
State and Economy during Indonesia's Transition to Sovereignty: A Comparison with the Philippines, Singapore, South Korea, and Taiwan

THEE Kian Wie¹

Senior economic historian, the Indonesian Institute of Science

Abstract

This article discusses the role of the state and the economy in the transition from colonial rule to sovereignty in Indonesia in comparison with four other East Asian countries: the Philippines, Singapore, South Korea and Taiwan. Of all these five countries, Indonesia's economic performance during the early 1950s was satisfactory, but very poor during the early 1960s. Of the four other East Asian countries, economic prospects of the Philippines during the early independence period appeared most promising, as it was the first Southeast Asian country embarking on industrialization. However, during the next few decades the Philippines' economy faltered, as the state was wrecked by political instability and rebellions by communist and Moslem insurgents. By contrast, because of strong and far-sighted leadership Singapore, South Korea and Taiwan were capable of realizing rapid growth fuelled by rapid export-oriented industrialization.

Abstrak

Makalah ini membahas peran negara selama transisi dari masa penjajahan ke masa kemerdekaan, dan membandingkannya dengan peran negara di empat negara Asia Timur lainnya, yaitu Filipina, Singapura, Korea Selatan, dan Taiwan. Di antara kelima negara ini, kinerja ekonomi Indonesia selama awal 1950-an cukup baik, tetapi makin buruk sejak awal 1960an karena kebijakan ekonomi yang buruk. Di sisi lain, prospek ekonomi Filipina selama masa awal kemerdekaan paling menjanjikan karena merupakan negara Asia Tenggara pertama yang mulai dengan proses industrialisasi, namun kemudian memburuk karena ketidak-stabilan politik dan pemberontakan komunis di pulau Luzon dan kelompok Islam di Pulau Mindanao. Di sisi lain, Singapura, Korea Selatan, dan Taiwan berhasil bertumbuh pesat berkat kepemimpinan yang kuat dan visioner, Singapura, Korea Selatan, dan Taiwan juga berhasil bertumbuh pesat berkat industrialisasi berorientasi ekspor yang pesat..

Key words: *state, economy, transition to sovereignty*

¹ I wish to acknowledge the valuable comments by Dr. J. Thomas Lindblad on an earlier draft of this article. Naturally, I alone remain responsible for remaining errors and shortcoming.

Introduction

This paper articulates the role of the state and the economy during the transition from colonial rule to sovereignty in Indonesia. This is done by way of a systematic comparison with experiences in four selected countries in the wider East Asian region: the Philippines and Singapore in Southeast Asia as well as South Korea and Taiwan in Northeast Asia. While having been quite satisfactory during the early 1950s, Indonesia's economic performance deteriorated fast from the late 1950s. Under President Soekarno, the Indonesian state was deployed 'to complete the national revolution', that is to liberate West Irian (now West Papua and Papua) from Dutch rule, and later to 'crush' the newly-established Malaysian Federation, which President Soekarno perceived as a 'neo-colonialist' plot to undermine 'anti-imperialist Indonesia'. Due to his preoccupation with 'completing the national revolution', Soekarno neglected the economy, which by the mid-1960s was in complete shambles, and wrecked by an unprecedented hyperinflation of almost 600 per cent in 1965 (Grenville, 1981: 108).

Of the four other East Asian countries, the brightest economic prospects appeared to be found in the Philippines during the early independence period. This was the first Southeast Asian country embarking upon industrialization. Yet, during the next several decades, the Philippines's economy faltered, recording sluggish growth ever since. Aided by strong and far-sighted leadership, Singapore, South Korea and Taiwan, all succeeded in launching a process of rapid export-oriented industrialization, which by the 1980s had transformed these countries into newly-industrialized and prosperous nations.

This article contains two parts. The first section is devoted to the identification of a number of key trends in political and economic development in Indonesia at the time of decolonization. The article's second section contains a systematic comparison with

experiences from the Philippines, Singapore, South Korea and Taiwan.

Political and economic developments in Indonesia

On 17 August 1945, two days after Japan's unconditional surrender to the Allied forces, Soekarno and Hatta, Indonesia's two most charismatic nationalist leaders, proclaimed Indonesia's independence. Disregarding this proclamation, the Netherlands was intent on reclaiming its colony. The following four years witnessed heavy fighting between the Dutch military forces and the fledgling Indonesian army and irregular auxiliary troops. Through mediation by the United Nations, the Netherlands and Indonesia called a truce in early 1949 after the Dutch army on 19 December 1948 had for the second time launched a military attack on Yogyakarta, the then capital of the Indonesian republic, to crush the Indonesian nation once and for all. Despite early military success, the Dutch military attack backfired. The governments of the federal states known collectively as BFO, *Bijeenkomst voor Federaal Overleg* (Federal Consultative Assembly), all resigned in protest; these puppet state had in the course of the late 1940s been established by the Dutch in various regions as a counterweight to the Indonesian republic (Taufik Abdullah, 2009: 185).

International reaction to the Dutch military attack was harsh. In January 1949, Prime Minister Pandit Jawaharlal Nehru of India convened the Inter-Asian Relations Conference in New Delhi with special focus on Indonesia. The Conference sent an appeal to the Security Council of the United Nations to stop the Dutch aggression. The United Nations Commission on Indonesia (UNCI) also reacted negatively to the Dutch military attack. The United Nations' Security Council then pressured the Dutch to resume negotiations with the Indonesian leaders under the auspices of the United Nations Commission of Good Offices

for Indonesia so as to discuss the terms of the transfer of sovereignty (Taufik Abdullah, 2009: 137-8). The Indonesian and Dutch delegations got together in a Round Table Conference (RTC) convened in The Hague from late August until early November 1949 under auspices of the United Nations Commission of Good Offices. Official transfer of sovereignty from the Netherlands to Indonesia took place on 27 December 1949. The Indonesian side referred to this event as Dutch recognition of Indonesia's independence which had already been proclaimed on 17 August 1945.

Achievement of political independence, however, was not accompanied by economic independence. The Dutch delegation at the RTC had extracted a concession from the Indonesian delegation that their extensive business interests could continue to operate unhindered in an independent Indonesia. This concession was formalized in the Financial Economic Agreement (Finec), which was part of the overall RTC agreement (Meijer, 1994: 46). The issue of continued operations by Dutch private corporations in independent Indonesia as well as the Dutch refusal to hand over West Irian from the start doomed relations between the Netherlands and Indonesia.

Another vital economic issue on which the Indonesian delegation at the RTC yielded concerned the Dutch request that the Indonesian government take over all outstanding prewar debts of the Netherlands Indies government to the Netherlands as well as postwar debts incurred by the Netherlands Indies Civil Administration (NICA) during the second half of the 1940s. These debts amounted to a total of 3 billion guilders of domestic debt and another 3.3 billion dollars of external debt. However, the Indonesian delegation was only prepared to take over the prewar domestic debt, arguing that the postwar debt, estimated at 2 billion guilders, had been used to finance military campaigns against the Indonesian republic (Thee, 2003: 7-8). In the end, the Dutch delegation agreed

to forego its claim to the controversial 2 billion guilders (Meijer, 1994: 47).

Relations between the two countries deteriorated steadily after the mid-1950s due to the festering dispute about Indonesia's demand to hand over West Irian as it was considered an integral part of the Indonesian nation. The deterioration climaxed in a total breakdown of relations between Indonesia and the Netherlands in December 1957, including the takeover of virtually all Dutch companies still operating in Indonesia. The firms were taken over by militant trade unions and eventually, in 1959, nationalized by the Indonesian state. With one sweep, the vast Dutch private business interests, some of which had been operating in Indonesia since 1870, were expropriated. The former Dutch firms were subsequently turned into state enterprises, which accounts for the large number of state enterprises in Indonesia today. These nationalized enterprises were then largely managed by senior military officers due to an acute shortage of experienced indigenous Indonesian managers.

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

In order to liberate West Irian from the Dutch and militarily confront the young Malaysian federation proclaimed in mid-1963 - viewed by Soekarno as a neo-colonialist creation -, Soekarno purchased substantial quantities

of weaponry from the Soviet Union and the other East European socialist countries. These military expenditures and expenditures on prestige projects resulted in a growing budget deficit, which was financed by the simple device of printing money. The rapid increase in money supply caused runaway inflation, which by the mid-1960s turned into an unprecedented hyperinflation, reaching almost 600 per cent in 1965 (Grenville, 1981: 108). This brings us to the topic of economic development.

The economic problems facing Indonesia immediately upon the transfer of sovereignty were very serious, as Indonesia had suffered greatly during the Japanese occupation and the armed revolution against the Dutch. Basic goods and services, including food, clothing, dwellings, health and education services, were all in short supply. Therefore, the Natsir cabinet, which had replaced the Hatta cabinet in August 1950, focused its efforts on raising the welfare of the people (Sumitro Djojohadikusumo, 2000: 139). This focus was crucial since standards of living, as expressed by real per capita GDP (Gross Domestic Product), had declined by roughly one-third from what was already a low level before the Pacific War, from US\$ 1,251 (at 1990 prices) in 1941 to US\$ 840 in 1950 (Booth, 2010: 68).

Yet, GDP growth was fairly good up to 1957. In fact, between 1949 and 1957 per capita GDP increased at an average annual rate of 2.6 per

cent (Marks, 2009: 158). Output of the most important food crops such as rice, maize, soy bean, and ground nuts, only returned to 1937 levels by 1952. Moreover, the production of root crops, which was an important source of calories for the poor, was still below the level of 1940 (Booth, 1998: 53). Table 1 provides estimates of production by sector as a percentage of prewar levels.

The data in Table 1 not surprisingly show that food crops and fisheries, a major source of calories and protein for the population, had experienced the least, albeit significant decline, whereas the largely foreign-owned large estates, mining, and manufacturing industries, had been hit by a steeper decline still.

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

Top priorities for the Indonesian government were to raise standards of living of the Indonesian people, to increase production and stimulate commerce and industry (Sumitro Djojohadikusumo, 1952: 5). But the newly-independent nation faced serious economic bottlenecks since its transport infrastructure had not yet recovered from the devastations during the Japanese occupation and the armed revolution against the Dutch (Booth, 1998: 53). The dilapidated infrastructure was most apparent in Java, where prolonged neglect had

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

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

Source: Booth, 1996: 403.

done the most damage, not only in transport and communications, but also in irrigation and power supplies. In the Outer Islands most roads had become impassible, forcing traffic to use waterways whenever possible (Dick *et al.*, 2002: 173). Indonesia in 1950 also did not have an administrative apparatus in working order. There was a serious lack of trained and experienced administrative, professional and managerial workers. Although during the Japanese occupation many low-ranking Indonesian officials in both government service and private firms had been promoted into more senior posts by the Japanese military authorities, the unsettled conditions had not been favorable for an orderly transfer of responsibilities (Booth, 1998: 53).

One specific aspect of Indonesian economic development immediately after the transfer of sovereignty concerned the urgent for industrialization, not least so as to reduce the extreme dependence on world markets. As in most newly-independent countries, the Indonesian economic leadership considered industrialization the best way to achieve a more balanced structure of the economy which in turn would allow more rapid economic growth. Not long after the transfer of sovereignty, the government of the then Republic of the United States of Indonesia (Republik Indonesia Serikat, RIS) prepared its first industrial plan, entitled *Rentjana Pekerjaan Industri* (Industrial Work Plan). Yet, this Plan could not be implemented as on 17 August 1950 the RIS was disbanded and replaced by the Unitary State of Indonesia (Negara Kesatuan Republik Indonesia, NKRI) (Siahaan 1996; 181).

The Natsir set out to prepare a new industrial plan. To this end, the then Minister of Trade and Industry, Sumitro Djojohadikusumo, in 1951 introduced the Economic Urgency Plan (*Rencana Urgensi Perekonomian*) with a time-span of three years. This plan focused on industrial development as major engine of growth and was therefore also referred to as

the Industrial Urgency Plan (*Rencana Urgensi Industri*) (Siahaan, 1996: 190). Regrettably, it could not be implemented by the Natsir cabinet, as the Natsir cabinet was replaced by the Wilopo cabinet in March 1951, only one month after the Sumitro plan had been announced,. The three subsequent cabinets did not prepare a new industrial plan, but used the existing Economic Urgency Plan as a guideline for industrial developmen with only marginal changes and adjustments. Eventually, the newly established State Planning Bureau (*Biro Perantjang Negara*) prepared a more comprehensive plan for the development of the country, entitled *Rencana Pembangunan Lima Tahun* (Five-Year Development Plan) for the period 1956–1960 (Siahaan, 1996: 182).

It needs to be pointed out that the Indonesian government did not start from scratch. Some groundwork had already been done by the outgoing Dutch administration. The Industry Policy Guidelines of 1946 had envisaged industrial rehabilitation and development to be carried out on the basis of annual plans. In November 1949, on the eve of the transfer of sovereignty, the Industry Section of of the Department of Economic Affairs, presented a *Special Industrial Welfare Plan*, which was intended as the basis for preparing a detailed industry plan (Dick *et al.*, 2002: 176).

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

Some new industries were established during the 1950s, although more industries

either stagnated, declined or just closed down. This worrisome development was caused by various problems faced by industrial enterprises such as lack of safety, disturbed labor relations, lack of capital, lack of skilled personnel, lack of raw materials, lack of adequate water supply and electricity (Burger, 1975: 185). The shortage of raw materials and other imported inputs could not be solved because of the shortage of foreign exchange. The greatest difficulties were experienced by the small-scale industries because of their great shortage of capital and and less efficient production methods (Burger, 1975: 185).

The first Five-Year Development Plan, launched in 1956, emphasized rehabilitation of existing plants, maximum utilization of domestic raw materials, upgrading of labor skills and managerial ability, and the achievement of reasonable cost levels. Some basic industrial plants were planned to act as catalysts for further manufacturing development. Among these projects, mainly financed by foreign loans, were a caustic soda plant in Surabaya, a spinning mill at Cilacap, Central Java, an urea fertilizer plant in Palembang, South Sumatra, an extension of the cement plant in Gresik, East Java, paper mills at Blabak, Central Java, and in Pematang Siantar, North Sumatra, and a glass plant in Surabaya (Soehoed, 1967: 72).

To get an impression of the progress or lack of progress in industrial development in the late 1950s, Table 2 shows figures on output at major industrial plants in 1958 and 1959. Even though the data listed here only refer to the two last years of the 1950s, they do show that most manufacturing enterprises surveyed were generally able to maintain, if not raise, production levels.

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

	1958	1959
Steel		
Sabang – Merauke	100.0	157.3
Barata	100.0	118.1
Perkalin: drums, cans	85.7	89.8
Electric ware		
Metrika	85.0	103.2
Lamps and radios		
Ralin: lamps,	67.3	74.6
Radios	208.5	78.2
Paint		
Patna	90.3	88.9
Oxygen	95.0	100.8
Paper mills		
Padalarang	95.6	102.5
Letjes	97.2	105.0
Textiles		
Texin	n.a.	51.0
Cement		
Padang	52.8	77.8

Source: Soehoed, 1967: 72.

It has been argued that during the 1950s the Indonesian economy began to experience structural regression as the manufacturing sector recovered to around 12 per cent of Net Domestic Product (NDP) in 1957, and then stagnated (Dick *et al.*, 2002: 177). Yet, the stagnation was of short duration. During Soeharto's New Order government, the contribution of manufacturing towards GDP rose from 8.4 per cent in 1966 to 9.6 per cent in 1973 and from there to 12.1 per cent in 1981 and 21 per cent in 1991 (Booth, 1998: 79).

After having surveyed the chief political and economic developments in Indonesia at the time of decolonization, it is particularly instructive to undertake a comparison with other nations in the wider region of East Asia.

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

Of the four other East Asian countries to be discussed here, two were colonized by Western countries - the Philippines by the United States and Singapore (together with Malaya by Great Britain -), whereas South Korea (together with North Korea) and Taiwan were both colonized by Japan, which had joined the Western powers in their scramble for colonies. Of these countries, economic prospects of the Philippines appeared most promising during the early independence period with early industrialization spurred by protectionist policies and a well-developed human capital base. A transition to export-oriented industrialization was envisaged in the late 1960s (Hill, 2003: 219). However, during the next several decades the Philippines kept recording only sluggish growth and little poverty reduction.

Strong and far-sighted leadership prevailed in the other three Asian former colonies discussed here, resulting in strong and cohesive states being established in the face of sheer survival (Singapore after its expulsion from the Malaysian Federation in 1965) or external threats (from North Korea in the case of South Korea, from China in the case of Taiwan). All three countries were poorly endowed with natural resources and embarked on a path of rapid export-oriented industrialization. By the late 1980s, they had all, along with Hong Kong, been transformed into Newly Industrializing Economies (NIEs, counting among the most prosperous countries in Asia after Japan.

This section briefly surveys development in each of the four countries selected for the comparative perspective.

The Philippines

The experience of the Philippines is of particular interest to development economists, international and bilateral aid organizations, and policy-makers in Southeast Asia, on account

of the country's poor economic performance and weak, often corrupt political leadership since independence in 1946. This has made the Philippines a weak and uncohesive state, afflicted by communist rebellions and separatist revolts by armed Moslem groups in Mindanao.

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

Initial conditions were favorable, as American colonial rule during half of a century (1898–1946) had been benign by colonial standards. Since the United States government had promised independence to the Philippines even before the Pacific War, no revolution took place against returning American colonial rulers. In 1946 the Philippines became an independent country. Educational standards in the Philippines were among the highest in the world. Philippine firms enjoyed privileged access to the huge American market until the expiration of the Laurel-Langley Agreement in 1974. Although not as resource-rich as Indonesia, the Philippines did possess ample agricultural land to sustain several decades of rapid agricultural growth (Balisacan & Hill, 2003: 3).

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

Although both the Philippines and its industrial sector were early leaders in East Asia, neither performed well, or even satisfactory, over the following decades. A relatively sophisticated manufacturing sector emerged in the 1950s and 1960s, supported by protectionist policies and a well-developed human resource base. Despite such early advances, the manufacturing sector's performance remained disappointing, showing slow growth and little broad-based export-oriented industrialization apart from the notable exception of electronics (Hill, 2003: 219).

Many industrial firms were engaged in light manufacturing such as textiles, food production, tobacco and beverages. Export-oriented industries consisted mainly of companies processing agricultural products for export, including canned pineapples. Most manufacturing firms were import-substituting industries, including petroleum refining industry, which was the most capital-intensive branch of industry (Yoshihara Kunio, 1985: 27-29).

The early advantages of the Philippines in industrialization were not converted into rapid and sustained growth. Performance of the manufacturing sector remained unsatisfactory in terms of growth, export performance, employment generation, spatial distribution and emergence of dynamic small- and medium-scale enterprises (SMEs). Poor performance in manufacturing reflected a failure to pursue export-oriented industrialization, which would have forced the manufacturing sector to achieve international competitiveness, in particular by developing and raising industrial technological, managerial and marketing capabilities (Hill, 2003: 219). This, of course, would have required that the basic conditions to achieve this goal were met. Such would a conducive incentive system (sound macroeconomic policies and pro-competition policies) and a skilled and disciplined labour force (World Bank, 1996: 2-5). In the Philippines, the incentive system was not particularly conducive with rates of inflation

higher than in Southeast Asian neighbors due to the monetization of chronic budget deficits (Balisacan & Hill, 2003: 20). Pro-competition policies have been frustrated by a high seller concentration combined with long-established patterns of lobbying for regulatory and price barriers to competition (Hill, 2003: 238).

Singapore

In 1959 Singapore was granted internal autonomy by the British government, and in 1963 it joined the newly established and enlarged Malaysian Federation. Malaysia's Malay leaders, however, was worried that the strength of Singapore and its Chinese population would prevail above the interests of the Malays (Vogel, 1991: 74-5). After only two years, Singapore was expelled from the Malaysian Federation on 9 August 1965. Malaysia's Prime Minister, Tengku Abdul Rahman, feared that the strident calls of Lee Kuan Yew, Singapore's Prime Minister, for a 'Malaysian Malaysia', in contrast to a Malay-dominated Malaysia favored by the majority of the population, would lead to divisive racial tensions and bloody riots between Malays and Chinese.

From 9 August 1965, Singapore exists as a sovereign nation. The separation from Malaysia was a painful experience, and the hope for a wider domestic market encompassing the entire Malaysian Federation evaporated as manufactured exports to Malaysia now faced import duties. Singapore could no longer afford to pursue import-substituting industrialization as its basic industrial strategy (Yoshihara Kunio, 1976: 8). However, by late 1967, the Singapore economy had recovered from the 'separation shock'. During subsequent years, economic growth accelerated from an average a little above 8 per cent over the years 1961-1967 to 14 per cent in the 1967-1972 period (Yoshihara Kunio, 1976: 8). The economy slowed down after the oil crisis of 1973/74, but was still able to maintain a high average at 8

per cent throughout the 1970s. Altogether, the economy grew at an average annual rate of 9.5 per cent a year during the period 1960-1980 (van Liemt, 1988: 17).

The rapid expansion of the Singapore economy after 1965 was due to government policies stimulating manufacturing and construction, a simultaneous boom in world trade, and also some 'special' factors such as the end of Indonesia's 'confrontation policy' against Malaysia (and Singapore), which had slowed down trade with Indonesia and discouraged incoming foreign direct investment (Yoshihara Kunio, 1976: 8). Singapore also profited from the discovery of oil in the region, particularly Indonesia, which led to a boom in oil exploration and related activities, including oil refining facilities, many of which were based in Singapore (van Liemt, 1988: 17).

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

Singapore provides a clear case of the consequences of an interventionist policy on foreign direct investment (FDI) and industrial targeting combined with free trade. Although it has only about half the population of Hong Kong, Singapore has developed a far deeper industrial structure with regard sophistication of production and exports. Singapore has continued to sustain high rates of industrial

and manufactured export growth despite rising industrial wages (Lall, 1996).

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

After a decade of light industrial activity, mainly in garments and semi-conductor assembly, the Singapore government acted decisively to upgrade the industrial structure. Multinational investors were directed to higher value-added activities, and investment was done in education in order to create the specific high-level technical skills required (Lall, 1996). Singapore's Local Industry Upgrading Program (LIUP) was one of the efficient means to reach that end.

Singapore's development strategy was highly successful as reflected by the fact that it has now by far the highest per capita in Southeast Asia, with the possible exception of tiny, outlier Brunei Darussalam which has only achieved its very high income per capita due to large export revenues from oil and natural gas. Singapore's great success with a development strategy against all odds is, amongst others, reflected in the triumphant title 'From Third World to First World' of the second volume of Lee Kuan Yew's autobiography.

South Korea

When Japan arrived in Korea to trade in the 1870s, a money economy had not yet spread through the peninsula. As a result, the Japanese

yen became accepted currency, replacing barley and rice as medium of exchange. The ability of Korean manufacturers to compete with Japanese goods was complicated by a primitive distribution system. Internal trade was carried out by itinerant peddlers, since there were few retail stores in the small villages and towns (Amsden, 1989: 31). From 1876 onwards Japan, coerced Korea to open its doors to foreign trade, and in 1910 occupied the entire peninsula. Colonial rule lasted until Japan's surrender on 15 August 1945. The northern part of Korea was occupied by the Soviet army and subsequently proclaimed as the Democratic People's Republic of Korea, while the smaller southern part of the peninsula was occupied by the American army and was proclaimed as the Republic of Korea.

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

The Korean economy displayed several characteristics of a colonial export economy such as a high proportion of export and import trade conducted with the colonial mother-country. By the late 1930s, no less than 84 per cent of Korean exports went to Japan, whereas a very large part of Korean imports originated in Japan (Booth, 1999: 306-7).

In June 1950, only five years after the end of the Japanese occupation, the North Korean army invaded South Korea. The subsequent civil war between North Korea, aided by Chinese 'volunteers' from the People's Republic of China, and South Korea, aided by United Nations forces, primarily American troops, lasted three years and devastated both South

and North Korea, costing the lives of millions of Koreans. In mid-1953 a truce was called between the two contending forces, although until this day no peace agreement has been signed by the two contending parties.

In 1953 South Korea had an even lesser industrial base than Taiwan had in 1949. South Korea did not reach a per capita income of \$ 1,000 per year until 1963, one decade later than Taiwan. During the Japanese occupation, the Japanese had tamed the Yalu river (bordering China) in the 1930s by building enormous hydroelectric stations, which generated 90 per cent of all of Korea's electricity. Large chemical plants for the production of fertilizers and munitions were erected nearby. But when the country was divided after the end of the Japanese occupation, all of these facilities were in the territory of North Korea. South Korea, on the other hand, until then the nation's breadbasket, had little electric power and little industry aside from textiles (Vogel, 1991: 43).

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

South Korea in the early 1960s was underdeveloped and resource-poor and politically unstable. The country's economic planners, led by Park Chung Hee, opted to pursue an export-oriented industrialization rather than import substitution. South Korea had the benefit of entering world markets at

a favorable time when the Western countries, particularly the United States, were enjoying rapid growth. South Korea could draw on the legacy of Japanese-built roads and harbors, although it had suffered severe destruction during the Korean civil war (Kwack, 1990: 19).

South Korea's rapid economic progress and export-oriented industrialization were greatly aided by the rise of a number of powerful conglomerates (*chaebol*) such as Hyundai, Samsung, LG, and Daewoo, which had been nurtured and pushed into export-oriented industrialization by President Park. Within a relatively short period of time, the Korean *chaebol* were capable of competing effectively with powerful Japanese business groups, even gaining a share in export markets of the Japanese rivals. Korea's spectacular economic progress enabled the country to join the Organization for Economic Cooperation and Development (OECD), the world's 'rich men's club, as the second Asian country after Japan.

Taiwan

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

While both Taiwan and Indonesia have been classified as two of the eight Highly Performing Asian Economies (HPAEs) by the World Bank in its famous but controversial report *The East Asian Miracle*, Taiwan's overall performance in terms of combining sustained rapid economic growth with equity has been superior to that of Indonesia (Sadli & Thee, 1999: 384).

Following China's defeat during the Sino-Japanese war of 1894-1945, Taiwan was a Japanese colony from 1895 to 1945, conducting trade almost exclusively with Japan and Japan's other colonies such as Korea and Manchuria. The Japanese colonial government spent considerable resources on the expansion of rural infrastructure, in particular roads, irrigation facilities, and power plants, as well as on the institutional infrastructure, such as agricultural research, experiment stations, and farmers' associations. As a result, rice yields increased by 4 per cent on average per year during the period 1921-1937 (Ranis, 1995: 511).

During the Japanese occupation, a relatively modern physical infrastructure was constructed in the form of roads, railways, and harbors (Myers, 1990: 17). Taiwan imported textiles and other manufactured products from Japan and exported sugar, rice, and pineapples. After its defeat in 1945, Japan could no longer afford to buy Taiwan's export goods. Even after Japanese economic recovery had begun, it suffered from a shortage of foreign exchange and chose to limit imports from Taiwan (Vogel, 1991: 14).

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

The Kuomintang government did possess several advantages in Taiwan, some fortuitous, some achieved by policy and effort. This helped making industrialization successful, both in the 1950s and in later decades. By the mid-1950s the building blocks for rapid industrialization were in place. They included political stability, control of inflation, a rapid development of family agriculture, a moderately well-developed

physical infrastructure and an adequately trained labor force. As a result, Taiwan's manufacturing industries made a good start in producing goods for local consumption (Vogel, 1991: 14).

But the Taiwanese economy began to stagnate when the domestic market became saturated with goods produced for import substitution. Consequently, in early 1960 the government announced a Nineteen-Point Programme for Economic and Financial Reform that included an expanded four-year economic plan for the years 1961–1964 and a set of incentives for private business producing for exports. This effort proved highly successful (Vogel, 1991: 23). In subsequent years, it was followed by rapid and sustained economic growth fuelled by export-oriented industrialization, particularly by SMEs. Whereas the share of manufactured goods in Taiwan's total exports had risen from only 8 per cent in 1953 to nearly 94 per cent by 1985, no less than 65 per cent of manufactured exports were generated by Taiwan's highly competitive and skill-intensive SMEs (Lui & Qiu, 2001: 61).

In 1960 Taiwan's GDP per capita had been only US\$ 1,258 dollars in 1985 prices. By 1992 it had risen to US\$8,211, which corresponded to an average annual growth of 6.3 per cent (Booth, 1999: 302-21), a higher rate of growth than the other Northeast and Southeast Asian countries and only slightly lower than in Singapore or South Korea. The high rate of growth in Taiwan has been generally sustained until the present day. Recently, prospects have further improved on account of the Economic Cooperation Framework Agreement (ECFA) concluded with the People's Republic of China.

Conclusion

This article has provided a brief discussion of the role of the state during the transition from colonial rule to sovereignty in Indonesia in comparison with similar developments in the

Philippines and Singapore in Southeast Asia and South Korea and Taiwan in Northeast Asia. Of these five countries, Indonesia's economic performance was satisfactory in the early 1950s but very poor in the early 1960s. It was only with the establishment of a strong and highly centralized state under the authoritarian rule of President Soeharto in 1966 that the Indonesian economy since the late 1960s finally embarked on a rapid path of economic growth, with an average growth rate of 7 per cent annually, which in general was sustained during three decades up to the Asian financial crisis of 1997/98.

Of the four other East Asian countries, the economic prospects of the Philippines during the early independence period appeared the most promising. However, during the next few decades the Philippines' economy faltered, recording only sluggish growth during the next few decades as the state was wrecked by political instability and rebellions by communist and Moslem insurgents in the southern island of Mindanao. More importantly, the political system in the Philippines has made it difficult for pro-economic reform lobbies within the bureaucracy, with the notable exception of the National Economic and Development Authority (NEDA), to push through urgently needed economic reforms (Balisacan & Hill, 2003: 19). By contrast, in Singapore, South Korea and Taiwan, strong and cohesive states were under far-sighted leadership, facilitating rapid and sustained economic growth fuelled by export-oriented industrialization. By the early 1980s, these three economies had become NIEs.

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

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