup>388</sup> p.153 in: *Das moderne Asien*

<sup>389</sup> Predominantly, the Indonesian capitalist history is analysed after the end of Sukarno. The analysis of modernisation is executed in a mostly economic-numeric sense.

<sup>390</sup> p.39 in: Lane

<sup>391</sup> p.236 in: Röpke 1982

<sup>392</sup> Though a special style of modernity, I argue that Suharto's regime had too many modern features to be called feudal. Even when taking into account the use of traditional Javense structures of hierarchy, it does not seem to be feudal. It is unlikely that the term admits the existence of “variants of feudalism”. Since the term is not discussed academically, it is better to give these structures a new name without a mediæval connotation.

<sup>393</sup> Ibid. p.33

elements are to be found in the Indonesian variant of capitalism just as many traditional Javanese aspects play a crucial role. The struggle of these tendencies did not lead to a clear result. Tendencies vary throughout *Orde Baru*. Radical modern forces from Sukarno's circle were removed from power before they could take off.<sup>394</sup>

But their ideas were not completely abandoned. This was impossible because they had a mass base. The meaning of this mass base seemed to have been clear to Suharto who also experienced the struggle for independence, in which Sukarno's key to success was attributed to his ability to unify progressive ideas in theory and practice with the interests of particular groups.<sup>395</sup> That is why in Sukarno's works, traditional Javanese values are not discarded completely, but rather used within a new framework. Political Scientists describe this as his cleverest policy stroke and the key to his astonishing support.<sup>396</sup> The framework and the interest changed with Suharto. Progression was replaced with patrimony. But from a more abstract point of view, the principle of unity, in Javanese history of thought known as *mufakat*<sup>397</sup>, was just re-interpreted for a new purpose.<sup>398</sup>

Apart from that, practical reasons led to the continuity of some of Sukarno's ideas on paper, similar to the continuous worship of Mao in China. Sukarno remained an idol. He is the face of a national construct, which even today found is found on patches not only worn by many Indonesian punks. In 1965 his ideas were still widely supported by the people. His heritage and achievement could not be denied, or repressed for the sake of stability in a nation recently cobbled together.

Instead, the traditional Javanese parts of Sukarno's modernising ideas were used by the new regime for a new purpose. The regime became known under the term *Orde Baru*, meaning New Order, firstly to ideologically justify the re-establishment of a political conglomerate of this military caste with the “elite of the thousand,”<sup>399</sup> which lasts until today and secondly to stabilise a shakey Indonesian nation in their first steps.<sup>400</sup> This

<sup>394</sup> p.173 in: Del Testa: *Government leaders, military rulers, and political activists*

<sup>395</sup> Comp. p.91 ff. in: Legge/

<sup>396</sup> Comp. p.120 in: Leifer: *Dictionary of the modern politics of South-East Asia*

<sup>397</sup> Alternatively as „*mufakat*“

<sup>398</sup> p.54 in: Song: *Back to basics in Indonesia? Reassessing the Pancasila and Pancasila State and society, 1945—2007.*

<sup>399</sup> p.229-230 in: Röpke 1982

<sup>400</sup> Indonesia was a rather “shakey nation“ at that time than the stable state which it is today. Territory conflicts (i.e. South Maluku Islands), international isolation because of expropriation measurements,

stabilisation also included keeping old power structures to help achieve this goal. Stabilisation, interwoven in an authoritarian development agenda, was sold as something necessary to improve the material situation of the country fast.

In China, during the output of the first period of modernisation more power was given to radical modernists<sup>401</sup>, and less power to the old middle classes<sup>402</sup> and elites, either elites from the Chinese revolution or elites from pre-revolutionary times. The accumulation regime changed. Deng Xiaoping came to power in 1978 after the “Cultural Revolution” had ebbed and launched the capitalist transformation. It was fuelled by the wing of “winners” of the “Cultural Revolution”, trying to focus on the improvement of the material situation. This wing could rely on broad support within the government, which in retrospective played a role in economic development which was similar to the fertilising role of the European bourgeoisie for economy, and which was unlike the inhibiting Indonesian “*comprador bourgeoisie*”<sup>403</sup>.

Ironically, this time Indonesia has another opposing branding to China. I will try to approach this contrast carefully since it might sound rude. As described, originally Mao wanted to eliminate the traditional elements from Chinese society. It is well-known that millions of people died during, and because of, these modernisation politics. Suharto, on the contrary wanted to eliminate the chaotic social revolutionary elements of his predecessor Sukarno. In practice, this also led to the physical elimination of at least 100,000 people classified as communists, inner enemies of Indonesia.<sup>404</sup> People classified as communists were often those attached to organisations and parties which radically supported the social-revolutionary ideology of Sukarno. With this pointed massacre, modernising forces in Indonesian society were weakened. Traditional authoritarian forces gained more power. With the execution of millions of people

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withdrawal from the United Nations because of the recognition of the new state of Malaysia are the key elements showing that indeed the “old Order” regime's policies did not give stability the priority in their politics.

<sup>401</sup> “Chinese modernism” can be superficially understood as a Chinese interpretation of the concept modernity, which is not equivalent to “Western modernism”.

<sup>402</sup> The term middle classes is used in a relativist conventional way, referring to those people neither poor nor rich holding intermediate economic and social positions in society. The debate about what middle class actually means in detail is neglected here.

<sup>403</sup> Comp. p.124 in: Sulistiyanto

<sup>404</sup> p.80-81 in: Philpott: *Re-Thinking Indonesia*

supporting traditional ties in China, traditional forces lost influence in institutions. Modernising elements were put in their place. Although it is academically and morally condemned to compare numbers of dead bodies, a contrast in tendencies is (unfortunately) further illustrated and confirmed by that.

### 3.9. Political Participation

After these killings, modernisation was turned in a different direction. Both countries devoted their priorities to economic development, Indonesia approximately ten years before China. Superficially, Suharto thereby ended economic chaos for the benefit of Indonesia quickly.<sup>405</sup> On the other side, certain developments were incited which seem not to have been beneficial at all in the long run.

For example, Suharto ended the deep level of political participation of the masses.<sup>406</sup> Secondly, his regime eliminated any left wing tendencies<sup>407</sup> from the government, and, thirdly, he ended a process of a modernising society "finishing the revolution"<sup>408</sup>. The dissimilar, and thereby dynamic, social structure underlying development was blocked. Executing predecessor Sukarno's ideas conflicted with the military caste<sup>409</sup>, which was privileged due to their honours from the revolutionary wars and powerful due to the dependency of the government on military strength to solve ongoing separatist conflicts in the outskirts of the Indonesian Republic. The privileged caste reacted with the execution of a military coup d'état that ended Sukarno's endeavour to break through these structures. In this way, the base was laid so that these privileges could be monetised and commercialised. This is the historical link as to why a "third force" was able to emerge in Indonesia's capitalist variant.

To maintain this base, the de-politicisation of the masses as a rare non-economic element entered the social agenda.<sup>410</sup> In combination with the re-traditionalisation of structures instead of directing them according to modern industrial principles (i.e.

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<sup>405</sup> p.62 in: Hill

<sup>406</sup> p.31 in: Lane

<sup>407</sup> Other oppositionists were eliminated from government as well.

<sup>408</sup> p.26 in: Lane

<sup>409</sup> Ibid. p.34

<sup>410</sup> p.4 in: Hadiz, p.2 in: Lane

material success defined by status instead of the support of achievement as a basis for material well-being) this undermined a modernisation of the social subsystem. The social subsystem remained Javanese, and this dynamic has proved to be a decisive feature of Indonesian capitalism until today.

The role of the workers in this process is another example of the development of radically different subsystems.

The workers' role seems to support another dialectic. An interpretation of the outlined history of two modernisations suggests what Polanyi and the “Impurity Principle” discussed theoretically. Both countries offer a disturbing contrast. An economic modernisation seems to be a worse foundation for economic success in the long run compared to a modernisation of society at the cost of short-term economic recession. A modernisation following a commercial (although illiberal) image of man seems to be a worse foundation than a modernisation which follows an ideological and socialist image of man. This possible opposite effect becomes obvious on various levels. One level is revealed when looking at the workers' role in both modernisations.<sup>411</sup>

### **3.10. Workers and their Participation in Political Economic Modernisations**

As in China, there was one union in Indonesia representing all workers in the state. In both countries, this union did not represent the interests of the workers in front of the government and companies, but rather worked for the government and the companies. The reactions were different though. The Chinese workers organised themselves to push their interests through. By some, the “Cultural Revolution” is evaluated as being founded in workers' protests boiling over.<sup>412</sup> The Indonesian workers, suffering a comparable poverty, a comparable lack of prospects and a comparable discrepancy between reality and ideology, remained silent. In 1991 and 1993 manufacturing labour wages in Indonesia were the lowest in Asia.<sup>413</sup> There were hardly uprisings apart from

<sup>411</sup> The emphasis on workers is according to the Marxian presumption, that workers are a main element of change within a capitalist system. (see p.114 in: Hadiz) This aspect is chosen because it puts more emphasis on the mechanisms of human resource action shaping two different variants of capitalism.

<sup>412</sup> Comp. p.109 in: Sheehan

<sup>413</sup> p.149 in: Rinakit: *Trade Unions and Labour Unrest*

small strikes in a growing number in the early 1990s<sup>414</sup> until the fall of Suharto over short periods of time, which are overrated by many Indonesianists since they are such a rare event. There were no uprisings against “lazy, snobby”<sup>415</sup> cadres avoiding physical work and enjoying privileges and a bonus system<sup>416</sup>, which seems to be as apparent in Indonesia as in China. The rebellious workers in China also rebelled against an arbitrary authoritarian control of production and quotas were criticised.<sup>417</sup> Workers no longer wanted to be excluded from decision-making in the factories. In Indonesia, workers did not challenge the order, even under similar circumstances.

But unlike in China, where workers were forced to attend political class regularly<sup>418</sup>, Indonesia's masses had been demobilised and depoliticised for decades.<sup>419</sup> This had been a tradition of Suharto's regime. There was no more founded mass based attempt to get rid of these elites holding all political and economic power on a meaningful scale. Depoliticisation as a key element of Suharto's politics<sup>420</sup> can be called successful.

Taking the traditional Javanese conception of harmony<sup>421</sup> as the centre of “Pancasila Industrial Relations”<sup>422</sup> (*Hubungan Industri Pancasila*, in short: HIP, the economic guideline for the New Order State), Indonesian workers were informally excluded from any decision-making. This guideline limited workers. Moreover, the concept of workers as a revolutionary force from Marxian tradition<sup>423</sup> did not apply in Indonesia. Workers remained unmodernised, uneducated, apolitical and disorganised during the decades of *Orde Baru* instead of becoming modernised as in China. This is reflected in their aspirations. Their demands did not question the existing system, for themselves in terms

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<sup>414</sup> p.1 in: Hadiz

<sup>415</sup> p.123/124 in: Hadiz

<sup>416</sup> All ibd. p.123/124

<sup>417</sup> p.123 in: Sheehan: *Chinese Workers: A new history*.

<sup>418</sup> p.139 in: Lewis/Cohen: *The City in Communist China*.

<sup>419</sup> p.2 in: Lane

<sup>420</sup> p.4 in: Hadiz, p.2 in: Lane

<sup>421</sup> Interestingly, a neo-traditional concept of harmony is said to have been a guideline since Hu Jintao's era in China *after* decades of rapid economic growth and industrialisation. Although this would have to be discussed more thoroughly, it seems likely that such a concept would not have matched the ambitious industrialisation policies based on the dynamics described in chapter two. (Source: p.29-30 in: Geis/ Caine/ Donaldson/Holt/Sandfry: *Discord Or "Harmonious Society": China In 2030*)

<sup>422</sup> p.3 in: Rahayu/ Sumarto. The term *Pancasila* will be explained in a more detailed way on the next pages.

<sup>423</sup> p.114-117 in: Hadiz



of personal ascension and neither did the small strikes challenge the power structure. Indonesian workers only demanded what they could reasonably get within the existing power system.<sup>424</sup>

To understand the seemingly contrary courses of Indonesia's and China's modernisations, it is important to mention that Javanese traditions in Indonesia were institutionalised and thereby used in industrial relations to avoid change and maintain an equilibrium in society between the elites and the masses. The absence of any rebellion on a large scale makes sense in the light of a.) traditional values and b.) in the light of the instrumentalisation of these traditions. In China, different traditions, mainly Marxist ones, were granted entrance into institutions during and after the Cultural Revolution. It is also important to mention that Marxian values are part of a “modern” set of values. Although already present, their influence increased and shifted aside traditional elements on the institutional level. This contributed to a change in power structures. Workers were taught a Marxist consciousness, in the way that a change of their situation was necessary, possible and justified. All these virtues, seen among a large part of Chinese workers during the “Cultural Revolution”, seem to be coherent with capitalist values, or entrepreneurial spirit. The personal aspiration to be responsible for your own work, the aim to have material benefits for good work, the end of being inferior to bosses make sense in socialist and capitalist ideology. So, the rebellious spirit of workers gave way to a capitalist transformation, no matter whether it was desired or not. The rebellious, or in other words ambitious, character of many workers was not an obstacle to success within the Chinese capitalist system. The interaction of the social subsystem with economic structures, also from this perspective, seems to be dynamic. In Indonesia, tradition remained an obstacle.<sup>425</sup> The subsystem existing next to the economic structure has not contributed to a dynamic. One could say this is because it goes hand in hand with it and is not an opposite pole. This would refer to the subsystem being a dialectical momentum. However, there is well founded motivation to assume that in this case this is no longer dialectical, but rather follows a rationality of its own.<sup>426</sup>

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<sup>424</sup> Ibid. p.116

<sup>425</sup> This is now widely criticised by entrepreneurs and investors who seem to refer to this predominance of traditional pre-capitalist worker's behaviour mainly.

<sup>426</sup> See Chapter III, where this will be discussed in detail

### 3.11. 1976-1978: The Years around the Turning Point in comparative Perspective

After a change in key positions in the government occurred after Mao's death in 1976, the government changed direction. Temporary stabilisation, educational progress and pragmatic economic and foreign policies were placed at the centre of interest. Hereby, it was already visible that the Chinese modernisation was much more pure than the Indonesian one. Its structures proved to be able to embrace transformation to a radical degree.

After the end of the waves caused by the “Cultural Revolution”, the ideological convictions of many Chinese elites changed direction. It was a directional turn marking a historical caesura, which in its extents is perhaps comparable to the admission of Christianity in the Roman Empire. Elements which priorly seemed irreconcilable melted to a form of state capitalism.

These years marked the beginning of the capitalist Transformation. The socialist dogma was shifted into the background. Economic modernisation became a priority on the Chinese agenda, easy to be read in the resolutions of the meeting of the third plenary session of the eleventh Central Committee in 1978.<sup>427</sup> Society modernisation was put aside. China shifted its priority to economic development under the new president Deng Xiaoping. Therefore, it was justified to help with capitalist measures.<sup>428</sup> „*No matter if it is a white cat, or a black cat, as long as it can catch mice, it is a good cat*“<sup>429</sup> became a characteristic slogan for the period that would follow.

1978 marked the beginning of the second period in Chinese modernisation. It was here that radical social revolutionary policies gave way to a procedure which became known as “gradualism”. Connected to the procedure of “Trial and Error”, the gradual, careful

<sup>427</sup> p.291 in: Mackerras/ McMillen/ Watson: *Dictionary of the politics of the People's Republic of China*.

<sup>428</sup> p.119 in: Marti: *China and the legacy of Deng Xiaoping. From communist revolution to capitalist evolution*

<sup>429</sup> p.13 in: Li: *A Glossary of Political Terms of the People's Republic of China*.  
The original traditional proverb speaks of cats of different colour, saying “*No matter if it is a white cat or a yellow cat, as long as it can catch mice, it is a good cat.*“

economic modernisation became a characteristic often used when describing the specifics of Chinese development. In addition, one can expand the gradual step-by-step procedure to the whole Chinese modernisation. As shown in the illustration, gradual can also mean, that all constituent spheres of a society are modernised one after another, and thereby in step. There is no level which cannot keep up with the variant of modernisation which China is following.

Indonesia		China	
<b><u>"Failed Big Bang"</u></b>		versus	<b><u>Gradual</u></b>
<b>1. Economy</b> <b>2.</b> <b>3. /</b>			<b>1. Society</b> <b>2. Politics</b> <b>3. Economy</b>

This step towards transformation also marked the beginning of an alternative economic path of development. One is even seduced into saying that it marked the beginning of a new economic ideology. A state became an entrepreneur. Material incentives were given without granting private property. Foreign capital was restrained in movement. Investments were only possible in Joint Ventures with Chinese companies. Suddenly, capitalism was embraced and justified as a mean, not an end of history, to establish a materially satisfied society. Thereby, traditions of the recent past were not denied. As a side effect, the additional dynamic caused by the tension from a different social subsystem was enforced. One can still see a lot of ideological propaganda in Chinese capitalist cities. There is continuity in Chinese modernisation in spite of radical turning points. The Chinese variant seems to be sustainable in a way that capitalist success and development could endure for several generations. In Indonesia, such a sustainability seems not to have existed.<sup>430</sup>

This economic ideology was contrary to that which is lectured in neoliberal seminars,

<sup>430</sup> It seems to be paradoxical that stability caused unsustainability (Indonesia) and that instability or risky trial-and-error, was accompanied by sustainable growth (China) unprecedented in history of mankind. (Source: Comp. Presentation by Ten Brink: *Chinas neuer Kapitalismus: Ursachen des „Wirtschaftswunders“ und gegenwärtige Entwicklungstendenzen*)

and to that which the “School of Chicago” proclaims as royal road. It is this school which is said to have influenced Indonesia's technocrats<sup>431</sup>, the modern elements within an inflexible state apparatus. Their role in the Indonesian variant of capitalism is usually seen as positive. But they are misleadingly called “technocrats” because of a presumed pragmatic orientation instead of an ideology-driven motivation. This is not factual. Their pragmatism, in retrospective, seems to have been limited to a combination of neoliberalism (macro level) and self-enrichment (micro level). The aspect of self-enrichment has been described in detail. Its role as an obstacle for sustainable development and its institutionalisation in the Indonesian VoC have become clear. But it is not only the micro part which is responsible for the fact that Indonesia cannot compete with China. Also the neoliberal policies proved to be unsuitable in many other countries. This shall not be discussed here in detail. What I would like to show is the “Double Failure” of the Indonesian government in their development plan. The double failure refers to both tendencies in policy-making, technocratic and traditionalist. Both of them seem to be inferior to the Chinese one concerning establishing a high speed accumulation system.

So, while China entered a new century, Indonesia became more and more stuck in their structural obstacles, which threatened the qualitative development of the country more and more. As the illustration showed, economic modernisation died away. The development of the GDP is a numeric indicator for the slowdown of the Indonesian economic development at that time(see graph). This being stuck seems to be due to the path of modernisation, which the New Order regime chose in accordance with their economic ideology.

### **3.12 A New *Mataram*<sup>432</sup>: Indonesia's Modernisation from an Ideological Point of View**

<sup>431</sup> Comp. p.15 in: Hefner: *Market Culture, Society and Morality in the New Asian Capitalisms*.

<sup>432</sup> Mataram was the last major Javanese kingdom before colonisation. „New Mataram“ for Suharto's patrimonial political style is an allusion to the practices of this kingdom, precisely politics as a matter of court-intrigue, powerful palace groups independent from administrative restraints and the active playing-off of competitors against each other. Source: p.41 in: Jenkins: *Suharto and his generals: Indonesian Military Politics 1975-1983*.

Economic ideology under Suharto seems to have been a controversial issue. As said, there is evidence of a “double failure” in the combination of two unfortunate ideas to establish an accumulation track ready for high performance. However, just as it is possible to show a special capitalist system, it is possible to derive a special economic ideology which was shaped under Suharto.

Economic ideology under Suharto had to follow traditional structures in the interest of elites in society. This has proved to be an obstacle for high performance up until today. Once again, the reasons for that lie in the blend of the two periods of modernisation.

In the first period, Hatta, prime minister under president Sukarno, had declared Indonesia as “home of the middle way, between capitalism and communism”.<sup>433</sup> Capitalism means liberal capitalism in this matter, which was especially associated with exploitation. It remained unpopular among the population, which still had anti-liberal-capitalist sentiments from the struggle of independence. Events like the “Bandung Conference” of so-called non-aligned countries testify to the endeavour of this regime to realise this middle-way. When Hatta and Sukarno were swept away, the new regime converted to capitalist development.

But the aversion to liberal capitalism survived the regime change. It was taken into account in the second period. Though the technocratic fraction favoured and pushed through some liberal elements in the coming years, the aversion did not vanish. It remained a strong reconciling element between the elites<sup>434</sup> and the people. Liberal-capitalism was still not an option. The realisation of a middle-way seems to have remained an unwritten guideline. An Indonesian *sonderweg* developed in modernisation. Logically, this was likely to lead to a special Indonesian VoC.

In fact, Suharto interpreted this middle-way differently from his predecessor. Suharto's interpretation meant that Communism was replaced by traditional elements, defined by the elites. A Javanese style modernisation was suitable because, firstly, it pretended to prevent the people from the foreign exploitation known from colonial times.<sup>435</sup> Secondly, it ended the international isolation in the western world of Cold War times.

<sup>433</sup> p.250 in: Hil

<sup>434</sup> p.251-252 in: Song. See also chapter two, where the reasons for that were discussed in a more detailed way

<sup>435</sup> However, a neocolonial domestic exploitative structure took the place of the foreign exploitation. See the subchapter about domestic exploitation in this dissertation.

On the other side, this kind of modernisation has a fundamental contradiction. The modernisation of Indonesia is also called “unfinished” or only “partially done”<sup>436</sup>. On the one hand, these attributes express that the automatic modernisation of society after a modernisation of economy did not work. That is why only one area of life is modernised. As stated before, from a qualitative perspective the Indonesian economy is a lot more modernised than the society. Nevertheless, even the Indonesian capitalist system is not fully modernised according to the determining features of an industrial civilisation. The spreading of economic instrumental reason in many areas of life is underdeveloped. Manifest material appeals in fusion with mental processes based on the principles of an achievement oriented society<sup>437</sup> are not predominate. All this only happened in China, not in Indonesia. Also in this observation, one could speak of a partial modernisation.



FIG 5, © Dennis Fromm

On the other hand, a “partial” modernisation also has a semantic connection to the “Neither fish nor fowl”- idea. It could be understood as a modernisation which took place only up to 50 percent. This is not astonishing given the fact that new elements were not launched, but rather old elements were used anew instead. As said before, it was similar to Fascist States, where old values and virtues were idealised to be fertile for the future<sup>438</sup> but in fact above all served the future of an elitarian elite.<sup>439</sup> A

<sup>436</sup> p.71 in: Lindsey: *Indonesia. Law and Society*.

<sup>437</sup> p.43 in: Furtado

<sup>438</sup> This aspect of the Indonesian modernisation marks a connection to the concept of “Cultural Resistance”.

<sup>439</sup> p.229-230 in: Röpke, p.115 in: Hadiz

modernisation therefore took place, but traditional values remained untransformed and were simply used anew. That is how Indonesia's modernisation mainly deviates from the norm.<sup>440</sup> It is also a difference to China, illustrated in the preceding figure, which summarises the difference in the course of modernisation.

The ideology underlying this instrumentation is the “*Pancasila*-State-Ideology.”

*“(Modernisation) requires the clarification of the model of the Pancasila State and the application of the principles in every field of life.”<sup>441</sup>*

The reuse of old values anew in a special capitalist framework in the special Indonesian style described can be summarised with the term *Pancasila*.<sup>442</sup>

*Pancasila*, ironically, is a neologism of old Sanskrit words, meaning “five” and “column”. The Indonesian state should rest on these columns. The five columns are written down in the preamble of the Indonesian constitution as its foundation and thereby applicable law. Sukarno presented the *Pancasila* on the first of June in 1945 to the “Committee for the Preparation of Indonesian Independence”.<sup>443</sup> In short, the five columns are a symbiosis of Javanese values with nationalist ideals and ideas considered as progressive for the future of the former Dutch colony. The *Pancasila*-Ideology is another example of the reconciliation of various claims of various fractions within the struggle of independence. This becomes obvious in column number one, which is entitled “Belief in the one and only god”. This is, on the one hand, a concession to the vast group of political active and pious Muslims and their parties, for whom God had to play a role in the new Indonesia. On the other hand, it does not exclude Christians, the second largest religious group in the places of importance. Column number one also shows the disregard for islands and regions where natural religions are practised. These regions, by location and history, isolated for a long time from trade routes, are those where modernisation arrives last.<sup>444</sup> Therefore, the Javanese hegemony is secured as

<sup>440</sup> p.61 in: Hadiz

<sup>441</sup> General Ali Moertopo, quoted p.65 in: Hadiz

<sup>442</sup> See also: HIP (Hubungan Industri Pancasila, “Pancasila Industrial Relations”) on page 81 of this dissertation.

<sup>443</sup> p.82 in: Manullang: *Die Staatssoziologie der Pancasila*

<sup>444</sup> See also: p.65 of this dissertation, where varieties of modernisation are spoken about. The modernisation taking place in these peripheral regions, which only partly seem to coin the development of Indonesian capitalism, might differ significantly from the one in the domestic centre.

well in the modern era of Indonesia. In Indonesian passports, one either has to decide whether to be classified as Christian or Muslim.

The other columns grant just and civilised humanity, the unity of Indonesia, “democracy under the wise guidance of consultations”<sup>445</sup> and social justice. They represent, on the one hand, the symbiosis, on the other hand the strong reconciling effect due to terms and notions open for interpretation.

### 3.13. Economic Modernisation embedded in *Pancasila*

Suharto changed the hierarchy of the principles, but left their content untouched. Since it offers lots of room for interpretation, it did not stand in his way. Traditional values favourable to strengthen network structures but alien to competition driven accumulation were used in industrial policies with the help of the *Pancasila*-Ideology. The “application of *Pancasila* principles”<sup>446</sup> meant the submission to non-modern values supporting structures beneficial to the “elite of the thousand”. Those values were bent according to the needs of the cronies.

The “*Pancasila* Industrial Relations” are an example of this. By 1974, when they were officially inaugurated, unpopular liberal capitalism entered the country through the back-door.

Officially, this concept was opposed to Marxism, liberalism and other western theorems<sup>447</sup>, which were stigmatised as not in accordance with National Culture and National Character.<sup>448</sup> In fact, HIP are definitely not opposed to liberalism. It seems that liberalism in this matter means “liberation” from structural constraints, and Marxism means “worker's rights” to which HIP are opposed. But instead of keeping liberalism out of industrial relations in the scarce industries, they brought in a legal justification for an Indonesian variant more similar to “Manchester Liberalism” than to any version of a “social market-economy”.

This variant did not affect the accumulation structure towards more competition. On a

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<sup>445</sup> „Pancasila“on: Encyclopedia Britannica Online, URL: [www.britannica.com](http://www.britannica.com)

<sup>446</sup> Comp. p.378 in: Song

<sup>447</sup> p.88 in: Hadiz

<sup>448</sup> Ibid. p.88



horizontal level, economic liberalism<sup>449</sup> was kept out. On the vertical axis, liberal elements exist and were supported.

In the HIP-concept, both workers and employers worked in the service of god and mankind, striving for a civilised humanity.<sup>450</sup> HIP proclaimed harmony and peace in enterprises among employers and employees. Conflicts were avoided thereby, dynamics of contradictions within this system suppressed.<sup>451</sup> Working-class action and conflict was regarded as an anathema to these principles<sup>452</sup> and, therefore, condemned. Conflict between workers and entrepreneurs should be avoided at any costs for the sake of economic progress.<sup>453</sup> Patriarchal values gained significance with HIP, which were suited political and economic interests of the elites.

Another aspect of the Pancasila which becomes apparent in HIP was the constitution of predominant hierarchical principles. Called “aristocratic” by some, these values experienced a renaissance.<sup>454</sup> These politics was also called “Bapakism”, the mentality coming from it “ABS-Mentality” (*asal bapak senang*= as long as (our) father is happy).<sup>455</sup> This term, derived from the Indonesian word for “father” or “master/sir”, puts emphasis on the increased crystallisation of the paternal Javanese values in Indonesian modernisation.<sup>456</sup> Although the dissolving of some old norms was being observed in society, old hierarchical dependences were politically linked to new institutions like HIP.<sup>457</sup> The rights of the individual were restrained thereby. In daily business life, this causes a problem in communication within Indonesian companies, where resource coordination is said to be the main problem.<sup>458</sup> Orders from above are camouflaged as suggestions, whereas disapproval from workers has to give way to putting lipstick on

<sup>449</sup> As Ten Brink mentions, liberalism falsely is often used in a political meaning. It therefore is important to put emphasis on the fact that in this dissertation, liberal refers to economic liberalism only.

<sup>450</sup> p.123 in: La Botz

<sup>451</sup> p.22 in: Susetawan

<sup>452</sup> p.120 in: Hadiz

<sup>453</sup> Ibid. p.89

<sup>454</sup> p.223 in: Röpke

<sup>455</sup> Ibid. p.224-225

<sup>456</sup> This metaphor of economy connected with a “father” in Indonesia is different from the image of “Uncle Sam” in the USA and “*Vater Staat*”(= father state) in Germany. It emphasises the paternal hierarchies and does not create an image of a responsible father similar to the “*Vater Staat*”, caring for its citizens nor the image of a father who needs its children like “Uncle Sam”.

<sup>457</sup> Ibid. p.220-221

<sup>458</sup> p.158 in: Hok: *Labour in the garment industry. An employers perspective.*

the pig. A constructive working atmosphere does not exist within this principle of harmony. Within this framework, individual achievement is not appreciated highly. Work is considered as a necessary evil<sup>459</sup>. Those who work hard and better are not valued more. Individual endeavour is embedded in a harmonist principle and thereby blocked.

It is argued that these traditional values could be used by workers against their exploiters because it was not in accordance with traditional Javanese ideals of harmony to exploit someone.<sup>460</sup> Harmony in the Javanese concept, however, is more the execution of a god-given hierarchy. In a modern context, bureaucracy defined hierarchy in Indonesia, not achievement. Social justice, the fifth point of *Pancasila*, was interpreted as the execution of this hierarchy. The right of the ruler(s) thereby also remained always above the rule of law.<sup>461</sup> Individual legal compliance and any kind of economic freedom of the individual were not enforced.<sup>462</sup> The consequences for micro economic action, or accumulation, are known.

The inherit failure of long-term-successful accumulation has its correspondence in Pancasila ideology. Officially, Indonesia strives for harmony in industrial relations as it is defined by HIP.<sup>463</sup> Harmony is not automatically a value incompatible with capitalist functioning. Regarding the aims of the *Orde Baru* regime, it seems to be a very suitable means. The importance of an equilibrium in neoclassical theory, which can be seen as a variant of harmony, is not opposed to capitalism either. But one has to bear in mind that harmony on the level of industrial relations<sup>464</sup> and change towards a high performing economy is not to be reconciled. Harmony, balance or equilibrium, means avoiding big change. A big change, like the support of a dynamic, self-sustained industrialisation changes power relations within a country. The Suharto regime did not want to pay this price. And still today, there seems to be a majority who does not want to pay this price either since the capitalist system established is working for them. Supporting harmony

<sup>459</sup> Ibid. p.159

<sup>460</sup> p.117 in: La Botz

<sup>461</sup> p.221 in: Röpke

<sup>462</sup> Ibid. p.228-229

<sup>463</sup> p.4 in: Rahaya/ Sumarto: *The Practice of Industrial Relations in Indonesia*.

<sup>464</sup> This refers to this level only. On other levels of society, principles of harmony could have different effects as well.

and equilibrium on one side (society) and promoting industrial development on the other side (economy) is a contradiction which ideologically has contributed to the dynamic embraced by the Indonesian VoC.

It is also interesting to examine this dynamic which was established throughout the process of modernisation and put its stamp on it in relation to the individual level of capitalist economic activity. How much does the *homo pancasila*<sup>465</sup> have in common with the *homo oeconomicus* as the perfect theoretical ideal image of man within capitalisms? The *homo oeconomicus* is not bothered about harmony. Instead, his subjective utility should be maximised. Javanese harmony claims to put individual aspirations to one side in favour of peace in society. A *homo oeconomicus* follows the premise that more goods are always worth striving for.<sup>466</sup> In the modern Javanese set of values it is achievable to be satisfied with less.<sup>467</sup> Abridged, Javanese ethics in general are based on “being humble.”<sup>468</sup> It is a fact, that these motivations existed and were being used during *Orde Baru*.

Nevertheless, apparently many of these presumptions are not relevant in practice. The concept of harmony and the *homo pancasila* is an ideological shield for a self-enriching elite. The point is that the masses of people in Indonesia are not able to be a counter force to the inhibiting structures because they do not conduct economic activity according to those principles. An economisation of man has not occurred, just like the structures have not been economised. Commercial activity is not embedded into a capitalist framework suitable for long-term development which requires entrepreneurial skills as well as other preconditions. Entrepreneurial skills within a VoC pattern means nothing more than action directed at maximising economic potential. No principles are favoured to reach this; they might differ from system to system. Crucial is, that without suitable structures, entrepreneurial skill is useless. Without entrepreneurial skills, suitable structures might not lead to improved performance. The individual level also shows that economic development has to be complementarily embedded. Just like VoC

<sup>465</sup> Comp. Book title by Wandelt: *Der Weg zum Pancasila-Menschen*.

<sup>466</sup> p.11-13 in: Kapeller: *Das Menschenbild moderner Ökonomie*.

<sup>467</sup> p.120 in: Röpke

<sup>468</sup> p.22 in: Magnis-Sueseno: *Perspektiven Indonesischer Demokratie*.

states, only coherent models, or only models where the five factors suit one another are able to harness the full potential of a country. Within political capitalisms, it is in the range of the state to coordinate this interaction.<sup>469</sup> In China, this seems to have happened.

A coherence seems to be further developed. Capitalist skills are supported by structures, and structures are altered by economic needs. Moreover, the Chinese and the Indonesian economic image of men seems to differ significantly. The principles during the “Cultural Revolution” seem to have more of an intersection with the *homo oeconomicus* than the Indonesian one does.

### **3.14. The Great Transformation, the Great Cultural Revolution and a Partial Modernisation**

The conclusion from the two modernisations in Indonesia and China is an unsurprisingly different social underpinning of their capitalist systems. More surprising are that there are reasons to be found in these modernisations which explain why one variant is high performing and the other is on a constant medium-high level and relatively speaking, is on the decline in contrast. The crucial importance of dissimilar social subsystems to create a dialectical dynamic in order to change structures towards better performance seems to have been proven through the contrast of Indonesia's and China's courses of modernisation.

It is no longer a paradox, that a socialist country could overtake Indonesia within a decade despite Indonesia having started at least one decade ahead. China's economic dynamic is viewed with admiration. Supposing, a dissimilar subsystem is necessary for an economy, a socialist modernisation seems to have even been an advantage. A socialist subsystem could hardly be more different from a capitalist economy. This must cause an immense dynamic, especially because the kind of socialist modernisation in China was directed at change.

The dynamic in Indonesia does not seem to match this. Since a dissimilar subsystem exists, the capitalist system functions. The dissimilar Javanese subsystem is very

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<sup>469</sup> In other economies, this coordination is regulated by markets.

different from universal capitalist principles as well, but the contradictions emerging from it seem to cause the opposite of a capitalist dynamic. Rather an equilibrium is reached.

In relation to the initial question, another thing about the socio-cultural embedding seems to be decisive. It refers to the relation of dis-embedding and re-embedding as the basics for variants of capitalism and for quantitative and qualitative development.

There is one fundamental difference between both modernisations and the developed subsystems. The “modern” element seems to play a minor role in Indonesia's modernisation of society.

China's society seems to be a model for the radical and wide-ranging dis-embedding from a traditional, uneconomic context which did not follow an economic instrumental rationality. With the help of socialism as a means of the successful radical re-embedding into a special Chinese modern capitalist context, the inherit contradiction of transformation Polanyi wrote about, was over-come. This supported the high speed catching-up.<sup>470</sup> It would be interesting to find out if socialism was not the end-goal of the capitalist modernisation as officially proclaimed<sup>471</sup>, but rather if capitalism could be the end goal of the Chinese socialist modernisation.

In contrast, Indonesian society and institutional structure in general seems not to be dis-embedded to a comparable extent from pre-modern elements hindering industrialisation. Modernisation cultivated them instead. Patrimonial structures could be re-embedded into the context of a crony capitalism thereby, a symbiosis of traditional authoritarian-crony structures, which is the way in which the Indonesian regime is mastering the conflictive dynamic of modern capitalisms.

Economic modernisation has so far not led to a modernisation of society. Social modernisation policies are rare, and the period of social-revolutionary politics was short. Modernisation reflects the Indonesian VoC and growth rates; they are “partial”(a small share) of what would be possible if circumstances were changed, or if they had

<sup>470</sup> Just like the other statements in this paragraph, the empirical application of principles is seen in a tendency-relation which draws its conclusions from what seems to be dominant. It is likely that, there are regions, groups of people, etc. where the dis-embedding and re-embedding has not yet happened. But many factors suggest that the common presumption, based on experiences from most developing countries experiencing an ascension in the past, that the Chinese economic success is limited regionally and to a minority is not in accordance with reality.

<sup>471</sup> p.6 in: Ten Brink

followed another pattern in the past.

However, two facts have to be recognised. The interaction of subsystem and variants, towards a coherent variant with a complimentary socio-cultural embedding was realised over a long period of time, and took an unforeseeable direction during the process of modernisation. Contrary to belief, the Chinese economic miracle was not planned. It was reached by a specific coordination, which took into account events, ideas, resources and apparent contradictions. As ten Brink says, despite all efforts to coordinate and organise, there is a mechanism which has not yet been honoured sufficiently.<sup>472</sup> This is the role of

*“unintended, contingent developments”.*<sup>473 474</sup>

<sup>472</sup> „Neither from a liberal perspective of marketisation nor from a state-focussed perspective with the state being the wise captain of economy“, freely quoted from p.36-37 in: Ten Brink

<sup>473</sup> Ibid. p.36-37

<sup>474</sup> The role of “unintended, contingent developments“ in the evolution of certain economic systems would furnish a fit occasion for a discussion of the Indonesian VoC in a “history of ideas“-framework developed by Max Weber, in whose description of western capitalisms certain religious values are identified as variables altering in meaning, being re-used in a capitalist context unforeseen by those who fought for their implementation. Although his kind of approach had been discredited in the past, because predominantly studies aimed at illustrating why other capitalisms are not like the better western version, its content based suitability for further de-constructing aspects of the question why some societies succeed and others fail economically. Often, these discrediting studies relied on superficial conceptions of Orientalist values due to having insufficient access and a scarce availability of domestic sources comparable to what Weber based his original discussion on. Due to progressed anthropologist studies, counterbalances to western universalism and a rising global integration of social science, time might be right for a second trial with this set of theories. The complimentary „history of thought“- approach has an advantage, which is in accordance with concepts of New Political Economy. New political economy aims at isolating variables as independent as possible from the economic-material sphere as possible, whose influence on them should be discussed by a “clear narrative style“ (Source p.178 in: Adam)

## Chapter 4

### Conclusion

The image of “Unity in diversity” serves as motto for the Republic of Indonesia and was mentioned on several occasions in this dissertation. Due to its open semantic character, it is inviting to keep this motto in mind when reflecting upon Indonesian capitalism. Despite diversity, there is some unity. Diversity is reflected in state, crony and private corporate organisation. Unity between these partly contradictory forces was attained and is maintained by a sophisticated bureaucratic superstructure<sup>475</sup>.

A rent-seeking balance of power between conflictive-cooperative elitarian groups of society, alienated from nationwide interests is not a new phenomenon. In difference to most regimes where this happens, Indonesia provides a specific, professional formally institutionalisation of an informally and historically developed superstructure which is often referred to as bureaucratic. It distinguishes Indonesia from third-world countries, granted stable continuity for more than three decades and lead to a seemingly specific variant of capitalism through an unusual combination of the factors from Ten Brink's pattern of analysis.

The Indonesian capitalism is a special case. It is a bureaucratic-political capitalism, marked by a unique combination of selective interventionism and liberalism.<sup>476</sup>

Crooked commercial rent seeking activity of the government and state, strict non-competitive micro economic politics in a protected domestic market, crony conglomerates coining the corporate structure, liberal money and financial markets, formally strict and informally liberal labour relations are regulated and interwoven by a powerful crony bureaucratic-administrative superstructure enforcing unequal social and economic development and disintegration by its mode of operation.

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<sup>475</sup> The term „Superstructure“ is not used in its traditional Marxian sense here.

<sup>476</sup> Comp. p.58 in this dissertation

This variant has two sides. That which was able to grant stability was not able to simultaneously guarantee high performance growth. Why is this variant not able to put Indonesia on a high performance track? The reasons identified are summarised as a combination of the following:

- 1.) The fundamental contradiction between entrepreneurial activity of any kind<sup>477</sup> and the rent-seeking, non economically organised powerful administrative and interventionist bureaucracy.

The importance of entrepreneurial activity is not diminished by admitting various styles, ranging from ideal-typical Red Capitalists in China to private capitalists in the West. Especially when potential exists, the fruitful use of it depends on the kind of organisation administering allocation, returns, accumulation and the creation of a capital stock. Without entrepreneurial activity, revenues are likely to stagnate on any level.

It is thinkable, that the specific Indonesian bureaucratic superstructure acts according to entrepreneurial principles or supports a market-driven organisation- but in fact it does not. Unlike China, the Indonesian state is not an entrepreneur. Additionally, private entrepreneurial activity is in contradiction with parts of its commercial interest, interwoven with private interest. Commercial interest means that the state is not reinvesting returns, but skims off profits for consumption.

Therefore, illustrated by numbers, for example the distribution of shares in the GDP, Indonesia's performance neither firmly relies on industry nor on entrepreneurial activity.

- 2.) Public-private corporate organisation in Indonesia means the harmonic share of revenues between the state and certain groups of society, not a common public-private attempt to optimise and accumulate capital for sustainable economic expansion. Elites are not in line with nationwide interest. Capital becomes rent in too many cases. Resources thereby lie idle. Hofmann argues that the key to

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<sup>477</sup> Through the state acting as an entrepreneur or private actors.



understanding China's successful transformation is the alignment of local leaders' interests with "social objectives taking the country as a whole."<sup>478</sup> In Indonesia, such alignment is not realised; private and national interests are not synchronised in any comparable way.

- 3.) Political and power-considerations support an institutional organisation, whose priority in strategy does not seem to be the radical use of its economic potential for the sake of a radical ascension comparable to China. The traditional practice of *mufakat* was institutionalised. By that, diverging demands of different groups of elites (military, cronies, noblemen, etc.) are satisfied to a sufficient degree. An optimal accumulation of wealth is not attained within surroundings like this. As a consequence of political economic compromises, a part of human, financial and other resources seem to lie idle in their economic potential.
- 4.) The industrial revolution which never took place. Indonesia's Industry is underdeveloped.<sup>479</sup> This has consequences for direct economic growth and revenue on the one hand, and development of society on the other hand. Adding-Up-Effects and trickle-down effects are blocked. The dynamics of change going hand in hand with an industrial revolution of capitalist societies, as it happened in China, has not taken hold in Indonesia yet. It is also therefore, that economic thought was not institutionalised. The abundance of profitable resources further inhibited a sustainable predominantly industrial society.
- 5.) The failure to establish a social subsystem beneficial for economic development. The efforts made to integrate the masses of the Indonesian nation in a position higher than unskilled workers were rare in the process of modernisation. Dynamics of change in most parts of society were constantly suppressed in favour of a re-instrumentalisation and re-cultivation of a set of values which had already been thrown in the waste-bin during the struggle for independence. This set of values further fortified existing power and distributional structures from a

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<sup>478</sup> p. X in: Hofman/ Zhao/ Ishihara

<sup>479</sup> p.153 in: Hill/ Tee: Indonesia's Technological Challenge.

different era of capitalism.<sup>480</sup> It did not lay a stable foundation for economic development. In China, the social subsystem, in other words the socio-cultural embedding of its economy, is as special as its variant of capitalism. It is also determined by a kind of qualitative<sup>481</sup> socialist modernisation, which lasted long enough to assume that it was of pivotal influence.

- 6.) The differences in the modernisations (as seen at the moment) influenced the divergence of both economies. In Indonesia, only a partial modernisation of economy and society took place, whereas in China, a long period of qualitative modernisation was followed by several decades of quantitative economic modernisation. This procedure can be called “gradual”. Metaphorically, one can speak of a “foundation” which was laid before building the “house” of economic rise was built. In Indonesia, a massive house was built on an insufficient foundation. In addition to this image of gradualism, the sort of modernity which evolved in China seems to be close to a modernist utopia. To some extent, it seems to be more radical than original modernities in the western world. A thesis like that has already been dealt with in the arts<sup>482</sup>, but its effects on political economy only exist as an outline so far.<sup>483</sup> In any case, China had more run-up to reach high speed and better preparation or “training” which is necessary for high performance in practice as we saw in chapter three.

Within these points, there seems to be a rationality of its own, meaning that the divergence of Indonesia and China does not seem to be paradoxical, but Indonesia is now paying the price for the unsustainable and insufficient modernisation politics. This

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<sup>480</sup> The features of the economic system, and whether they can be called capitalist in Indonesia before 1945 under the 300 years of Dutch rule, is not discussed in this dissertation.

<sup>481</sup> “qualitative“ in this relation means a modernisation not aimed at economic quantitative improvement, but one which modernised qualitative, social, mostly non-numeric elements of society.

<sup>482</sup> In exhibitions discussing Chinese cities, which are said to look alike the visual realisation of Fritz Lang's metropolis. Source: Schweizer/ Von Wedemeyer: *Metropolis. Bericht über China*.

However, when expanding ideas from arts into discussing political economic phenomena in a multi-lateral framework, one has to be aware of problems like the reproach of orientalist constructions or the individual psycho analytic sources of such projections. An adequate discussion of such a thing is difficult to realise within the framework of this Masters' dissertation and should only be mentioned briefly to offer further points of contact.

<sup>483</sup> Comp. (in a slightly different context): p.151/ p.199/ p.226 in: Ci: *Dialectic of the Chinese revolution: from utopianism to hedonism*.

kind of modernisation causes a dynamic incompatible with high economic performance and realised a medium-high growth scenario. The stable medium-high growth, the Indonesian modernisation, its capitalist system and its rationality all lead to a “dynamic of stability”. From a macro sociological perspective, this rationality makes sense. It would however be necessary to go beyond this perspective and examine the micro sociological level of it, meaning levels of cultural psychology, individual commercial behaviour-patterns and socialisation must be approached in detail. Otherwise, speaking of a special capitalist rationality remains fragmentary.

Nevertheless, the fact that the Indonesian giant is still sleeping is not a paradox. A vast array of reasons, given the discussed facets of philosophies, structures, politics and economy which have been de-constructed so far.<sup>484</sup> It is likely that some of them are not mentioned in this dissertation, which focussed on the interaction of an economic system with a social subsystem. By that, the initial question could be answered with an approach different to conventional neo-classical, Marxian or mainstream development economics explanations. Only within this conventional set of explanations, unable to explain many recent developments, is Indonesia a paradox. Only within a ramshackle theoretical horizon is the catching-up of China extraordinary and Indonesia remains a basket case.

The difference in Indonesia and China's speed of development does not seem to be a paradox, but rather an effect of very different capitalisms. The effects from that do not necessarily strongly affect economic development in the short-term. It becomes more

<sup>484</sup> However, apart from the case of Indonesia, it still seems to contain at least some irony. This irony is that a state with a communist heritage dominates the world's economy. The philosopher Slavoj Žižek observed

*“It is extremely ironic, that today, after the triumph of capitalism over communism, the communists which remained in power are the best managers of capitalism. Thirty years after Deng Xiaoping said, that only capitalism could save China, the political leaders of the West behave like only China could save capitalism. Hegel would have loved these kind of reversals.”*

If this is just ironic, a paradox, a general new rationality, a wrong observation or something else has not yet been discussed thoroughly.

Source: Slavoj Žižek, Interview on ZEIT Online, 25.08.2011, URL: <http://www.zeit.de/kultur/2011-08/slavoj-zizek-interview/seite-1>, Original Quotation in German: *“Es ist außerordentlich ironisch, dass heute, nach dem Triumph des Kapitalismus über den Kommunismus, die Kommunisten, die an der Macht blieben, die besten Manager des Kapitalismus sind. Dreißig Jahre nachdem Deng Xiaoping sagte, dass nur der Kapitalismus China retten könne, gebärden sich die politische Führer des Westens, als ob nur China den Kapitalismus retten könnte. Hegel hätte diese Umkehrungen geliebt!”*

obvious in retrospect. Many of the praised achievements in Indonesia seem to have been built on sand because within the existing strategical-institutional structures, apples and oranges- and even the seeds- were designated to be eaten. The outcome of Indonesia's political economy is an economic depletion. This kind of depletion goes beyond natural resources. Economic depletion touches human, financial, and technical resources. Depletion is another word for rent-seeking commercial activity with no long-term future orientation beyond personal or group-interest. Depletion is not identical to exploitation. In China, groups of people are exploited, but depletion, drying out resources which lie idle, is avoided by the synchronisation of long-term national interests with personal benefits. For economic development, depletion can be more of an obstacle than exploitation. Depletion is connected to wasting resources, while exploitation means the economic organisation, not beneficial for groups mostly at the bottom of society.

This should not be a recommendation for exploitation instead of depletion for Indonesia. It is merely a provoking contrast, imaginatively showing the reasons why Indonesian institutional structure have neither supported high performance nor a gradual increase in growth over the years. Analysing these long-term impediments in the contrast to China during *Orde Baru* seems to illustrate the difference between a successful HPE strategy, and either an unsuccessful HPE strategy, or a successful MPE strategy which lead to the desired effect of stable power-structures and returns for those in power.

Within this specific Indonesian dynamic of stability, reversals after promising years emerged regularly on an economic level. The last reversal was *Krismon*. The dialectics coining all those reversals are not the imbalance between policies and their effect, but it is the “stability” which causes “crisis”.<sup>485</sup>

#### 4.1. Prospects

Stability and a certain wealth seems to precede an unwillingness for reforms which would grant prosperity in the long run. Possibly, this is not only the case in Indonesia,

<sup>485</sup> It is an example that the potential instable feature of capitalism in general is visible even in its variants, even when a variant seems to grant balance and stability.

but a general trait of authoritarian capitalisms. Recently, popular media seems to have taken this thread into account regarding China's future. *The Economist* calls it the “paradox of prosperity”.<sup>486</sup> Wen Jiabao, head of China's state council, warns that China has to socially reform, otherwise its economy will decline.<sup>487</sup> He chose the metaphor which appears at the very beginning of this dissertation, warning that the “fruits”, apples and oranges, of promising developments could be lost again.<sup>488</sup> Moreover, the Chinese sociologist Sun Liping supports this assumption by saying China is suffering a “social periodontosis”, which threatens to slowly undermine the progress. He further speaks of a “trap of transformation”, meaning that reforms became stuck and blocked by profiteers of the recent economic power relations. A lot earlier, Herder wrote a parable, set in fictive Asia, about the danger and difficulty of how to cure a “social periodontosis”.<sup>489</sup> He compared those profiteers from prosperous times to rats, which nest in wooden ornamented columns, which are hollow inside. Killing the rats could destroy the column. People are scared of having to destroy the whole column and hesitate to kill the rats.

It is one of the few content-wise accordances between *The Economist*, Herder, some social scientists in China and some Chinese state officials. The fear of progress being undermined instead of fortified is not limited to China, as this dissertation has clearly shown. One could easily see these tendencies in Indonesia, where they are firmly institutionalised, fortified and have not been overcome for decades, despite constant economic growth.

Therefore, it is likely that these economic problems will not be solved on a mere economic level. They affect the capitalist system, but their roots are to be found on the level of capitalist society. It is one of the tasks of political sciences to take this into account and possibly integrate these momentums, these seemingly country lores, into a framework for development economics. In theory and practice. Deng said, it was unimportant whether the cat was black or white. If it caught mice, it was a good cat.

<sup>486</sup> *China and the paradox of prosperity* in: *The Economist*, January 28<sup>th</sup> 2012, p.7

<sup>487</sup> Erling: *Chinas soziale Parodontose*. In: Welt Online, URL: <http://www.welt.de/politik/ausland/article13922382/Zweite-Kulturrevolution-Chinas-soziale-Parodontose.html>

<sup>488</sup> *Ibd.*

<sup>489</sup> Herder: *Das größte Übel des Staats, die Ratte in der Bildsäule*. URL: <http://gutenberg.spiegel.de/buch/2017/2>

Now it might be the right time to transform this idea into academic reality. It would mean getting rid of black and white thinking, in which inconvenient truths become paradoxes. It would mean more systematically pursuing still unconventional paths and methods. It would mean overcoming the borders of dominant academic ideological colouring. This colouring, the colour of this cat, seems to be economic at the moment. But to stop the rats eating the fruits of economic achievement, perhaps one has to send the cats to the social levels first.

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## 5. Annex

## I

### Abbreviations & Explanations & Foreign Vocabulary

Bapakism	Indonesian “Bapak“, meaning „father“, “master” or “Sir“. Term for politics of re-establishing traditional paternal hierarchies in Indonesia.
BKPM	Badan Koordinasi Penanaman Modal, authority for the verification of foreign investment.
CME	Coordinated Market Economy. According to Hall and Soskice, the variant of capitalism dominant in Germany and France. See also: LME.
Dutch Disease	Over-Rating of currencies due to a high influx of foreign capital due to resource export, causing an uncompetitive currency unfavourable for industrial exports.
Dwifungsi	“Double function” of military employers, referring to their function in military and in economy at the same time.
Exclusive Claim to Salvation	Term from theology, referring to the claim of being the one and only religious group owning exclusive, god-given principles with the help of which it is possible to gain divine salvation.
FDI	Foreign Direct Investment.
Grande Idée	French for grand/ great idea, in this dissertation referring to an idea leading to the change of paradigm.
HIP	Indonesian abbreviation for „Hubungan Industri Pancasila“, meaning „Pancasila Industrial Relations“. Guideline for economic policy during <i>Orde Baru</i> .
HPE	High Performing Economy. Category launched by the World Bank.
IMF	International Monetary Fund.

Krismon	“Krisis moneter”, meaning “Money Crisis” in Indonesian. Most commonly used term for the Asian Financial Crisis in 1997.
LME	Liberal Market Economy. According to Hall and Soskice, the variant of capitalism dominant in the Anglo-Saxon world. See also: CME.
Mafakat/Mufakat	Indonesian/ Javanese for „compromise“. Refers to the practice of traditional village assemblies, where the majority does not decide, but formally all members of the assembly have to agree on a common consensus.
Massa mengambang	Indonesian for “Floating-mass”. Term circumscribing the active exclusion of the masses of people from policy and politics.
Masyawarah	Indonesian/ Javanese for the assembly in which the process of ”discussion“ leads to a compromise formally satisfying for all members represented.
Matarm	The last kingdom in Indonesia before colonisation, covering parts of Java, Bali and Sumatra.
NFNF	Neither Fish Nor Fowl.
Orde Baru	Indonesian for ”New Order“, term for the governing period of Suharto. Often used to emphasise the contrast to the period before, which is referred to as ”Old Order“.
Peranakan	Indonesian term referring to Indonesians of Chinese descent, who have lived in Indonesia for several generations. See also: Totok
PKI	Partai Komunis Indonesia, Indonesian Communist Party. After the Indonesian independence, biggest communist party outside China and Russia.
PNI	Partai Nasional Indonesia, Indonesian National Party.
PRC	People's Republic of China
Pungli	Money for bribery, meaning “Wild Harvest” literally.
SOE	State Owned Enterprise.
Sukarno (Soekarno)	*1901 +1970. First president of the Republic of Indonesia from 1945 until 1967. Beforehand, one of the leading personalities of the struggle for independence. In 1967, forced to withdraw and put under arrest on an island in the Maluku-Archipelago in



Eastern Indonesia.

Suharto (Soeharto)	*1921 +2008. Second President of the Republic of Indonesia from 1967 until 1998. Withdrawal from politics after the events of the Asian Crisis.
TFP	Total Factor Productivity. Unit to measure how efficient capital and labour is used.
Totok	Term for Chinese people born in China and living in Indonesia.
Transmigrasi	Transmigration-policy of the Indonesian government for voluntary resettlement aiming at lowering population pressure on the densely populated island of Java towards less inhabited islands connected with incentives.
VoC	Short for Varieties of Capitalism or Variant of Capitalism in singular.
VOC	Verenigde Oostindische Compagnie, “Dutch East India Company“.
WTO	World Trade Organisation

## II

### Timeline of Indonesia

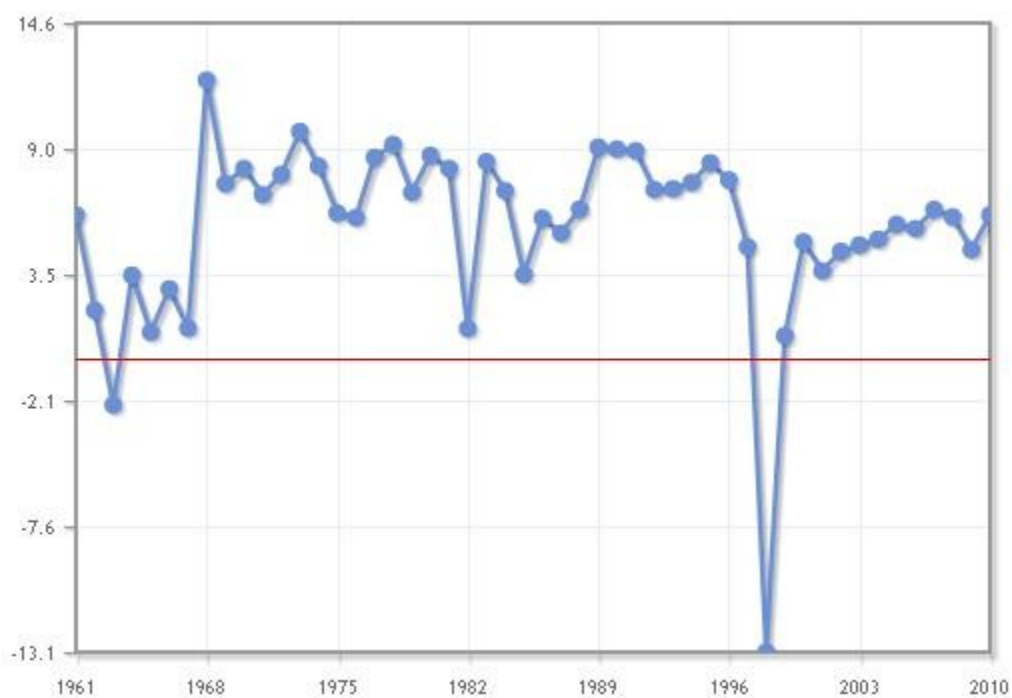
1945	Indonesian Independence.
1965	Suharto's coup d'état.
1968	First year of two-digit economic growth.
1978	50 Percent depreciation of the Rupiah .
1992	Indonesia overtaken by China in terms of total GDP
199x	Indonesia overtaken by China in terms of GDP per capita

## III

### Tables

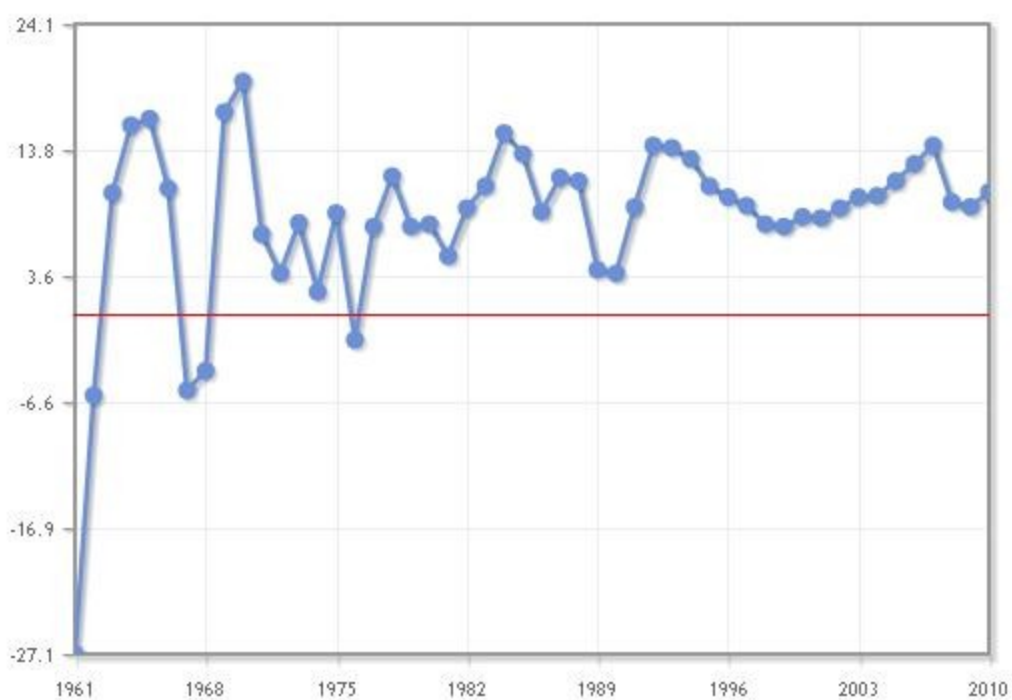
#### 1.) GDP annual growth (%) of Indonesia, 1961-2010

Source: Index Mundi (URL: <http://www.indexmundi.com/facts/indonesia/gdp-growth>)



## 2.) GDP annual growth (%) of China 1961-2010

Source: Index Mundi (URL: <http://www.indexmundi.com/facts/china/gdp-growth>)



## IV

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- 1.) Books and Publications
- 2.) Magazines
- 3.) General Reference Works
- 4.) Online Sources
- 5.) Statistical Data from Online Sources
- 6.) Miscellaneous

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V

## Summary in German Language -Zusammenfassung auf Deutsch

Eine deutschsprachige Zusammenfassung ist nach den Vorgaben der Magister-Prüfungsordnung der Universität Frankfurt bei einer fremdsprachigen Magisterarbeit dem Anhang beizufügen. Diese Zusammenfassung ersetzt *nicht* das englischsprachige Fazit.

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## Das Indonesien-China-Paradox

### Einleitung

Indonesien, der Bevölkerung nach viertgrößtes Land der Erde, ist ein Land, dass in ewiger Wiederkehr als kommende wirtschaftliche Großmacht gefeiert wird. In der Tat scheint Indonesien alle Voraussetzungen für eine positive wirtschaftliche Entwicklung zu erfüllen: Jahrzehntelange politische Stabilität, eine junge, vergleichsweise gut ausgebildete Bevölkerung, eine vorteilhafte geopolitische Lage zwischen der boomenden ASEAN-Region und Australien und ein Überfluss an Arbeitskräften, Land sowie Ressourcen. Kein anderes Land der Region wies bereits in den 1970er Jahren konstante BIP-Wachstumsraten von jährlich um die acht Prozent auf. Während China durch Maßnahmen wie den „Großen Sprung nach vorn“ und der „Großen Proletarischen

Kulturrevolution“ im wirtschaftlichen Chaos zu versinken drohte, wurde Indonesien zu Investors Liebling. Indonesien wurde als das nächste Japan gefeiert, dass selbst externe wirtschaftliche Krisen wie den Ölpreisschock wegstecken konnte. Es dauerte beispielsweise bis in die Mitte der 1990er Jahre, bis Chinas BIP das indonesische wieder überflügelte. Bis klar wurde, dass Indonesien mittelfristig nicht den Weg einer wirtschaftlichen Großmacht wie China gehen konnte.

Die Ausgangsfrage diese Magisterarbeit ist nun, warum Indonesien keine vergleichbare wirtschaftliche Entwicklung zu China nehmen konnte? Es scheint paradox, dass ein Land, dessen Modernisierung jahrzehntelang von einer radikalen Interpretation des Sozialismus geprägt wurde, langfristig mehr wirtschaftlichen Erfolg hat als ein Land, dessen Wirtschaftspolitik der wirtschaftlichen Entwicklung alles andere unterordnete. Aber ist dies tatsächlich ein Paradox, oder steckt eine eigentümliche Rationalität im indonesischen Kapitalismus, die das Auseinanderdriften der bevölkerungsmäßig größten Wirtschaften Ost- und Südasiens erklären kann?

## **2. Vorgehen**

Um dieser Frage auf den Grund zu gehen, soll zunächst eine indonesische Variante des Kapitalismus bestimmt werden. Das indonesische Wirtschaftssystem weist starke Konstanz über mehrere Jahrzehnte auf, sodass einer solchen Bestimmung kein formales Hindernis entgegen gesetzt ist. Diese Kontinuitäten umfassen den groben Zeitraum von 1945 bis heute, wobei der Fokus auf den 30 Jahren Herrschaft von Suharto liegen. Dabei wird auf ein Analyseraster von Tobias Ten Brink zurückgegriffen, der eine chinesische Variante des Kapitalismus bestimmte, die nicht mit LMEs oder CMEs über einen Kamm zu scheren ist. Es ist anzunehmen, dass ein derart komplexes Land wie Indonesien ebenfalls mit keinem der Standardmodelle abgegolten werden kann.

Eine indonesische Variante des Kapitalismus ist die Basis, die, der chinesischen gegenübergestellt, möglicherweise das Auseinanderdriften, bzw. die Tatsache dass

Indonesien mit China nicht mehr Schritt halten kann, erklären kann. Jedoch ist sie allein noch nicht ausreichend für eine Erklärung, da sie zwar den Status Quo des indonesischen Wirtschaftssystems abbilden wird, nicht aber das *Warum* bzw. wie es zu einer solchen Variante kommen konnte, die offenbar eine „High Performance“ verhindert. Ein Wirtschaftssystem entsteht in Interaktion mit den Ebenen von Politik und Gesellschaft. Wirtschaftssysteme sind eingebettet in gesellschaftliche Systeme, die, wie Karl Polanyi oder Geoffrey Hodgson argumentieren, ganz entscheidend für ihr Funktionieren sind. Dieser Annahme soll Rechnung getragen werden. Parallel soll daher der Modernisierungsprozess beider Staaten kritisch unter die Lupe genommen werden, um vor allem den Teil der Ausgangsfrage zu beantworten, ob dem permanenten Nichtabrufen des wirtschaftlichen Potenzials in Indonesien eine eigentümliche Rationalität zugrunde liegen könnte.

### 3. Ergebnisse

In Indonesien herrscht ein bürokratisch-politischer Kapitalismus, der durch eine einzigartige Kombination von Prinzipien eines selektivem Interventionismus und Liberalismus geprägt ist. Kommerzielle Rentenorientierung der Staatswirtschaft, die sowohl auf personeller als auch auf institutioneller Ebene eng mit der Regierung verflochten ist, nicht-wettbewerbsfördernde Wirtschaftspolitik auf der Mikro-Ebene eines geschützten gigantischen Binnenmarktes, politisch-ökonomische Konglomerate, die die Unternehmensstruktur bestimmen, liberalisierte Geld- und Kapitalmärkte, formal streng regulierte, jedoch informell liberale Arbeitsbeziehungen sind die entscheidenden Merkmale dieses Systems. Die Widersprüche werden durch einen mächtigen bürokratischen Überbau bewältigt. Die Positionen in diesem Überbau werden nicht nach Leistung, sondern durch persönliche Kontakte vergeben, was eine ungleiche soziale und wirtschaftliche Entwicklung bewirkt sowie die Desintegration großer Teile der indonesischen „Manpower“ bewirkt.

Dieses Akkumulationsregime wird auch „Kumpanenkapitalismus“ genannt, was nur bezogen auf die Regulation der Widersprüche eines solchen Systems zutreffend ist, jedoch nicht die ganze Natur dieses Systems beschreibt. Aus diesen Attributen ergeben

sich folgende Gründe, die ein Auseinanderdriften sowie die Tatsache erklären können, dass Indonesien sein volles Potenzial nicht abrufen:

Zum einen ist dies der fundamentale Widerspruch zwischen unternehmerischer Aktivität, sei es von Privatleuten oder dem Staat, und der nicht ökonomisch organisierten, auf Rendite ausgerichteten Bürokratie, in deren Macht die Zulassung wirtschaftlicher Aktivität fällt. Durch das Fehlen unternehmerischen Handelns auf der Mikro-Ebene werden Akkumulationseffekte behindert und die Einnahmen sind permanent von Stagnation bedroht. Eine Reform dieses Operationsmodus wird durch die Ausweitung der Rohstoffeinnahmen, deren Rentabilität nicht unmittelbar mit der Qualität unternehmerischen Handelns zusammen hängt, sowie anderer Maßnahmen die diese Organisationsform nicht an den Wurzeln angreifen, verhindert.

Diese Art der Akkumulation ist zufriedenstellend für den mehr als 20 Millionen Menschen umfassenden Mittelstand, der zu den Profiteuren dieser Machtverhältnisse zählt. Es ist daher fragwürdig, ob es überhaupt im indonesischen Interesse liegt, Dynamiken zu entfachen, die zwar die Akkumulation fördern könnten, aber eine Verschiebung der Machtverhältnisse zur Folge haben könnten. Im Rahmen der altjavanischen Praktik des *Mufakat* (hierarchischer Kompromiss, der detailliert in den englischsprachigen Ausführungen erläutert wird) scheint ein „Medium High Growth Pace“ durchaus erstrebenswerter als ein „High Growth Pace“ zu sein.

Hierzu passt auch die Beobachtung, dass eine industrielle Revolution in Indonesien nicht im Gange ist. Industrialisierung der Wirtschaft geschieht zu einem vergleichsweise kleinen Teil und ist kein Motor des Wachstums. Eine damit einhergehende mögliche moderne, zweckrationale Organisation der Gesellschaft indonesischer Prägung findet nicht statt.

Man sieht, dass eine solche Variante in vielerlei Hinsicht genau entgegengesetzt steht zu dem, was Ten Brink als Schlüsselmerkmale des chinesischen Kapitalismus identifiziert. Dieser geprägt von einem „*dynamischer Staatsdirigismus, eine besondere Form des Wettbewerbs und der privat-öffentlichen Unternehmensorganisation, eine*

*spezifische Variante des Korporatismus in den Arbeitsbeziehungen sowie eine strikte Regulierung der Geld- und Finanzbeziehungen.*<sup>490</sup> Der indonesische bürokratische Staatskapitalismus ist- zusammenfassend gesagt- von weniger Wettbewerb und mehr Kooperation getrieben als der chinesische. Die Organisation des chinesischen Kapitalismus erzeugt eine Dynamik, die die wirtschaftliche Entwicklung sowie eine tiefgreifende Veränderung des Landes fördert. Die indonesische Spielart des Kapitalismus fördert Stabilität. Diese Kontraste lassen sich auch auf den Ebenen der Modernisierung in beiden Staaten wiederfinden.

In diesem Modernisierungsprozess wurde es in Indonesien versäumt, ein soziales Subsystem zu schaffen, das die wirtschaftliche Entwicklung unterstützt. Stattdessen wurden traditionell javanische Werte instrumentalisiert. Vorgeblich dienten sie eines eigenen indonesischen Wegs in die Moderne. Dekonstruiert gaben sie der Festigung elitärer und beengter Macht- und Verteilungsstrukturen einen Deckmantel mit dem Prädikat „modern“. Sie repräsentieren keine Veränderung, sondern eine Regression, die zu Konflikten mit einer Dynamik führen würde, die für ein vergleichbares Wachstum wie in China verantwortlich sind. Dort scheint die jahrzehntelang sozialistische Modernisierung förderlich für das Funktionieren des Kapitalismus chinesischer Prägung zu sein, der in sie eingebettet ist. Dieses moderne Subsystem scheint radikal und tiefer verankert, während in Indonesien die Integration bzw. die Modernisierung der Gesellschaft unter Suharto generell vernachlässigt wurde. Lediglich nach der indonesischen Unabhängigkeit etablierte sich ein Subsystem, das Dynamik und Veränderung offen stand, jedoch durch den Machtwechsel von Sukarno zu Suharto nicht institutionalisiert wurde. Die langfristigen Konsequenzen dieser Entwicklung sind heute zu sehen, da Indonesien nicht mehr an Chinas wirtschaftliches Wachstum herankommt.

#### 4. Relevanz

Diese Erkenntnisse bringen auf makro-soziologischer Ebene Klarheit in die Ausgangsfrage, warum Indonesiens Wirtschaft nicht mehr mit der Chinas mithalten

<sup>490</sup> Zusammenfassung Ten Brink: *Strukturmerkmale des chinesischen Kapitalismus*. URL: [http://www.mpifg.de/pu/dp\\_abstracts/dp10-1.asp](http://www.mpifg.de/pu/dp_abstracts/dp10-1.asp)



kann. Die Tatsache, dass Indonesien sein Potenzial nicht abrufen kann, ist kein Paradox. Es folgt einem Muster, das jedoch nicht mit einer Rationalität gleichgesetzt werden darf. Dafür müsste die mikro-soziologische Ebene, bzw. die Relevanz dieses Musters auf der mikro-soziologischen Perspektive diskutiert werden.

Dies hat möglicherweise Konsequenzen für den Diskurs um Entwicklungspolitik, der durch den rätselhaften Aufstieg Chinas entgegen vieler Prinzipien der dominanten Entwicklungstheorien erschüttert wird. Indonesiens Entwicklung, die weder in einem dependenztheoretischen noch einem neoklassischen noch einem BRICS-Muster ausreichend erklärt werden kann, passt in diese Tendenz. Der allgemeine Hauptschluss, der sich aus den Ausführungen dieser Magisterarbeit zu Indonesien ziehen lassen könnte, ist dass die Richtung wirtschaftliche Entwicklung nicht auf wirtschaftlicher Ebene bestimmt wird. Ob oder inwiefern dies tatsächlich der Fall ist, bedarf jedoch weiterer kritischer Diskussion.

## VI

### Declaration of Academic Honesty

I hereby confirm that I have independently composed this M.A. (Magister Artium) dissertation and that none other than the indicated aid and sources have been used. This work has not been presented to any other examination board.

Hiermit versichere ich an Eides statt und durch meine Unterschrift, dass die vorliegende Arbeit von mir selbstständig, ohne fremde Hilfe angefertigt worden ist. Inhalte und Passagen, die aus fremden Quellen stammen und direkt oder indirekt übernommen wurden, wurden als solche kenntlich gemacht. Ferner versichere ich, dass ich keine andere außer dem Literaturverzeichnis angegeben Literatur verwendet habe. Diese Versicherung bezieht sich sowohl auf Textinhalte sowie auf alle enthaltenen Abbildungen, Skizzen und Tabellen. Die Arbeit wurde bisher keiner Prüfungsbehörde vorgelegt und noch nicht veröffentlicht.

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Dennis Fromm

## VII

## Curriculum Vitae

1. General Information

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2. Secondary Education

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09/1997-06/2006      Liebigschule, Gymnasium Europaschule  
Leaving Certificate: Abitur, Mark: 1,8 (A-)

3. Further Education

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10/2006 -present      Goethe University Frankfurt  
M.A. Programme Political Science (Major), Southeast Asian  
Studies (Minor I), German Literature (Minor II)  
10/2007 -09/2009      Goethe University Frankfurt  
Economics as Minor II

4. Professional Experience

---

09/2009-09/2011      Assistant Editor, Department of Young Adults & Child  
Publications  
Friedrich Bischoff Verlag GmbH, Frankfurt  
06/2006-07/2009      Professional Football Player 3<sup>rd</sup> league  
SV Darmstadt 98 e.V., Darmstadt  
11/2006-04/2011      Snow Clearing and Gritting Service  
Bachmann & Schumacher GmbH, Bad Vilbel

Internships      01/2003      Frankfurter Neue Presse, Frankfurt  
                         01/2005      Munich RE, Beijing  
                         12/2007      European Parliament, Strasbourg/ Brussels

5. Colloquium

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06.02.2012: Colloquium for future Graduates/ Institute of Political Science, Goethe  
University, Winter-Term 2011-2012

6. Language Skills

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German: *native speaker*, English: *fluent* (C1), French: *fluent* (B2), Bahasa Indonesia:  
*working knowledge* (B1), Spanish: *working knowledge* (B1), Arabic: *basic knowledge*  
(A1).

## VIII

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