

**A COMPARATIVE POLITICAL ECONOMY OF  
DEVELOPMENT OF KOREA AND INDONESIA: HISTORICAL-  
STRUCTURALISTS EXPLANATION**

**By**

**Poppy Sulistyaning Winanti**

**THESIS**

**Submitted to  
School of Public Policy and Management, KDI  
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for the degree of**

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## **ABSTRACT**

# **A COMPARATIVE POLITICAL ECONOMY OF DEVELOPMENT OF KOREA AND INDONESIA: HISTORICAL- STRUCTURALISTS EXPLANATION**

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The state in Korea and Indonesia played a crucial role in economic development. It reflected on the choice of strategy and development plan, the role of technocrats, and the relationship between government and big businesses. However, the result is different. Indonesia's economic development was not as successful as that of Korea's. This thesis compares divergent political economy of development between Korea and Indonesia.

In explaining the divergence, the writer utilizes the historical-structuralists argument. This argument identifies macro-historical forces and their conjunctural dynamics to the political economy of development. It includes state and social formation, colonial legacies, and geo-politics.

The findings, based on state and social formation, indicate that the different result of Korea's and Indonesia's state intervention was due to; *first*, the political leadership commitment to economic development in Indonesian case was only a political jargon and was not followed by the concrete executive action as we can find

in Korea. *Second*, Indonesia did not have a rational and competent bureaucracy as Korea had, rather a rent-seeking bureaucracy. *Third*, the military in Indonesia has an enormous role not only in politic but also in the economy, while this condition did not appear in Korean case. Clearly, by analyzing the role of the state, the writer argues that Korea consistently follows the expectation of the developmental state model, whereas, Indonesia does not.

Another findings, based on colonial legacy experience and geo-political situation, show that; *first*, in spite of the harsh experience during the Japanese colonial rule, the Japanese colonial legacy in Korea contributed for providing positive initial condition for economic development in the post-colonial period. While in Indonesian case, instead of providing positive contribution for economic development, Dutch colonial legacy inherited “the ethnic division of labor”, which resulted in ethnic disparities in income and wealth, also rent-seeking activity. This is eventually hindered the economic development process in the postcolonial period. *Second*, Korea’s geo-political and international systemic situation, which resulted in the U.S. assistance, also contributed to the successful Korean economic development.

I dedicate to  
My partner who always argues my idea to make me come up with a better one  
My very special friend who always has a faith in me with whatever I do  
My soul-mate with whom I will share my future and my life  
My beloved husband;  
Victor

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Korea was among the poorest countries in the early 1960s and became an industrialized country in the 1990s. Considering its valuable lesson, examining the Korean experience is an important lesson for Indonesia. One of the prominent researches on this topic is Arief Budiman's book, entitled, *State and Development: The Case Study of Korea and Indonesia*, which emphasized on the relations between the authoritarian regime and economic development.

Inspired by this small book, this thesis entitled, "A Comparative Political Economy of Development of Korea and Indonesia: Historical-Structuralists Explanation", tries to compare Korean and Indonesian experience with more comprehensive approaches, by considering state and social formation, colonial legacy, and geo-politics. By doing so, it is hoped that this thesis can contribute to the enrichment of debates on political economy of development study.

This thesis can also be seen as one of the results of my learning process at KDI School. In the writing of this thesis, I was greatly assisted by a large number of people. I am grateful to my academic and thesis supervisor, Professor Hun Joo Park, who is always providing me with numerous suggestions for improvement of my work.

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## ABBREVIATIONS

ABRI	:	<i>Angkatan Bersenjata Republik Indonesia</i> (Indonesian Armed Forces)
BAI	:	Board of Audit and Inspection
Bappeda	:	<i>Badan Perencana Pembangunan Daerah</i> (Regional Development Planning Board)
Bappenas	:	<i>Badan Perencana Pembangunan Nasional</i> (National Development Planning Board)
CCN	:	Corruption, Collusion, and Nepotistic
Dephankam	:	<i>Departemen Pertahanan dan Keamanan</i> (Department of Defense and Security)
EOI	:	Export-Oriented Industrialization
EPB	:	Economic Planning Board
GBHN	:	<i>Garis-garis Besar Haluan Negara</i> (The Broad Outlines of State Policy)
Golkar	:	<i>Golongan Karya</i> (Functional Group, State political party under the New Order)
HCI	:	Heavy Chemical Industry
ISI	:	Import Substitution Industrialization
Kopassus	:	<i>Komando Pasukan Khusus</i> (Army Special Force Command)
Korpri	:	<i>Korps Pegawai Negeri</i> (Corps of Civil Servants)
Kostrad	:	<i>Komando Strategi Angkatan Darat</i> (Army Strategic Reserve Command)
KOTRA	:	Korea Trade Promotion Corporation
KTC	:	<i>Koryo Mu Yeuk</i> (Korea Trading Corporation)
Mabes	:	<i>Markas Besar</i> (Headquarter)
MPR	:	<i>Majelis Permusyawaratan Rakyat</i> (People's Consultative Assembly)
MITI	:	Ministry of International Trade and Industry
OECD	:	Organization for Economic Cooperation and Development
PJP	:	<i>Pembangunan Jangka Panjang</i> (Planning for long-term period)
PPP	:	Power Purchasing Parity
Propenas	:	<i>Program Pembangunan Nasional</i> (National Development Program)
Repelita	:	<i>Rencana Pembangunan Lima Tahun</i> (Five-year Development Plans)
SCNR	:	Supreme Council for National Reconstruction

# **Chapter I**

## **Introduction**

### **A. Introduction**

In the early 1960s, Indonesia and South Korea (hereafter: Korea) were among the poorest countries in the world. After the military regime seized the power (1961 in Korea and 1965 in Indonesia), both countries started their economic development, which were characterized by high state intervention. In pursuing economic goal, state in two cases is not only defining and generating national economic plan but also has a very significant role in its implementation.

However, Indonesia's economic development was not as successful as that of Korea's. Indonesia's GNP per capita in 1999 was only US\$ 580 while Korea's recorded US\$ 8,490 (The World Bank Data, 2000). Korea became a member of the Organization for Economic Cooperation and Development (OECD) in 1995, while Indonesia still remains a troubled developing country.

This thesis proposes to examine the divergent political economy of development between Korea and Indonesia. It will be based on the questions of why the state intervention in two cases has different result and what kinds of circumstances determine the successful economic development in Korea. In answering those questions, the writer's assessment will be based on historical-structuralists

explanation.

Historical-structuralists identify macro-historical forces and their conjunctural dynamics to the political economy of development (Chung In Moon and Yong Cheol Kim (in Leftwich, ed., 1996): p.141). It includes state and social formation, colonial legacies, and geo-politics.

This explanation recognizes how state actively shaped economic development process. The term that has been used to explain the role of government on economic development is developmental state<sup>1</sup>. This explanation argues that the effective strategic intervention should be ensured by a strong political leadership commitment and the existence of competent, rational, and meritocratic bureaucracy (Chung In Moon and Young Cheol Kim (in Leftwich ed., 1996): p.141). Besides the important role of the state, this explanation also argues that some circumstances, such as colonial legacies and geo-political situation might contribute to the economic development process.

## **B. The Method and Strategies of the Research**

This thesis constitutes a comparative historical research. As Ragin points out,

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<sup>1</sup> The term can be used synonymously with “state-guided capitalism” (Johnson: 2000), “state led-growth”, “state-led capitalist development” (Burket and Landsberg: 2000), or “dirigisme” (Hun Joo Park: forthcoming), Austin recognizes it as “strategic pragmatism” (Austin: 2001).

comparative research can be defined as one that compares large social units, nations, societies, states, cities, or countries (Ragin (in Stark and Roberts, 1998): p. 127). There are two types of comparative research; the case-oriented approach and the variable-oriented approach. According to Stark and Roberts, the variable-oriented approach tests the hypotheses by applying statistical techniques such as correlation and regression to variables based on an appropriate set of aggregate case. Meanwhile, the case-oriented approach selects two or more cases and examines them closely in order to explain some striking difference or differences between (or among) them (Stark and Roberts, 1998: p. 183 - 184).

The primary difference between comparative research and other social research methods, like survey and experiment lies in how to obtain data. While other methods can collect data through experiment, interview, questionnaire, or observation, comparative research primarily obtains data through document or library research. This thesis is comparative research, based on the case-oriented approach. Its primary source is in English and Indonesian languages.

### **C. The Plan of Study**

This thesis consists of five sections. Chapter 2 presents an overview of Korean and Indonesian political economy of development. It emphasizes on political



structure and the state intervention in economic development. This chapter concludes that state in both cases has a central role in economic development. However, both cases ended up with different result. Korea can be regarded as a successful case while Indonesia as a failure case of the state intervention in economic development. Explaining the divergent performance forms the topic of the next chapter.

Chapter 3 focuses on the different feature of the role of the state in two cases. This section pays attention to the political leadership commitment, the role of bureaucracy, and military. This part argues that the strong and long lasting political leadership commitment to economic development and the existence of a clean, competent, and responsible bureaucracy, contributed to the successful state intervention in Korean case.

Chapter 4 analyzes what kinds of historical and international circumstances determine successful state intervention in economic development. It examines the colonial legacy experience and geo-political situation. This chapter assumes that colonial legacy and geo-political situation contributed for providing positive initial condition for Korean economic development. Finally, chapter 5 sums up the thesis with some concluding remarks.

## **Chapter II**

### **Korean and Indonesian Political Economy of Development: An Overview**

#### **A. Introduction**

This chapter presents an overview of Korean and Indonesian political economy of development. It elaborates the state's role in both cases by emphasizing on political structure and the state intervention in economic development.

Like many other comparative studies, this thesis faces the difficulties that come from historical, cultural, and structural differences between the two countries. The first problem is the great difference in the size of two countries. With a population of 209 million people in 2000, Indonesia is now the fourth largest country in the world, following China, India, and United States<sup>2</sup>—whereas Korea has only 46.8 million people.

Two countries also have a difference in cultural aspect. It is an undeniable fact that Indonesia is a multicultural country. As an archipelago country with 17,508 islands<sup>3</sup>, Indonesia consists more than hundreds of ethnic groups and languages compared to the homogeneous Korean people who speak one language and share the same culture. Geopolitically, two countries are also different. As is well known, Korea

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<sup>2</sup> Setiawan, Bakti. "Indonesia". <http://www.iar.ubc.ca/centres/csear/SSN/ch2.pdf>

<sup>3</sup> According to the Indonesian Naval Hydro-Oceanographic office in Indonesian government official

has been blessed by geopolitics. Meanwhile, Indonesia's position is not as important as that of Korea's. Another difference between two countries concerns with natural resources. Indonesia has been blessed with rich natural resources; on the other hand, Korea can be categorized as a country with relatively poor natural resources.

Those differences make this cross-country comparison difficult since they have a different influence to the economic development performance of the two states. Some of those variables are giving a positive contribution to the economic development of one state, whilst, the same influence can not be found in its counterpart. The cultural diversity in Indonesia, for example, influenced the characteristic of colonial legacies, which resulted in ethnic division of labor.<sup>4</sup> While this condition was not found in Korean case.

Due to its rich natural resources, Indonesia was able to initiate economic growth by exploiting its abundant reserves of land and natural resources, including petroleum, natural gas, tin, and timber. Indonesian export industry, particularly during its rapid growth period in 1971 – 1981, was mostly dependent on natural resources export such as oil. Meanwhile in Korean case, its export mostly was a manufacturing industry or high-technology industry.

Nevertheless, with a careful examination, two countries also have some

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website <http://www.ri.go.id>

<sup>4</sup> I will explain further this topic on chapter 4.

similarities, which makes this comparative study feasible and important. Historically both countries had colonization experience even though under different colonial rule and different impact to the post-colonial economic development. Dutch colonized Indonesia for more than hundreds years and then Japanese for three and a half years, meanwhile Korea from 1910 – 1945 was under Japanese colonial rule.

The economic development of the two countries was characterized by a very high state intervention. As Burket and Landsberg point out, Korea, Indonesia, Malaysia, and Thailand were generally seen to be following the Japanese model. Their rapid growth and industrial transformations appeared to confirm the characteristics of state-led capitalist development (Burket and Landsberg, 2000: p. 5).

Furthermore, two countries also achieved rapid economic growth under the authoritarian regime; Indonesia under Soeharto regime and Korea under Park Chung Hee and had continued under Chun Doo Hwan. Both Soeharto and Park justified their military coup<sup>5</sup> with the prevalent government corruption, economic despair and starvation, and the threat of communism.<sup>6</sup> Both leaders, indeed, promised to bring the country out of economic backwardness.

The rest of this chapter proceeds as follows: the next part analyzes a

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<sup>5</sup> In Indonesian case, the military coup in 1966 is still debatable. Soeharto's regime always denied that there was a military coup in 1966. However, there are some evidences mostly provided by American scholars indicating that there was a military coup in 1966 led by Soeharto.

<sup>6</sup> In case of Korea, there was a constant, real, and perceived military threat from the North (Hun Joo Park: forthcoming).

comparative development performance of both countries. It shows a big difference in economic development achievement of both countries. The following part examines Korean and Indonesian political economy development experiences. It analyzes the state intervention in economic development and political structure.

## **B. Comparative Development Performance**

In 1979 the difference between Korea's GDP and Indonesia's was not so wide. Korea's GDP was only US\$ 64.6 while Indonesia's was US\$ 55.1. However, in 1989 when both countries were recognized as a High-Performing Asian Economies, Korea's GDP had already two times of Indonesia's was. Korea's GDP had already reached US\$ 221.2 while Indonesia's was only US\$ 101.5 with the average annual growth from 1979 – 1989, 6.0 for Indonesia and 8.6 for Korea. In 1999 after the financial crisis, the gap between Korea's GDP and Indonesia's was even wider. It showed that Korea was more successful to cope with the crisis compared with Indonesia.

Based on their structure of the economy, it shows that Indonesia still relies on agricultural sector compares to Korean case, which mostly was based on industrial and the manufacturing sectors. Agriculture sector contributed 27.3% for Indonesia's

GDP in 1979, and it only contributed 18.6% for Korea's. In 1999, there was no significant change in Indonesian case, while there was quite significant change in the Korean case. It was still 17.3% of Indonesia's GDP earned from agriculture, whereas it was only 5% of Korea's. It is clear that by standard of socio-economic measures, Indonesia's development performance was relatively poorer compared to that of Korea's.

**Table 2.1. The Starting Point and the Initial Conditions in 1965**

Country	Population	GDP per Capita	Trade Share (% of GDP)	Agriculture (% of GDP)	Urban %	Ethnic Diversity	Life Expectancy
Indonesia	104m	608	0.24	0.53	0.16	0.76	43
Korea	29m	1058	0.27	0.36	0.32	0	55

Notes: GDP per capita is PPP (Power Purchasing Parity) adjusted and measured in international dollars (1985 base year). The trade share is imports plus exports as a share of GDP. The trade share and agriculture share are 3-year averages (1964-66) when sufficient data are available.

Source: Modified from Temple, "Growing into Trouble: Indonesia after 1966", Discussion Paper Series No. 2932.

**Table 2.2. Basic Indicators in Social and Economic Development**

Indicators	Indonesia	Korea
<b>POVERTY and SOCIAL 1999</b>		
Population, mid-year (millions)	207.0	46.8
GNP per capita (Atlas method, US\$)	580	8,490
GNP (Atlas method, US\$ billions)	120.1	397.9
<b>Average annual growth, 1993-99</b>		
Population (%)	1.6	1.0
Labor force (%)	2.7	2.0
Most recent estimate (latest year available, 1993-99)		
Poverty (% of population below national poverty line)	20	...
Urban population (% of total population)	35	81
Life expectancy at birth (years)	65	73
Infant mortality (per 1,000 live births)	43	9
Child malnutrition (% of children under 5)	34	...
Access to improved water source (% of population)	62	83
Illiteracy (% of population age 15+)	14	2
Gross primary enrollment (% of school-age population)	113	94
Male	115	94
Female	110	94

Source: World Bank Data 2000

**Table 2.3. Key Economic Ratios and Long-Term Trends**

Indicators	Indonesia					Korea				
	1979	1989	1998	1999		1979	1989	1998	1999	
GDP (US\$ billions)	55.1	101.5	98.8	151.2		64.6	221.2	317.1	406.9	
Gross domestic investment/GDP	24.8	29.1	20.0	13.1		36.0	34.3	21.2	26.8	
Exports of goods and services/GDP	30.6	25.1	51.2	34.9		27.2	32.0	49.4	42.1	
Gross domestic savings/GDP	32.8	32.8	29.4	21.0		28.7	36.4	34.5	33.7	
Gross national savings/GDP	...	23.9	24.9	13.9		28.3	36.7	34.0	33.0	
Current account balance/GDP	...	-1.6	4.7	4.2		-6.4	2.4	12.9	6.1	
Interest payments/GDP	1.9	3.3	5.7	4.8		1.7	0.9	1.6	1.5	
Total debt/GDP	33.8	58.5	152.7	97.5		35.4	14.8	46.9	33.4	
Total debt service/exports	...	37.5	34.7	37.9		15.4	12.0	12.2	22.6	
Present value of debt/GDP	...	...	146.4	...		...	...	42.6	...	
Present value of debt/exports	...	...	264.9	...		...	...	81.3	...	
<b>(average annual growth)</b>	<b>1979-89</b>	<b>1989-99</b>	<b>1998</b>	<b>1999</b>	<b>1999-03</b>	<b>1979-89</b>	<b>1989-99</b>	<b>1998</b>	<b>1999</b>	<b>1999-03</b>
GDP	6.0	5.3	-13.0	0.3	3.4	8.6	6.1	-6.7	10.7	6.7
GNP per capita	3.9	3.4	-17.8	0.4	2.6	7.5	4.9	-8.4	10.1	...
Exports of goods and services	1.4	6.9	11.2	-31.6	7.7	12.5	14.8	113.2	16.3	9.6
<b>STRUCTURE of the ECONOMY</b>										
<b>(% of GDP)</b>										
Agriculture	27.3	21.7	17.0	17.3		18.6	9.4	4.9	5.0	
Industry	37.7	38.3	42.7	43.1		38.8	42.8	43.8	43.5	
Manufacturing	11.7	19.7	24.1	25.4		27.2	30.7	30.9	31.8	
Services	35.0	40.0	40.3	39.6		42.5	47.7	51.2	51.5	
Private consumption	57.6	58.5	65.1	72.5		61.0	53.1	54.6	56.3	
General government consumption	9.5	8.7	5.5	6.5		10.3	10.5	11.0	10.1	
Imports of goods and services	22.6	21.4	41.7	26.9		34.4	30.0	36.1	35.3	
<b>(average annual</b>	<b>1979-89</b>	<b>1989-</b>	<b>1998</b>	<b>1999</b>		<b>1979-</b>	<b>1989-</b>	<b>1998</b>	<b>1999</b>	



growth)		99			89	99		
Agriculture	3.4	2.5	-0.7	2.1	2.7	1.9	-6.6	4.7
Industry	6.5	7.2	-14.0	1.2	11.1	6.7	-7.5	13.0
Manufacturing	13.0	8.2	-11.4	2.6	12.4	7.3	-7.4	21.8
Services	7.0	4.7	-16.4	-1.4	8.3	6.1	-6.0	9.4
Private consumption	6.5	7.3	-6.3	3.7	8.1	5.5	-11.3	9.4
General government consumption	5.3	0.8	-15.4	0.7	4.7	3.6	-0.4	-0.6
Gross domestic investment	6.7	3.9	-34.6	-20.0	9.1	10.4	-22.4	28.9
Imports of goods and services	1.8	8.5	-5.3	-40.7	9.0	10.4	-22.4	28.9
Gross national product	5.9	5.1	-16.5	2.0	8.8	6.0	-7.5	11.0

Source: World Bank Data 2000

## C. The Gist of Two Cases

### 1. The State Intervention in Economic Development

#### a. The Choice of Development Strategy

Under the government-led strategy<sup>7</sup>, the commitment on economic development in Korean case was manifested into a plan-rational development strategy<sup>8</sup>. This plan-rational development strategy, in turn, was translated into economic actions and policies such as the adoption of an outward-looking

<sup>7</sup> Amsden describes government-led strategy in Korean case as “Getting prices wrong”, due to excessive role of the state in economic development through subsidy, protection, and price control (Amsden, 1989). However, rather than seeing it as “Getting prices wrong” SaKong argues Korean government role in economic development was to get relative prices right (SaKong, 1993: p. 38).

<sup>8</sup> According to SaKong, a nation’s development strategy can be characterized in various ways. It is often described as “outward-looking” or “export led” versus “inward-oriented” or “import-substitution driven”. If its primary emphasis is on sectoral growth, it is sometimes categorized as “industry-led” or as slanted toward “agricultural-first”. From a growth versus equity point of view, development strategy can be characterized as either “growth-first” or “equity-first”. Sometimes, the “growth-first” characterization is made to emphasize that the weight of the nation’s strategy is put toward “growth maximization” rather than “economic stabilization”. Depending on the way the chosen strategy is implemented, the pattern of a nation’s development can be described as either “government-led” or

industrialization, active inducement of foreign capital, various institutional reforms, industry-led, and growth-first or growth maximization.

The focus on growth-first or growth maximization and redistribution-later strategy in the early stage of Korean development process can be found in Park's statement:

We cannot expect the whole draught-stricken paddy land to become evenly watered immediately after we start to water it. We ought to have the patience and wisdom to share ten bushels later than the impatience and ignorance to insist on sharing a package of seeds evenly now. (President Park Chung Hee, 1967 (in SaKong, 1993): p. 44).

Concerning the outward-looking development strategy, which is usually described as manifesting either "export promotion" or "trade liberalization" was adopted since the early 1960s (SaKong, 1993: p. 27-28). Under this strategy, Korea introduced very active export promotion schemes in the early 1960s by providing various new fiscal and financial subsidies, correcting overvaluation of the local currency, allowing exporters to import export-related raw materials and capital equipment freely, and introducing generous wastage allowances for export-related production. These measures, in fact, were designed to offset the existing import-substitution biases (SaKong, 1993: p. 38).

However, the "industry neutral incentive" under the export promotion

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"private sector-led" (SaKong, 1993: p. 24).

strategy was changing into the “industrial targeting approach”, when the government launched the Heavy Chemical Industry (HCI) drive policy in January 1973. Under the HCI drive only certain selected industries were promoted. The specific industries as an “important” or “key” so-called “strategic industries” included iron and steel, nonferrous metals, general machinery, shipbuilding, petrochemicals, electrical equipment, and other industries designated by the president. They were promoted by providing strong tax incentives and preferential credits (SaKong, 1993: p. 42).

There were several reasons behind the HCI drives; *first*, there was rapid increase in exports of light manufactures by China and Southeast Asian countries, which can be seen as a threat for Korean competitiveness at the same industry. *Second*, there was a rising protectionism in industrial country against labor-intensive products (SaKong, 1993; Jung Ho Yoo, 2001). The *third* reason related with a security matter. In the aftermath of the Vietnam War, the United States announced the Nixon doctrine and US troops stationed in Korea were reduced by a third in 1971. The reduction in US ground troops stationed in Korea as the beginning of an eventual overall US troop withdrawal from the Korean peninsula. Consequently, security concerns prompted the promotion of heavy industries in particular as the foundation for a strong defense industry (SaKong, 1993: p. 42).

Indonesian political economy of development has been transformed

significantly after Soeharto took power in 1966. The central issue in the beginning of Soeharto regime<sup>9</sup> was how to improve government ability to achieve economic growth and political stability. By placing economic growth as one of the national goals, the regime wanted to prove that they paid more attention on economic matter contrary with the previous regime, which paid more attention to political problem and neglected economic problem. In order to achieve these goals, the New Order regime chose “outward orientation” as an economy strategy and “authoritarianism” as a political strategy (Mas’oed, 1994: p. 33-34).

The “outward orientation” strategy was chosen in order to overcome economic problems, inherited from the previous regime, such as economic stagnation, hyperinflation, and foreign debt. This strategy was also taken to promote domestic entrepreneurship, to accumulate foreign and domestic capital, to earn foreign loan, to create conducive circumstances for “free-trade” and to attract foreign investment.

Another important economic policy was promoting industrialization<sup>10</sup>. The

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<sup>9</sup> Soeharto regime can be used synonymously with the ‘New Order’ regime in contrast to the ‘Old Order’ of the Soekarno government.

<sup>10</sup> According to Chandra industrialization refers to an increase in the share of the Gross Domestic Product (GDP) contributed by the manufacturing sector. It is a process that involves a change in the structure, or make-up, of the economy (Chandra, 1992: p.4). Meanwhile, manufacturing is a subgroup within the industrial category. It refers to activities that transform or combine materials into new products to make them more valuable (in terms of money earned from them) or more useful (Chandra, 1992: p. 6).

industrialization strategy was divided into three phases (The Kian Wie, 1994: p. 28 – 35): the first was the import-substitution industrialization (ISI), which emphasized fiscal policy to reduce import and provide a favorable circumstance for the promotion of domestic industry. The second phase is the second stage of import-substitution industrialization, which started to promote the manufacturing industry. The third phase was characterized by export-oriented strategy or export-oriented industrialization (EOI). This strategy was adopted after the period of oil boom at the end of 1970s.

#### **b. The Economic Development Plan**

The government in two cases also introduced a five-year economic development plan. Korea's first five-year economic development plan was introduced in 1962. Its introduction marked a new era in Korean economic history in the sense that, for the first time, the government provided a national economic vision and an economic program for business and the general public (SaKong, 1993: p. 48). The second five-year economic development plan was implemented in 1967 – 1971, the third (1972 – 1976), the fourth (1977 – 1981), the fifth (1982 – 1986), and the revised sixth (1988 – 1991).

SaKong points out Korean planning can be described as more indicative than

imperative in the sense that the process of planning serves a greater purpose than the complete plans themselves. In the course of the preparation of the plans, a substantial amount of information is shared among all participants. Participants from the private sector get the opportunity to learn more about the policy direction of the government and the government's perspective on future economic environments. Planning has facilitated highly critical inter-ministerial cooperation and coordination in formulating and implementing short-term economic policies, which are the real driving force of the economy (SaKong, 1993: p. 49).

The broader level of Indonesian development strategy can be found in The Broad Outline of Government Policy (*Garis-garis Besar Haluan Negara, GBHN*), which was institutionalized in the development planning program. Indonesian development planning programs are formulated according to three different time periods<sup>11</sup>:

- a. Planning for long-term period (*Pembangunan Jangka Panjang, PJP*)  
with 25-year period.
- b. Medium-term development planning with five-year period. As is well-known as the five-year development plans (*Rencana Pembangunan Lima Tahun, Repelita*<sup>12</sup>).

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<sup>11</sup> <http://www.ilo.org/public/english/employment/gems/eeo/program/indonesi/ms.htm>

<sup>12</sup> Since 1999 *Repelita* has become *Propenas* (*Program Pembangunan Nasional* or National Development Program).

c. Short-term planning as in the state budget

These development planning programs are based on three fundamental principles of development philosophy referred to as “trilogy of development” (*trilogi pembangunan*), that is, equity of distribution of wealth, economic growth, and national (political) stability aimed at achieving social well-being and justice for the people.

Indonesia has already implemented the first PJP (1969 – 1994), which placed economic growth as the first priority. The implementation of the first PJP was divided into 5 *Repelita*; *Repelita* I (1969 – 1974), *Repelita* II (1974 – 1979), *Repelita* III (1979 – 1984), *Repelita* IV (1984 – 1989), *Repelita* V (1989 – 1994).

**Table 2.4. *Repelita* in the First PJP and the Priority of Development**

<i>Repelita</i>	The Priority of Development
<i>Repelita</i> I	1. National Stability 2. Economic Growth 3. Equity of distribution of wealth
<i>Repelita</i> II	1. Economic Growth 2. National Stability 3. Equity of Distribution of Wealth
<i>Repelita</i> III	1. Equity of Distribution of Wealth 2. Economic Growth 3. National Stability
<i>Repelita</i> IV	1. Increasing the standard of living, intelligence, overall well being, and the equity of distribution of wealth 2. Providing the strong fundamental for the next <i>Repelita</i>
<i>Repelita</i> V	1. Increasing the standard of living, intelligence, overall well being, and the equity of distribution of wealth 2. Providing the strong fundamental for the next <i>Repelita</i>

Sources: GBHN various years

*Repelita* is very important in understanding Indonesian political economy of development for a number of reasons. *First*, the genesis and formulation of these development plans were carried out under the influence of IMF. *Second*, the changing emphasis in Indonesian economic development policy can be traced in them. *Third*, the discourse of nationalism is a feature of the plans. *Fourth*, the importance given to the concept of development in Indonesia during this period is symbolized in the relationship between these Development Plans and the Development Cabinets, as they have been called since 1968.<sup>13</sup>

### **c. Institution Innovation**

Regarding the implementation of development strategies, Park Chung Hee established and reformed some important economic institutions. The most important institutional innovation was the creation of the powerful Economic Planning Board in July 1961. The deputy Prime Minister was appointed as the head of the board. This was signifying the importance attached to economic policy coordination (SaKong, 1993: p. 26). This board had a role to formulate, implement, and monitor the government's industrialization strategy. The board subsequently developed into a

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<sup>13</sup> McCormack, Brian. (1999). "Fifty Years of Indonesian Development: "One Nation" Under Capitalism..." Journal of World-Systems Research <http://csf.colorado.edu/wsystems/jwsr.htm.5:48-73>



powerful bureaucratic organization, responsible for development planning and policymaking. In this capacity, it coordinated the functions of the ministries of Finance, Commerce and Industry, Transportation, Agriculture, Health and Social Affairs, and Science and Technology (Yoon Hyung Kim (in Lee-Jay Cho and Yoon Hyung Kim, eds.,1994): p. 49).

In addition, in order to mobilize domestic resources, the government established a National Taxation Administration Office in 1965 (SaKong, 1993: p. 26). The third institutional rearrangement related to the nation's financial system. At that time, commercial banks were made into de facto public enterprises by legally limiting private voting rights. Furthermore, various state-owned special banks were established, and existing special banks were expanded specifically to accommodate development (SaKong, 1993: p. 26).

Concerning the implementation of the export promotion, the government's active participation in export promotion culminated in the monthly export promotion meeting, attended by the president, top government policy makers, and business and financial leaders. The government's role in providing information regarding markets abroad and in helping to find new business opportunities was also important, particularly at the early stage of export promotion. The Korean government established the Korea Trade Promotion Corporation (KOTRA) and the Korea Trading

Corporation (*Koryo Mu Yeuk*) to help small and medium-sized companies overcome their limited capabilities in overseas markets and increase their exports (SaKong, 1993: p. 39).

If Korea has a very influential institution in formulating economic development plan, like Economic Planning Board (EPB), Indonesia in a similar way has the National Planning Agency (*Badan Perencana Pembangunan Nasional, Bappenas*), which had a very significant role in designing, defining, and formulating *Repelita*. Other important institutions relating with economic development plan are Regional Planning Boards (*Badan Perencana Pembangunan Daerah, Bappeda*) and the Planning Agencies (*Biro Perencanaan*) in many government departments.

According to McCawley and Rudner, *Bappenas* policy provided a protective framework for the emergence of domestic capital dominated by state corporations and by companies owned by the military and their domestic Chinese corporate clients (Robison, 1986: p. 133). The major writings of the *Bappenas* technocrats in the early stage of the New Order's economic development effort were concerned primarily with concrete problems of growth, currency stabilization, and rehabilitation of the infrastructure (Robison, 1986: p. 133).

The principal duties and functions of Bappenas are determined in Presidential Decree No.35 Year 1973, on the National Development Planning Agency, as

variously amended in Presidential Decree No.19 Year 1983, Presidential Decree No.7 Year 1988, and most recently by Presidential Decree No.73 Year 1993. Essentially, these amendments concern the organizational arrangement, work procedures, position, main duties and permanent functions, as stipulated in Presidential Decree No.35 Year 1973; these are: <sup>14</sup>

- a. To formulate short-term, medium-term, and long-term national development plans.
- b. To coordinate planning, endeavoring to harmonize sectoral and regional portions, and to create integration in such planning within the national development plan.
- c. In conjunction with the Ministry of Finance to formulate the State Budget.
- d. In conjunction with the related institutions, to formulate credit and capital investment policies.
- e. In conjunction with the related institutions, to formulate policies for the receipt and use of foreign loans and assistance.
- f. To monitor the preparation and conduct of national development planning, as well as efforts to synchronize its programs and projects.

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<sup>14</sup> [http://www.bappenas.go.id/bap\\_eng.html](http://www.bappenas.go.id/bap_eng.html)

- g. To appraise the implementation of the national development plan, with consideration to the requirements of its programs and projects.
- h. To conduct survey and research necessary to evaluate the performance of planning tasks, as well as for appraisal of the national development.
- i. To conduct other activities as directed by the President.

#### **d. The Role of Big Businesses and Technocrats**

In the process of formulating and implementing the development strategy, the role of the government could not be separated from the role of technocrat. As Nam Duck Woo states the technocrats played an important role in Korea's economic management (Nam Duck Woo in Seung Yeung Kwack, ed., 1994: p.17). Many Korean technocrats were trained abroad, especially in the United States. Their primary role was to translate the major policy objectives of the top leaders into concrete actions in a way compatible with the working of the economic system (Nam Duck Woo (in Seung Yeung Kwack, ed., 1994): p.17).

Another important thing in the process of implementing the development strategy is the role of big businesses. Amsden underlines one of the key successful indicators of Korean economic development was that the actions of the Korean state have been complemented by those large, diversified business groups that have come to occupy a dominant position in the economy (Amsden (in Wade, 1992): p. 285). In order to foster economic growth, the state not only actively promotes the growth of the business group, so-called *chaebol*<sup>15</sup>, it also disciplines their use of subsidies and

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<sup>15</sup> SaKong defines a *Chaebol* in Korea as a group of firms owned and controlled primarily by a single entrepreneur and usually his family members (SaKong, 1993: p. 61). Similarly, Eun Mee Kim describes *Chaebol* as a large, family-owned and family-managed business group (Eun Mee Kim, 1997: p.3). Meanwhile, Burkett and Landsberg define *Chaebol* as a family-run industrial and financial conglomerate enterprise (Burkett and Landsberg, 2000: p. 17).

other supports, rewarding those who use subsidies “well” with further help and withdrawing support from those who do not (Amsden (in Wade, 1992): p. 285). In other words, government has a very significant role in controlling business group.

The growth of *Chaebol* was also due to the implementation of HCI promotion policies. In implementing HCI promotion policies, the government actively encouraged large business groups with proven track records and financial capability to participate in major projects in designated industries. In any case, the result was rapid growth and higher debt-to-equity ratios for these groups (SaKong, 1993: p. 57).

A *Chaebol*, therefore, can be viewed as an economic group, which is defined as “a multi-company firm that transacts in different markets but which does so under common entrepreneurial and financial control”. The emergence of these *chaebols* as economic groups can be considered as an institutional innovation for overcoming market deficiencies and reaping their benefits, even though government policy was instrumental in creating and sustaining them. As previously indicated, in order to promote the HCIs, well-established, large entrepreneurs with good track records were called in to launch new ventures in targeted industries. In most cases, they received various subsidies and credits in return. As a result, many *chaebols* became further diversified and grew faster—much faster, in fact, than the rest of the economy (SaKong, 1993: p. 61).

As we can found in Korean case, Indonesian economic development was also determined by a group of economic technocrats. In September 1966, several months after seized the power, Soeharto appointed a 'Team of Experts in the field of Economics and Finance', consisting of the five economists from the University of Indonesia (Thee Kian Wee in Dick (et.al), 2002: p. 196). This appointment marked the authority of the so-called 'economic technocrats' in Indonesia. They were a group of Western-educated economists, often referred to as the "Berkeley Mafia" since these bureaucrats received Ph.D. in economics from the University of California at Berkeley. From the 1960s until 1993 cabinet, this group guided the national economy and remained at the forefront of Indonesian policy-making as presidential councilors and public educators in economic affairs.

The big businesses or conglomerates also had a significant role in Indonesian economic development. Big businesses grew due to government support, through favoring policy, such as subsidy, protection, and special privilege. However, the only existing private conglomerates within Indonesia even remotely capable of managing economic development are either closely linked to the New Order regime, ethnic Chinese or both (Austin, 2001: p. 86). MacIntyre indicates that business in Indonesia has been politically weaken by the fact that the business class is dominated by Chinese Indonesians, as opposed to *pribumi*, or indigenous Indonesians (MacIntyre,

1990: p.3).

## **2. Political Structure**

Political stability and social discipline are very important pre-condition for economic development, especially in the early stage of development. Authoritarianism is often regarded as a system to provide political and social stability. Furthermore, since governments have a very significant role in economic development process, it is quite easy for the governments to become authoritarian.

According to Johnson, the liabilities of soft authoritarianism have already been made clear. Its strengths are that long-term developmental goals for the economy can be set; serious investment in education and research can be depoliticized; and people can come to see their government as legitimate for what it has accomplished rather than because of the formal political philosophy it expresses (Johnson (in Lee-Jay Cho and Yoon Hyung Kim, eds., 1994): p. 72). Furthermore Johnson attributes that the autonomy and strength of Korean state to the authoritarian governance in which a military-dominated single party was instrumental in mobilizing and allocating financial resources, disciplining civil society, and suppressing political opposition (Chung in Moon and Yong Cheol Kim (in Leftwich eds., 1996): p. 141).

Meanwhile, according to Eun Mee Kim, there is a controversy among developmental scholars about whether a developmental state is necessarily



authoritarian. However, in the case of Korea, she argues that the developmental state in Korea was also an authoritarian state, which refers to a style of governance antithetical to democracy (Eun Mee Kim, 1997: p. 29). Moreover she points out that in Korean economic development experience the state forcibly intervened in the market, the state was in control of the market, and the state was omnipresent in the market. The comprehensive developmental state in South Korea implemented economic development plans in an authoritarian manner (Eun Mee Kim, 1997: p. 37).

Korean political structure, during its economic growth period under Park Chung Hee's regime, clearly, an authoritarian regime. Park Chung Hee declared martial law in 1965, 1972, and 1975 and made clear his political idea: "We can't eat democracy. We have *only* two priorities: first, national defense; second, economic development". He reinforced his presidential position under the *Yushin* Constitution of 1972, which instituted a strong presidency, weakened the legislature, limited political activity, and restricted the press (Austin, 2001: p. 103).

Relating to Indonesian political structure, MacIntyre points out that under the New Order, the political domination of the state over society has been extended enormously. Soeharto, who was supported by the armed forces, moved firmly and persistently to limit political participation and to concentrate power (MacIntyre, 1990: p. 2). The 1945 constitution provided Soeharto with the power to appoint all key

executive and judicial positions within the Indonesian State. Through these presidential powers, Soeharto advanced his own position and that of his family. Political parties and interest groups were controlled and brought within a central corporatist framework of state-dominated political management. Golkar (*golongan karya* or functional group) was formed in 1967, as the government's parliamentary arm and built upon the state-institutional membership of ABRI, KORPRI, and a variety of corporatist front groups, including the State Youth Association, KNPI and Veterans Association, Kosgoro. It was controlled by the Board of Patrons, with Soeharto as its chairman (Austin, 2001: p.118).

Moreover, MacIntyre states that Indonesia's political system was not only undemocratic, it also provided for an extraordinary centralization of decision-making authority in the presidency. No other institution or collection of political actors had the ability to veto the implementation of the president's policy preferences or to initiate alternative policies (MacIntyre (in Pempel, 1999): p. 155). Similarly, Robison argues that the feature of the New Order regime has been the entrenchment and centralization of the authoritarian rule by military, the appropriation of the state by its officials, and the exclusion of political parties from effective participation in the decision making process (Robison, 1986: p. 105). Clearly, Indonesian political system under the New Order was authoritarian military based regime, which was

characterized by a central power on Soeharto's hand.

#### **D. Conclusion**

Summing up, we can conclude that in the beginning of development process, two regimes were emphasizing on economic growth rather than wealth distribution. In order to pursue this goal, two regimes had a development plan, which was not only “market-friendly” but on the other hand was also controlled by the government. That is why; it was also so-called plan-rational development.

Another valuable point of the two regimes is the significant role of technocrats in the development process. In designing, defining, formulating, and controlling development process government was supported by the technocrats. In two cases, we can find that the technocrats had university background and were trained abroad, usually in the U.S. Clearly, bureaucracy and technocrat had a very significant role in both cases.

In two cases, we can find that big businesses were a central engine of economic growth. Big businesses grew due to government support, through favored policy, such as subsidy, protection, and special privilege. In this regard, two regimes were not only supporting, but also creating as well as controlling big businesses.

Concerning the political structure, the two cases showed that both regimes regarded political stability and social discipline as an important pre-condition in order

to achieve their economic goals. Therefore, two regimes had faith in authoritarianism as the best mechanism to provide a favorable circumstance for economic development. Following MacIntyre argument, Korea and Indonesia can be seen as a military-based regime with a developmentalist orientation that have been characterized by a high level of state control over politics and policy (MacIntyre, 1990: p. 3).

Obviously, state in the two cases has a central role in economic development. However, Indonesian economic development was not as successful as Korea's was. Explaining the different performance forms the topic of the next chapter.

## **Chapter III**

### **The Role of the State on the Economic Development**

#### **A. Introduction**

This chapter aims to analyze the effectiveness of the role of the state in Korean and Indonesian economic development process. The term that has been used by scholars to explain the role of government on economic development is developmental state. The term developmental state, initially and most forcefully, was articulated by Chalmers Johnson with specific reference to Japan (Pempel (in Woo-Cumings, ed., 1999): p. 139).<sup>16</sup> Johnson through his book, *MITI and the Japanese Miracle: the Growth of Industrial Policy 1925 – 1975*, gives the most powerful and persuasive explanation in analyzing Japanese economic growth by considering the role of the state. Some East Asian countries, then, adopted this model.

In the developmental state model, economic development is the top priority for the government. In this sense, the strong political leadership commitment to economic development becomes the significant factor. In pursuing economic goals, government has a very significant role. Government is not only defining and generating national economic plan but also has a very significant role in implementing

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<sup>16</sup> Some scholars such as Alice Amsden, Eun Mee Kim, Robert Wade, Meredith Woo-Cumings also can be categorized advocating of this model as well.

the plan, including controlling the private sector. Economic development in developmental state can be seen as a plan-rational development, since it combines “market-friendly” approach with state guidance. Moreover, since the government has a very significant role, the rational and competent bureaucrats are very important to ensure the success of the state’s intervention in pursuing its national goal.

Following the argument of developmental state model, this chapter, first, examines different levels of political leadership commitment to economic development goals. Then it elaborates the role of bureaucracy. This section presents the competent bureaucracy in Korean case versus the rent-seeking bureaucracy in Indonesian case. The last section examines the role of military in political economy of development. This part illustrates even though both countries were governed under the authoritarian-military regime; the military in Korean case only dealt with defense and security matters. While in Indonesian case, the military did not only have an enormous role in defense and security but also in business as well as politics.

## **B. Political Leadership Commitment**

A military coup led by General Park Chung Hee in May 1961 can be seen as a starting point for the Korean economic development. After Park Chung Hee took power, the nation witnessed the emergence of a new political leadership fully

committed to economic development. The importance of having such leadership in place, to guide and nurture Korea's economy through the early, critical stages of development cannot be underestimated. In fact, as SaKong points out, Adelman and Morris' study suggests that leadership commitment is a critical factor or catalyst for economic development, particularly in countries such as Korea with favorable socio-cultural standards (SaKong, 1993: p. 9).

The strong leadership commitment to economic development can be found in Park Chung Hee's earlier writing (Park Chung Hee, *The Country, The Revolution, and I*, (in Park Hun Joo): forthcoming):

One must eat and breathe before concerning himself with politics, social affairs, and culture. Without a hope for an economic future, reforms in other fields could not be expected to yield fruit. At the risk of repetitiveness, I must again emphasize that without economic reconstruction, there would be no such things as triumph over communism or attaining independence.

Park Chung Hee's commitment to economic development can also be seen from the following quote (SaKong, 1993: p. 25):

The focal point in politics in developing nations such as Korea is above all economic construction. As our old saying goes, no matter how wise one may be, he has to eat. Likewise, economic construction in developing nations, sufficient for people not to worry about food and clothing, is an absolutely basic requirement for democratic development (Remarks at a press conference, 1972).

There are several reasons, why the new political leadership in Korean case

fully committed to economic development. *First*, it is related to the national unification and political progress. Park Chung Hee saw economic development as a means toward national unification and political progress (SaKong, 1993: p. 25). In this regard, he saw the economic development as a precondition for the national unification and democratization. Or in other words, without significant economic development, there would be no national unification and democratization. As it can be seen from Park Chung Hee's speeches (SaKong, 1993: p. 25):

Not only meaningful progress toward democracy but also promotion of national might to overcome communism and to unify the nation ultimately depend upon the success or failure of economic construction (August Fifteenth Liberation Day Address, 1964)

Since the nation's unification depends on the nation's modernization and the modernization in turn depends on economic self-support, a self-supporting economy is the first step toward unification (New Year's Presidential Message to the National Assembly, 1966).

*Second*, it is related to the legitimacy of Park Chung Hee's regime. Since Park Chung Hee took the power through a coup, he desperately needed legitimacy, both from inside and outside the country, particularly from the US government. To get legitimacy from the Korean people, Park Chung Hee needed to prove that the coup was necessary in order to bring the country to a better condition. Meanwhile, since Park Chung Hee was being suspected by the US government as a communist, Park Chung Hee had to prove that he was not a communist. Considering the condition



during the Cold War, this situation can be understood since the approval from the US government was very important for the political leadership in a country like Korea.

*Third*, it is related to the security threat. The security threat, particularly from the communist regime in the North Korea was very important to the Korean development because it kept the military regime under Park Chung Hee focused on economic growth rather than on self-enrichment, as in so many other military regimes (Johnson (in Lee-Jay Cho and Yoon Hyung Kim, eds., 1994): p. 77).

Obviously, the political leadership commitment has a significant role for Korean economic development. Furthermore, the foundation of strong leadership commitment was instrumental in bringing about Korea's government-led, or state-led, development strategy (SaKong, 1993: p. 27). The more important thing is that political commitment was quickly matched with concrete executive action, as Park Chung Hee proceeded methodologically to create the machinery needed to achieve his economic goals (Oh, 1999: p. 54).

One might argue that Soeharto regime in Indonesia was also committed to the economic development, since the central issue in the beginning of the New Order regime was how to achieve economic growth and political stability. However, this political leadership commitment seemed merely a political jargon rather than the real

one because it was not followed by the concrete executive action as found in the Korean case.

The political economy structure of the New Order regime was characterized by the self-enrichment regime. Soeharto has succeeded to build a strong state with himself as a center of power. He successfully built an unchecked authority and eliminated political competition by controlling civil servants, bureaucrats, and civil society under the authoritarian military regime. This condition in turn allowed him to engineer streams of rents that were not only lucrative but also largely free of risk, and could then be used to enrich politically important allies and even family members (Temple, 2001: p. 22).

Moreover, there was no constant, real, and perceived military threat from outside the country, as faced by Korea, which could force the regime to keep concentrating on economic development. As Temple argues that a key feature of Indonesia's corruption problem: Soeharto's grip on power was sufficiently secure that he had no incentive to compromise in his policies and interventions. In particular, there were few mechanisms by which the extent of corruption and self-enrichment regime could be restrained (Temple, 2001: p. 22).

### **C. Competent versus Rent-Seeking Bureaucracy**

The concept of the strong developmental state emphasizes the high degree of autonomy enjoyed by key decision-makers, especially in the bureaucracy (Booth: 1998). Thus, according to Woo-Cumings another element of developmental state is responsible, capable, and clean bureaucracy (Woo-Cumings ed., 1999: p. 13). It means the existence of bureaucracy was supporting the industrialization process. This kind of professional and meritocratic bureaucracy relatively can be found in East Asian countries and not in other developmental state.

Bureaucratic capacity building in Indonesia has proceeded along two tracks—the strengthening of central agencies and the strengthening of the center’s hold on regional and local government. Soeharto inherited a weak and demoralized civil service in 1966, which was further, gutted in order to root out leftist elements. The regime moved to ensure loyalty with the establishment of a single national Corps of Civil Servants (*Korps Pegawai Negeri, Korpri*).<sup>17</sup> Business firms, professionals, industrial workers, peasants, and other societal audiences have been tidily collated into functional groups, namely GOLKAR (*Golongan Karya*, Functional Group) as a machinery politics of the New Order regime to maintain its power (Case (in Chan, Clark, Lam, eds.,1998): p. 146).

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<sup>17</sup> Barber, “The Case Study of Indonesia”, in <http://www.library.utoronto.ca/pes/state/indon/indonsum.htm>

Clearly, the bureaucracy and administrative apparatus in Indonesia was influenced by political structure. Bureaucracy was a political tool for the authoritarian regime instead of becoming an independent actor. Along with military, bureaucracy became a central political control to ensure the political stability and social discipline (Mas'ood, 1994: p. 37). This condition, in turn resulted in a weak and corrupted bureaucracy, which became a barrier for economic development process.

A weak and corrupted bureaucracy was not the characteristics of Korean bureaucracy. Leon points out the Korean state apparatus is close to the ideal type of a rational Weberian bureaucracy.<sup>18</sup> Moreover, it features Schumpeterian characteristics such as the provision of the requirements for improving the innovation, entrepreneurship, and international competitiveness of private agents<sup>19</sup> since its recruitment system was based on a high competitive examination. The April 1963 National Civil Service Law based bureaucratic positions upon competitive examinations, performance evaluations, and guaranteed job security. As for recruitment, based partly on the Japanese elite's university-recruitment system. This, in turn, has attracted many well-qualified and ambitious individuals to government service (Austin, 2001: p. 133).

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<sup>18</sup> The ideal type of rational Weberian bureaucracy refers to the role of a rational, efficient, well-organized bureaucracy *as a sine qua non* condition for economic development (Leon, Jose Luis "Culture, the State, and Economic Development in Korea and Mexico" , in <http://orpheus.ucsd.edu/ias/studies/pdf3/leon.pdf>

<sup>19</sup> Leon, Jose Luis, *ibid.*

In a similar way, Simonia writes the major aspects of the bureaucracy in Korea are as follows:<sup>20</sup> *first*, professionalism and acumen in economic matters. *Second*, it has no ideological biases in the narrow sense of party affiliations but is oriented and even faithful to the national cause and economic reforms (“socially-oriented bureaucracy”). *Third*, it is independent materially, for the most part, of business. The relations between the bureaucracy and business are those of leader and subordinate. In this context, there were no close personal contacts between the bureaucrats and business. *Fourth*, business did not take part in politics or serve as a springboard for promotion to government posts. *Fifth*, the level of corruption of the state bureaucracy is relatively low.

Nevertheless, one might argue that Korea was also facing corruption and collusion problems.<sup>21</sup> However, these problems did not hinder the process of economic development. As Ha-Won Jang<sup>22</sup> argues, the point is not whether the government was relatively clean or not, but why corruption did not impede economic growth. Furthermore, he points out that from the economic point of view, corruption is not an ethical issue but a question of whether or not it disrupts capital accumulation.

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<sup>20</sup> Simonia, Nodari, op.cit, in <http://src-h.slav.hokudai.ac.jp/sympo/Proceed97/Simonia1.html>

<sup>21</sup> Based on Global Corruption Report 2000 published by Transparency International, Korea is on the rank 42 out of 88, with the range 3.4 – 5.6 (for the ranges between 10: highly clean and 0: highly corrupt). While Indonesia is on the last rank along with Uganda with the range 0.2 – 3.1 [http://www.globalcorruptionreport.org/download/data\\_and\\_research.pdf](http://www.globalcorruptionreport.org/download/data_and_research.pdf)

<sup>22</sup> Ha-Won Jang, “Korean Economic Development and Industrial Policy”, paper presented on International Program on Korea’s Economic Development and Policy Assignment in Transition Economies, held by Center for Knowledge Partnership, KDI School, September 16-24, 2001, p. 23.

Often corruption is assumed to be wasteful, but it is only true when resources spent on corruption are not re-invested into production. In Korean case, corruption did happen but it was not wasteful, rather it re-invested into a production activity. That is why; it did not hinder economic growth.

Moreover following Amsden's argument<sup>23</sup>, Jang points out that in Korea, state created a constant stream of new and often bigger rents in the next round of competition geared towards industrial upgrading. And since the state was always willing to withdraw support to non-performers including *chaebol*, this transitory character of rents forced the firms to enhance their technological capability.<sup>24</sup>

Another obvious contrast between Korean and Indonesian case related to corruption problem is the effort of the government to eliminate the corruption problem itself. Similar to Indonesia, corruption can be seen as a cultural problem for Korea.<sup>25</sup> However, Korea has a long lasting history of corruption prevention, even since the Kingdom period. It can be traced from the existence of the Board of Audit and Inspection (BAI) which was basically a manifestation of *Sajongbu* from Shilla dynasty<sup>26</sup> in modern time. This board responsible for auditing states' budget and

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<sup>23</sup> As Amsden argued an insulated economic bureaucracy in Korea has been permitted to set strict performance criteria, and to discipline private sector firms who did not measure up. This in turn permitted the implementation of government policies designed to establish and strengthen non-existent or weak markets, or to overcome coordination failures (Amsden as quoted by Stiglitz in Anne Booth, 1998).

<sup>24</sup> Ha-Won Jang, *op.cit*, p. 23-24.

<sup>25</sup> There is a tradition in Korea to give "*chonji*" or present to express one's thankfulness. This tradition, in turn, can be seen as a source of bribery or corruption.

<sup>26</sup> *Sajongbu* was an auditing and inspection board that established in 659 (*Kompas*, October 8, 2002).

monitoring the performance of civil servant and public institution.

Actually, Indonesia also has a similar board. However, the board of audit and inspection in Indonesia can not execute their roles effectively, since there is no law enforcement. This is different with what we can found in Korea. For example, in Korea, the former presidents and even the son of the current president was jailed because of corruption problem. On the contrary, many of high rank officers in Indonesia, even though they were proven to be corrupt, it was difficult to bring them to the court. Clearly, even though Korea faces the same corruption problem as that of Indonesia, Korea has better aspect on law enforcement and corruption prevention.

In sum, the role of bureaucracy becomes a striking contrast between Korean and Indonesian case. Indonesia did not have a rational and competent bureaucracy as Korea had, rather it had a rent-seeking bureaucracy. In his study on the relationship between state and development, Budiman classifies Korea as a “developmental authoritarian bureaucratic state”<sup>27</sup>, while he calls Indonesia as a “rent-seeking authoritarian bureaucratic state” (Budiman, 1991). It is because the authoritarian bureaucratic state in Korea was used to foster the economic growth, and on the other hand, in Indonesian case, the authoritarian bureaucratic state was preoccupied with rent-seeking activities for self-enrichment.

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<sup>27</sup> Similarly, Cumings (1984) claims a term, the ‘bureaucratic-authoritarian industrializing regime (BAIR)’, to describe the political foundation for capitalist development in Korea (Chung in Moon and Yong Cheol Kim (in Leftwich ed., 1996): p. 142).

#### **D. The Role of Military**

The Indonesian political structure was characterized by the important role of bureaucracy and military as a political control to ensure the political stability and social discipline. It can be seen from the involvement of Indonesian Armed Forces (*Angkatan Bersenjata Republik Indonesia*, ABRI) into key bureaucratic positions. The bureaucracy grew rapidly, from perhaps 600,000 in 1965 to 1.6 million in 1974 to over 3 million in 1986. By the late 1970s, military appointees held half the cabinet positions, over two-thirds of the governorships, and 56 percent of district-head positions. Within bureaucracy, 78 percent of director generals and 84 percent of ministerial secretaries were military appointees.<sup>28</sup> By the late 1980s, the practice of appointment of military personnel to civil office was highly institutionalized. The average rank of officers assigned to senior civil service posts rose (Bresnan, 1993: p. 110).

Moreover, the domination of military role in the development was also reflected in the military structure, which was in parallel with the structure of civilian bureaucracy. The military organization, as well as the civilian bureaucracy has a command line from the province level until the village level. This kind of structure



was designed to make military control over the decision-making policy in every level of bureaucracy become more effective.

Another important thing is that the military has also been involved in economic sector. The military has been involved in economic activities since the early 1950s. At its earliest level, these economic activities took the form of illegal levies on businessmen, the imposition of various tolls on the transport of goods, and including smuggling, providing protection, and forging papers for the operations. The most significant movement of the military into economic activity took place in 1958/59 when they secured control of the bulk of the nationalized Dutch enterprises. After 1965, the military continued to develop its economic power, and the military commands began to formalize their private business activities by establishing military-owned companies (Robison, 1986: p. 250 – 251).

Up until now, the involvement of military, either as an individual military man or as an institution still persists. The retirement of armed service personnel, particularly the most seniors among them was also facilitated by widespread use of government connections to obtain licenses, contracts, bank loans, and import credits for private firms established by individual officers, often in partnership with local Chinese businessmen (Bresnan, 1993: 107).

The reason behind those economic activities was primarily to raise extra-

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<sup>28</sup> Barber, *Ibid.*

budgetary revenue for the operations of individual commands and units as well as for the personal and political needs of individual officers and political factions (Robison, 1986: p. 251). According to Susanto and Supriatma, military owns around more than 50 companies, including corporations, cooperatives, and foundations (see Appendix A). The area of military business is diverse, including insurance, air transportation, timber, finance, etc (Susanto and Supriatma, 1995).

All non-military activities were taken by Indonesian military due to its claim that they had a “dual function” (*Dwifungsi*): to defend the nation against enemies from within and without, by force of arms if necessary, and to assure wise and effective public policies. As Bresnan points out, Indonesia’s army claimed a role in the management of public affairs since it based their argument on its role in achieving national independence. It is because the Indonesian army of 1966 was not the creation of a former colonial power, it was not an army led by men trained to serve as apolitical officers, as was the case in the Philippines, Malaysia, and Singapore. The Indonesian army was the creation of revolution; it was led by men who had joined to fight for national independence and stayed on to fight for national unity, as in Burma and Vietnam (Bresnan, 1993: p. 273).

As a result of the implementation of “dual function”, there was a massive infusion of military men into civil posts occurred at every level from the presidency to

the villages from 1966 onwards. As late as 1986 the armed forces held 40 percent of top positions in the entire central bureaucracy and this figure did not include the state economy enterprises where they were believed to be almost universally in charge.<sup>29</sup>

The enormous role of military in both political and economy did not occur in the Korean case, even though for more than thirty-two years from 1961 – 1993, Korea was ruled by military dominated governments. From May 1961 to December 1963 the military directly ruled the country through a military junta that was called the Supreme Council for National Reconstruction (SCNR), which was headed by Major General Park Chung Hee (Oh, 1993: p. 48).

Furthermore, power in Korea was highly concentrated in the central state, symbolized by the presidential Blue House. President Park Chung Hee's modernization strategy in the early 1960s instituted this militarized system of strictly hierarchical decision-making, where the body politic was relegated to uniformly carrying out decisions made at the top (Hun Joo Park: forthcoming).

The authoritarian military regime then was strengthened by the implementation of the *Yushin Honpop* (Revitalizing Constitution), which was aimed at ensuring political stability and at completing the historic task of national revival through socio-economic progress under strong presidential leadership.<sup>30</sup> The *Yushin*

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<sup>29</sup> Bresnan, John. *Managing Indonesia: The Modern Political Economy* in <http://www.cc.columbia.edu/sec/dlc/ciao/book/bresnan/epilog.html>

<sup>30</sup> *A Handbook of Korea*, Korean Overseas Information Services, 9th edition, Seoul: 1993. p. 271.

rule was regarded as the second “bloodless” coup executed by Park Chung Hee (Oh, 1999: p. 60).

Nevertheless, military only controlled the political stability and social discipline and did not involve in economy or business, or in the key bureaucratic position as appeared in Indonesian case. Contrary to Indonesian case, in Korea there is a restriction for the soldiers to have a career other than military job. This restriction appears on Soldiers’ Service Regulations dated on March 15, 1966 by the order number 2465 of president of Republic Korea. This regulation is revised several times by the order of president since it was established. Those are order no. 4923 (April 4, 1970), 7040 (January 4, 1974), 8262 (October 13, 1976), 13240 (January 5, 1991), 14393 (September 30, 1994), 14951 (March 16, 1996), 15954 (December 31, 1998).

The regulation states that:<sup>31</sup>

“Soldiers, service regulations Chapter 3 (service), paragraph 1 (service bearing), sentence 16 (prohibiting the work for a profit and the dual-position). Soldier should not work at the position for a profit or another job except military affairs. But, if the Secretary of Ministry of National Defense accepts and allows that the work is not related to political, anti-society, or profit and does not affect to the performance of military service, then it can be an exception.”

## **E. Conclusion**

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<sup>31</sup> From various sources

Based on the previous explanation I conclude that Korea consistently follows the expectation of developmental state argument. In this regard, Korea can be categorized as a relatively successful case of state's role in the political economy of development.

The effectiveness of state's intervention in Korea was determined by several conditions; first, it relates with the strong political leadership commitment in pursuing economic development goals. It is also supported by the existence of the relatively clean, rational, and competent bureaucracy, along with professional military. The meritocratic bureaucracy is an important condition for the successful government intervention in Korean economic development, since it relates to the ability of the government to overcome the negative excess of its own intervention policy. In this regard, following Amsden's argument, how Korean government dealt with the corruption and collusion problem, which in turn made them able to concentrate on the economic growth is a very important factor for the success of its economic development.

## **Chapter IV**

### **The Colonial Legacy and Geo-politics**

#### **A. Introduction**

This chapter examines historical and international systemic situation, which might contributed to economic development. Specifically, it elaborates the influence of colonial legacies and geo-political situation to the economic development process. This chapter argues that in spite of the harsh experience during the Japanese colonial rule, the Japanese colonial legacy in Korea contributed for providing positive initial condition for economic development in the post-colonial period. While in Indonesian case, instead of providing positive contribution for economic development, Dutch colonial legacy inherited “the ethnic division of labor”. It resulted in the ethnic disparities of wealth and income as well as rent-seeking activity, which eventually hindered the effectiveness of state’s role in economic development in the post-colonial period.

Another important circumstance is the geo-political situation, which was based on the international systemic explanation. By international systemic explanation being used here refers to the geo-political situation and the real security threat, which was rooted from international politics situation that might positively contribute to development. Following Wade’s word, Korea was blessed by geopolitics. Korea is on the fault line of post-Second World War global politics, abutting Communist Asia

(Wade, 1992: p. 312). Meanwhile, Indonesia's position is not as important as Korea's is. Surrounded by almost all non-communist countries and located in a relatively peaceful region made Indonesia not become a political and security priority of U.S foreign policy, which also gave a significant contribution for Korean economic development.

## **B. The Colonial Legacy**

Korea started its economic development in the early 1960s after Park Chung Hee seized the power. However, to fully understand Korean political economy of development, we should examine the initial condition of development before Park Chung Hee took power.

One might argue that Korean economic development can be traced even from the period before Japanese colonization, that is, Three Kingdom period (Koguryo, Silla, and Paekche). However, compared to the previous period, the Japanese colonization provided a condition for the significant modern transformation of the Korean economic development.<sup>30</sup>

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<sup>30</sup> The writer realizes that there is a huge dispute among scholars concerning whether the Japanese colonial rule contributed or not for the Korean economic development. It is an undeniable fact that the Japanese colonization was a dark suppressing period in Korea modern history. And as a result, it still becomes traumatic experience for almost all of Korean people. One reason of disagreement on contribution of Japanese colonial rule for Korean economic development is that after Korean War occurred in 1950-1953 and Korea divided into two part—South and North—most of the heavy industry and electricity, such as iron and steel, hydroelectric power, coal industry, and chemical industry, which

It has been argued that Japanese colonization has ultimately laid the foundations for a modern transformation of the Korean economy (Eckert et.al, 1990: p. 390). As SaKong points out Korea was almost entirely an agrarian economy before the Japanese colonization of 1919. During the colonial era of 1910 to 1945, the Korean economy experienced rapid structural transformation. The structural pattern of this development was largely determined by the Japanese colonial regime (SaKong, 1993: p.1). In addition, Japanese colonization also introduced a scientific approach to agriculture and invested heavily in infrastructure. As Koo argued, even though it was not a significant industrialization, it is generally believed that Japanese colonization left substantial foundation of infrastructure on which later industrialization could build (Koo, 1987: p.167).

**Table 4.1 Selected Indexes of Production in Korea (1910 – 1937)**

Period	Aggregate Measures		Agriculture		Mining		Manufacturing	
	GDP <sup>b</sup>	Commodity Product <sup>c</sup>	Value added	Production <sup>d</sup>	Value added	Production	Value added	Production
1910-14	48.12 <sup>1</sup>	67.07	75.90	73.68	54.76	26.86 <sup>2</sup>	18.66	31.25 <sup>2</sup>
1915-19	60.25	83.27	91.88	87.72	91.67	61.35	42.63	66.71
1920-24	96.07	90.93	97.51	96.49	55.95	76.24	55.65	70.91
1925-29	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1930-34	100.99	122.91	117.42	113.16	203.57	160.52	123.97	126.36
1935-39	122.46 <sup>3</sup>	142.49	113.79	127.19	572.62	467.28 <sup>4</sup>	244.34	269.19
Annual Compound Rates of Growth <sup>a</sup>								
1912-27	5.32	2.70	1.85	2.06	4.11	7.46 <sup>5</sup>	11.84	5.69 <sup>5</sup>
1927-37	2.39	3.60	1.30	2.43	19.07	18.70 <sup>6</sup>	9.34	10.41
1912-37	4.15	3.06	1.63	2.21	9.84	11.82 <sup>7</sup>	10.83	7.81 <sup>3</sup>

were established by Japanese become the part of North Korea. Meanwhile, most of South Korean region was still primarily agriculture (Chowdhury and Islam 1993, Oh 1999, SaKong 1993). For the further discussion on the contribution of Japanese colonization on Korean economic development, see Eckert (et.al) 1990, Koo (1987), Lowe (1997), SaKong (1993). However, for disagreement on prevailing opinion, which is seeing that modern economic growth in former Japanese colonies owes much to the era of Japanese imperialism, can be found on the argument of Chowdhury and Islam (1993) and Hun Joo Park (forthcoming), particularly chapter four, section two.



<sup>1</sup>1911-14 <sup>2</sup>1914 <sup>3</sup>1935-38 <sup>4</sup>1935-36 <sup>5</sup>1915-27 <sup>6</sup>1927-35 <sup>7</sup>1915-37

<sup>a</sup> Based on 5-year averages centered around the initial and terminal years of each period. When 5-year averages are not available, 3-year averages are used.

<sup>b</sup> Gross Domestic Product in 1934-36 average prices estimated by the expenditure approach.

<sup>c</sup> Sum of value added in 1936 prices originating from agriculture, fishery, forestry, mining, and manufacturing.

<sup>d</sup> This is an output index of rice, barley, beans, other grains, and cotton.

Source: Pao-san Ho, Samuel. "Colonialism and Development: Korea, Taiwan, and Kwantung," in Ramon H. Myers and Mark R. Peattie, eds., *The Japanese Colonial Empire 1895 – 1945*, New Jersey: Princeton University Press, 1984 (Table 1).

Similarly, Lowe argues that Japanese economy policy in Korea (during colonialism period) was governed by the motive of strengthening the economic and strategic situation of Japan. However, the important thing is that the basis for the subsequent development in the Korean economy had been laid (Lowe, 1997: p. 6). Furthermore, since Japanese looked at its colonies as a supporting enclave of its development, Samuel Pao-San Ho (Pao-San Ho (in Myers and Peattie, eds.), 1984: 347-348) states that, it was inevitable for Japan to develop its colonies. Japan implemented economic development policies during its colonization period, such as building economic infrastructure, improving health and education system, providing essential service and production, and reforming government financial program.

One could argue that these physical facilities and other infrastructures such as railways system were destroyed during the Korean War. Nevertheless, as Dower points out, what matters is not the physical goods destroyed, but the skill of the

population and the resources available to them (Dower: 1993).

**Table 4.2. Growth and Composition of Manufacturing in Korea (1913 – 1940)**

Period	Total	Food	Textile	Wood and Wood Products	Chemicals	Non-Metallic Mineral Production	Metals	Machinery	Others
Production Growth Rates <sup>a</sup>									
1913-27	5.99	6.68	5.92	14.23	7.82	15.15	5.08	6.49	1.18
1927-39	10.29	7.87	10.04	1.95	17.38	10.79	8.66	10.49	2.40
1913-39	8.12	7.27	7.96	7.91	12.50	12.95	6.85	8.47	1.79
Production Composition <sup>b</sup>									
1914-16	100%	35	13	1	12	3	16	2	18
1926-28	100%	43	14	3	16	3	7	3	10
1936-40	100%	27	18	2	30	3	11	3	6

<sup>a</sup> Annual compound rates of growth of real output based on 3-year averages centered around the initial and terminating years of each period.

<sup>b</sup> The average percentage distribution of gross output in current value

Source: Pao-san Ho, Samuel. “Colonialism and Development: Korea, Taiwan, and Kwantung, “ in Ramon H. Myers and Mark R. Peattie, eds., *The Japanese Colonial Empire 1895 – 1945*, New Jersey: Princeton University Press, 1984 (Table 2).

In a similar way, according to Dutt and Kim, the colonial rule was harsh, but nonetheless contributed to the building of a basic physical infrastructure, laying down the basis for industrial development. More significantly, it provided a model of highly articulate, discipline colonial bureaucracy, later to be adopted by Koreans for state-directed development (Dutt, Kim, Singh (eds.), 1994: p. 174).

The contribution of Japanese colonial rule is not only confined to physical facilities or tangible factors. It can also be seen from intangible factors, such as human capital. In this context, President Park Chung Hee is a clear example. Park Chung Hee, the most important factor behind Korean economic development, was an elite product

of the Japanese colonial military system. Park Chung Hee was fluent in Japanese and deeply influenced both intellectually and emotionally by his training during Japan's period of Asian military industry supremacy (Eckert, et.al 1990: p. 392).

The Japanese colonial legacy also contributed to the introduction of universal primary education (Booth: 1998).<sup>31</sup> There was, however, discrimination toward Korean children compared to children from Japanese families. By 1945 almost 45 percent of Korean youth were enrolled in primary school. After 1945 both primary and secondary enrollments grew rapidly (Booth: 1998). Following liberation in 1945, education continued to expand. In 1960, Korea had the highest literacy rates for primary and secondary enrollment ratios.

**Table 4.3. Estimated Percent of Total Population Enrolled in School (1830 – 1954)**

Country	Percent of Population in School					
	1830	1850	1878	1887	1928	1954
England and Wales	9	12	15	16	16	15
Germany	17	16	17	18	17	13
United States	15	28	19	22	24	22
Argentina				7	14	16
Mexico				5	9	12
Brazil				3	-	9
Japan				7	13	23
Korea				-	4 <sup>a</sup>	17
India				2	4	7

<sup>a</sup>Includes North Korea and date is 1938

Source: Amsden, Alice H., *Asia's Next Giant South Korea and Late Industrialization*. New

<sup>31</sup> When the Japanese established control over the Korean peninsular in the first decade of this century there had already been a proliferation of "modern" schools, some of them established by Christian missionaries. In the beginning 1919, the Japanese colonial authorities set about eliminating all private (including Christian) schools and introducing universal primary education in Japanese (Tsurumi (1984)

York: Oxford University Press, p. 217.

Based on the previous explanation, Japanese colonization can be seen as a source for the fundamental structure of Korean economic development. However, the positive contribution of colonial legacy could not be found in the Indonesian case. The Indonesian economy under Dutch colonial rule was characterized by trade activities rather than an industrialization process, a contrast to Korean case. Furthermore, Indonesia inherited the “ethnic division of labor” while such a feature did not appear in Korea.

According to Budiman, Dutch colonization was characterized by the raw material export activity from Indonesia to the Netherlands as a state-mother (Budiman, 1991: p.23). Indonesia as a colony was put only as a raw material supplier to support the process of industrialization in the mother-state. However, the industrialization itself did not occur in Indonesia. That is why; during the Dutch colonization, the Indonesian economy system was more likely characterized by trade activities rather than an industrialization process.

Nevertheless, the trade activities during this period did not generate a native entrepreneur class. This was due to the ethnic division of labor, which was introduced by the colonial government. According to this policy, the Dutch colonial government divided the society into three classes. The first class was Dutch, including the other

European countries, the second was Chinese people and other Asian people such as Arabian, and the last class was the indigenous people called “pribumi”.

This differentiation had a huge impact for almost all aspects of life; such as the access to education, political sector, and the most important thing was the access to economic sector. It did not only resulted in the ethnic disparities in income and wealth, but at the same time this policy also contributed to the emergence of the business class from the ethnic Chinese in Indonesia. This policy in turn is giving specific characteristic on the role of conglomerates in Indonesian economic development, which differs from the Korean case. As we can found in the Korean case, the rise of conglomerates in Indonesia is the fruits of government policy and strategy, which are intended to create strong national companies by providing facilities and support to them.<sup>32</sup> However, history recorded, the fate of company groups or conglomerates in Indonesia was largely determined by political factor, and economic condition, which was rooted in an ethnic division of labor during the colonization period.

The ethnic division of labor still remains after Indonesia got its independence, even though there were some several modifications on it, particularly in the political sector. The post-colonial government diminished the access of Chinese people into political sector. However, on the other hand, in the economic sector government still

gave the large opportunity for Chinese people as Dutch colonial rule did, since government needs the support from big business in order to develop the country—particularly during the Soeharto era.

Moreover, Chinese entrepreneurs are smart and skillful enough to benefit from various government supports. Many of them become big and emerged as strong and powerful conglomerates such as Salim Group and Sinar Mas Group, the two most prominent conglomerates in Indonesia. The government has tried to create strong indigenous entrepreneurs by providing special privileges to them, but so far it has never reached the target. Until now, the indigenous entrepreneurs are still lagging far behind<sup>33</sup> (see Appendix B).

There are indeed some big conglomerates owned by indigenous entrepreneurs such as Bimantara Group and Citra Agratama Persada Group, but they are owned by former Presidents Soeharto's children, who are now being investigated and accused of their involvement in corruption, collusion, and nepotistic (CCN) practice. It should be noted that there are quite a number of conglomerates owned by indigenous entrepreneurs, but they are connected with the elite power group and enjoying special privileges in the CCN category.

The CCN conglomerates include also those owned by Soeharto's cronies,

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<sup>32</sup> “Anatomy of Indonesian Conglomerates” in <http://www.datacon.co.id/conglo.htm>

<sup>33</sup> “Anatomy of Indonesian Conglomerates” in *ibid.*

such as Salim or Liem Sioe Liong, Bob Hasan or The Kiang Seng, and Prayogo Pangestu or Phang Djun Phoen.<sup>34</sup> As Woo-Cumings points out, Indonesia is an example of a classic case of sultan-like dictatorship and political-monopoly sort of capitalism in one family, with Soeharto and his relatives and children constituting by far the biggest conglomerates with the truly element, the ethnic Chinese business class (Woo-Cumings, ed.,1999: p. 19).

In sum, there was a big difference between two countries concerning the colonial legacy, which has significant impact to the further economic development in the postcolonial period. Japanese colonial rule in Korea contributed to the promotion of industrialization process in Korea, since Korea was regarded as a supporting enclave of its development. Meanwhile, the industrialization did not occur in Indonesia under Dutch colonization. Indonesia was regarded only as a raw material supplier to support the process of industrialization in the mother-state. Unlike the Korean economy, which can be characterized as an industrialization promotion, the Indonesian economy under Dutch colonization was characterized as a trade promotion. In sum, we can argue that compared to Indonesia, Korea has started its industrialization process earlier.

Besides that, the colonization period in Indonesia was also producing an “ethnic division of labor”, which contributed to the domination of Indonesian

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<sup>34</sup> “Anatomy of Indonesian Conglomerates” in *ibid*47

economy by the Chinese minorities.<sup>35</sup> Due to the “ethnic division of labor”, Indonesia in the post-colonial era has had to face two disturbing problems; ethnic disparities in income and wealth and rent-seeking activity.

In order to overcome the problem caused by the Chinese domination of the economy, the Indonesian government then tried hard to promote “the indigenous entrepreneur class”. However, in reality this kind of policy resulted in a kind of rent-seeking activity. To create indigenous entrepreneur class, government provided a special privilege, but limited only to those who had a close relationship with the elite power group.

In this context, “the ethnic division of labor” contributed to the characteristic of the relationship between government and big business in Indonesia. Unlike the Korean case, which was showing that the subsidy, protection, and privilege became an incentive for the business group to build its business and fostered economic growth, in the Indonesian case it impeded it. Subsidy allocations in the Indonesian case (and other South-East Asian countries as well) have seldom been tied to any credible performance criteria, but are usually made either on the basis of political cronyism, or to achieve non-economic goals such as the promotion of indigenous business.

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<sup>35</sup> According to Bresnan, of a total Indonesian population of 147 million in 1981, 4.1 million or 2.8 percent were estimated to be ethnic Chinese. Some Chinese families had been in Indonesia for generation and had prospered under Dutch rule. Others had arrived after World War II and some 1.0 million were still not Indonesian citizens as late as 1970s. It was even said that some Chinese businessmen had settled their families abroad so as to make it easy to leave themselves should that become necessary (Bresnan, 1993: p. 152 – 154).



Yoshihara points out that the indigenous capitalists have emerged, but they are often mere “rent-seekers”, exploiting political connections to build up huge conglomerates<sup>36</sup>. Therefore, government intervention and its relations with big business in the Indonesian case has tended to be less growth promoting and more oriented to goals such as inter-ethnic redistribution of wealth (Booth: 1998), which resulted in rent-seeking activity.

### **C. International Politics and Geopolitics**

The end of the World War II and the dawning of the Cold War brought a significant change in international relations arena. After the liberation, Korea was divided into two parts, North and South. The United States military forces occupied South Korea until 1948 when the government of the Republic of Korea was established (SaKong, 1993: p. 2). Korea geographically is very important for the United States’ political goal in order to prevent the expansion of communism in the Cold War. The United States strongly supported the Korean government, politically and economically.

South Korea, as well as Taiwan, received enormous amount of United States

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<sup>36</sup> Yoshihara categorizes the South East Asian capitalism as a “Crony capitalism and Ersatz capitalism”, and by implication, unsustainable (Booth: 1998).

aid and military assistance. The average annual inflow of aid to Korea from 1953 through 1958 was \$270 million. The strong support from the United States enabled the Korean government not only to maintain basic economic and social order but also make substantial investments in infrastructure development, especially in education (Koo 1987: p.168). As Byung-Kook Kim writes:

“The Republic was, in a word, a product of US foreign policy. The Americans provided a nuclear umbrella, orchestrated a massive influx of international economic aid...The US was a lifeline for Korea, supplying the military, economic, and scientific resources needed for state formation and nation building (Byung-Kook Kim in Diamond and Plattner (eds.), 1998: p. 120).

Until the early 1960s, Korea was one of the largest benefactors of international aid, due to her strategic importance at the center of the international Cold War. During the 1950s, over 60% of imports were supplied by foreign aid, reaching a peak at 85% in 1957.<sup>37</sup>

Woo-Cumings highlights the magnitude of this aid inflow in the following manner:

“From 1946 to 1976, the United States provided \$ 12.6 billion in American economic and military aid to Korea ...No other country in the world received such large sums...with the exception of Israel and South Vietnam. The Korean total of \$ 6 billion in United States economic grants and loans, 1946-1978, compares to \$ 6.89 for all Africa, and \$ 14.89 billion for all Latin America. United States military deliveries to Taiwan and Korea in 1955 – 78 ...totalled \$ 9.05 billion, whereas Latin America combined received \$ 3.2 billion” (Woo-Cumings 1991 in Chowdhury and Islam 1993:

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<sup>37</sup> Ha-Won Jang, *op.cit.*

p.35).

Also worth noting is that nearly all of the American aid to Korea before 1964 was provided on a grant basis, thus making it possible for the country to begin its export-led growth in 1960s without a backlog of debt (Eckert et.al 1990: p. 396). Furthermore Eckert argues that American aid was clearly crucial factor in Korea's postcolonial economic survival, particularly between 1945 - 1950 and in the country's postwar reconstruction after 1953. Indeed, between 1953 and 1962 American aid financed about 70% of Korea's imports and accounted for nearly 80% of total fixed capital formation, mainly in the areas of transportation, manufacturing, and electric power (Eckert et.al 1990: p. 396).

As a result of the American occupation at the end of the World War II and the beginning of Cold War was the decreasing role of the landlord class after the implementation of land reform. In this regard, the success of the American military government was to push for a land reform, which had a profound impact on the class structure of Korea (Koo 1987: p.167).

In fact, aid and military assistance were not the only ways the United States assisted Korean economic development. The United States also gave assistance through loan, foreign direct investment, technology transfer, and access to the U.S. market. All of these provided substantial contributions for the foundation of Korean

economic development in the future (SaKong 1993: p. 96 – 130).

Concerning technology transfer, Eckert (et.al) states that the influx of American capital into Korea has been accompanied by a corresponding flow of American technology and technical expertise. Aid has helped finance technology transfers from American firms and the creation of official research and development organizations like the Korea Development Institute (KDI) and the Korea Institute of Science and Technology (KIST). The U.S. itself has, since 1945, been the primary training ground for South Korean economic and industrial technocrats, many of whom have been supported by aid funds (Eckert et.al 1990: p. 396-7).

Meanwhile, Eckert (et.al) argues that the special U.S. – South Korea relationship also gave South Korea privileged access to U.S. markets. Until the early 1990s, the U.S. more or less accepted South Korean protectionist policies as a necessary part of the growth process and allowed many South Korean export duty-free statuses under the General System of Preferences (GSP), a program instituted in 1976 to promote trade with developing countries (Eckert et.al 1990: p. 397).

Similarly, Wade points out, since Korea and Taiwan had an important role in term of geopolitics view for the U.S., they therefore took on unusually great importance. This reinforced the U.S. concern for their economic growth (more than for Latin America's), a concern that translated into massive aid, good access to the

biggest, richest market in the world, and the U.S. tolerance of their import barriers and state support for the U.S. companies wishing to invest there (Wade 1992: p. 312).

Obviously, due to its geopolitical situation, Korea received enormous amount of United States' aid and military assistance. This condition did not appear in Indonesian case, since its geopolitical position is not as important as that of Korea's. Thus, these advantages, which were gained by Korea, could not be found in Indonesian case.

#### **D. Conclusion**

Korea has historical and geo-political advantages compared to Indonesia. The Japanese colonial legacy in Korea contributed to the foundations for Korea's modern transformation of the economy. The international politics and geo-political situation, which resulted in the U.S. assistance, positively contributed to Korean economic development. This was true particularly in the early stage of its economic development.

The writer admits that these issues are very sensitive and controversial. It is an undeniable fact that Japanese colonization was a dark suppressing period in Korean modern history. Similarly, relating to the U.S. assistance, some might argue that the amount of aid did not contribute anything if the recipient did not have the ability to manage and utilize it in the proper way.

Despite its being controversial, this chapter proposes to provide another important variable that should be taken into account in examining the success of Korean economic development.

## **Chapter V**

### **Conclusion**

The state in Korea and Indonesia played a critical role in economic development. It reflected on the choice of strategy and development plan, the role of technocrats, and the relationship between government and the big businesses. In two cases, economic development became the top priority for the government. In particular, both governments were placing “growth-first” rather than “equity-first” strategy as their priority. In pursuing these goals, political stability and social discipline became an important pre-condition. Therefore, two countries had faith in authoritarianism as the best mechanism to provide a favorable circumstance for economic development.

The governments in two cases have a very important role in defining, generating, and implementing the economic development plan. In this process, government was supported by the technocrats. Besides, government also had a power in controlling the private sector. Clearly, in two cases, state has a very significant role in economic development. However, the result is different. Indonesia’s economic development was not as successful as that of Korea’s. Even though both states were at the center of economic development process, why did the two states produce different results?

This thesis has compared divergent political economy of development

between Korea and Indonesia. In explaining this divergent, the historical-structuralists is used. The historical-structuralists identify macro-historical forces (such as state and social formation, colonial legacies, and geo-politics) and their conjunctural dynamics to the political economy of development.

The findings indicate that; *first*, in spite of the harsh experience during the Japanese colonial rule, the Japanese colonial legacy in Korea contributed for providing positive initial condition for economic development in the post-colonial period. While in Indonesian case, instead of providing positive contribution for economic development, Dutch colonial legacy inherited “the ethnic division of labor”, which resulted in ethnic disparities in income and wealth, and also rent-seeking activity, which eventually hindered economic development process in the post-colonial period. *Second*, Korea’s geopolitical situation and international politics, which resulted in tremendous the U.S aid also, contributed to the success of Korean economic development.

Another findings, by analyzing the role of the state, show that the different result of Korea and Indonesia’s economic development was due to several reasons. *First*, the political leadership commitment to economic development in Indonesian case was only a political jargon and was not followed by the concrete executive action as found in Korea. *Second*, Indonesia did not have a rational and competent



bureaucracy as Korea had. Rather it had a rent-seeking bureaucracy. *Third*, the military in Indonesia has an enormous role not only in politics but also in the economy, while this condition does not appear in the Korean case.

In sum, Korea's economic development is better than that of Indonesia's because Korea consistently follows the expectation of developmental state argument, while Indonesia does not. In this context, MacIntyre writes:

“...countries such as Thailand, Malaysia, and Indonesia comprise an intermediate case between the strong developmental state of Northeast Asia...and the notorious “klepto-patrimonial” regimes of Africa such as Nigeria or Zaire. Their governments are not hopelessly captured and corrupt, but on the other hand they are frequently beholden to sectional interest groups, and tainted by nepotism and cronyism. Nevertheless the Malaysian, Thai, and Indonesian governments have been capable of coherent policy formulation and implementation in the face of external shocks, and have thus been able to maintain the momentum of growth over several decades. In this they resemble Taiwan and South Korea to a greater extent than regimes in other parts of the developing world” (MacIntyre in Booth: 1998).

Nevertheless, the financial crisis of 1997 placed the effectiveness of state's role in economic development into question. The financial crisis started from the massive run on the Thai bath in July 1997 were quickly replicated with variations, in several neighboring countries, such as, Malaysia, Korea, Indonesia, Singapore, and Philippines. Within several months, three of these countries—Thailand, Indonesia, and Korea—had petitioned the IMF for complex financial assistance packages (Pempel, 1999: p.1). It is not surprising; then, the aftermath of this crisis jeopardized

the Asian Miracle. As a result, the developmental state model as the way of the Asian miracle to achieve the remarkable economic growth has been criticized as a significant cause of the crisis.

Since then, there have been numerous critics on the developmental state model, which are mostly rooted in the excessive state intervention in economic development. As Burkett and Landsberg point out developmental state requires an unusually autonomous state, both internally and vis-à-vis other state and multilateral organizations (Burkett and Landsberg, 2000: p. 17). In this sense, the intensifying of globalization and the force of democratization can be regarded as external and internal challenge of the developmental state model.

Globalization usually refers to the advancement of technology, the intensification of capital flow, and the deepening of relationship between nation-states. As Samuel Kim argues globalization is a set of processes of stretching and intensifying worldwide interconnectedness in all aspects of human relations and transaction—economic, social, cultural, environmental, political, diplomatic, and security—such that events, decisions, and activities in one part of the world have immediate consequences for individuals, groups, and states, in other parts of the world (Samuel Kim (ed.), 2000: p. 18). That is why; in the fact of contemporary globalization, as Gereffi mentions, the role of the state in economic development has

become more problematic (Gereffi (in Chan, Clark, Lam, eds., 2000): p. 56-57). The intensification of globalization has made the state's ability to intervene in the economic development become limited. The intensification of globalization has pushed the state to become more liberal or open to the international market force.

Besides the external challenge through the intensification of globalization, the force of democratization also challenged the developmental state model. In the previous part, the writer has already explained that political stability and social discipline was an important pre-condition for pursuing economic growth. In this regard, authoritarianism was believed to be the best way to maintain political stability and social discipline or state cohesion. Thus, in this sense, domestic political democratization could undermine state cohesion and independence of action (Burkett and Landsberg, 2000: p. 17).

The discussion on the challenge of democratization toward the developmental state model also relates with the discussion on the conceptualization of the state in the developmental state argument. Chan et.al argues the conceptualization of the state in developmental state itself appears overly simplistic. The developmental state model failed to uncover the complex and dynamic internal workings of the state structure by depicting the state as an internally cohesive unitary actor, and it also commits the fallacy of reductionism by equating the state with bureaucrats.

However, the state structure is not an internally coherent, unitary entity, but is composed of several distinguishable dimensions: executive leadership, executive-bureaucratic nexus, intra-bureaucratic dynamics and bureaucratic constituents. The cohesion, unity, and dominance of state structure depend on the combination of these dimensions (Chan, Clark, Lam, eds., 1998: p. 10-11). In this regard, Eun Mee Kim points out that democratization signifies openness to and tolerance of divergent groups and their demand. The state is thus challenged to negotiate and bargain with such groups (Eun Mee Kim, 1991: p. 47 – 48).

In the case of Korea and Indonesia, both countries showed that the intensification of globalization and democratization challenged the intervention of the state in economic development. In the occurrence of globalization, the most serious threat comes from the United State government, the IMF, and the World Bank, all of which demand that the East Asian countries liberalize their economies (Burkett and Landsberg, 2000: p. 17).

Meanwhile, concerning the force of democratization, in both cases, the most serious threat comes from the unfortunate part of the people (particularly labor class in Korean case) who have been neglected during the process of economic development. The choice of “growth first, distribution later” strategy resulted in the wide gap of social inequalities. In this regard, borrowing the argument of Hun Joo

Park, the problem of declining social cohesion, which resulted from lack of state intervention to the lives or opinions of ordinary citizen, was a part of dysfunctional of developmental state or (the) disease of dirigisme<sup>38</sup>.

In Indonesian case, as the impact of the emergence of democratization, the demand from the local government to become more autonomous from the central government is increasing. In this sense, the centralized power or top-downism, which has been implemented more than thirty years, seems no longer effective. Democratization, thus, forced the state to be more responsive to the demand of civil society. In other words, following Hun Joo Park's argument, as the political economic system grew more complex and the body politic gained confidence beyond carrying out the production orders, top-downism outgrew its usefulness and hindered flexible innovation and change.<sup>39</sup>

Obviously, the intensification of globalization and the force of democratization have put the effectiveness of developmental state into question. However, it does not mean that the writer is advocating the free-market solution approach, which is requiring "no state intervention", and "opening or liberalizing the market". On the contrary, the writer has faith in the importance of the role of the state

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<sup>38</sup> Hun Joo Park, "Globalization, National Identity, and the Changing Role of the State", paper presented on International Program on Korea's Economic Development and Policy Assignment in Transition Economies, held by Center for Knowledge Partnership, KDI School, September 16-24, 2001, p. 3.

<sup>39</sup> Hun Joo Park, "The Problematique: Faulted Korean Statism", in *Dirigiste Development as Disease: The Political Sources of Financial Policy toward Small Business*, (forthcoming).

in the economic development process.

Following the argument of Hun Joo Park, constructing and institutionalizing a new, transparent, accountable, consensus building, and radically and viably decentralized public policy making process and thereby making the government more honest, upright, and fair as well as kinder, gentler, and smarter (Hun Joo Park: forthcoming) can be seen as a basic idea to revise the developmental state argument.

## Appendices

### Appendix A: The Military-Owned Business Group in Indonesia<sup>40</sup>

Company	Principal Activities
<b>KOSTRAD (Komando Strategy Angkatan Darat, Army Strategic Reserve Command)</b>	
Yayasan Darma Putra Kostrad	Holding Company
Pakarti Yoga	Holding Company
Astra Basic Industries	Trading
Dharma Kencana Sakti	Trading
Federal Dinamika Lestari	Trading
Marga Bharata	Trading
Hela Nusantara Cemerlang	Forestry
Pakarti Wanayoga	Forestry
Tirta Mukti Indah Bottling Co.	Food and Beverages
Aica Indonesia	Chemical
Tokai Dharma Indonesia	Other
Wira Karya Yoga	Construction
Dharma Karya Persada	Real Industry Estate
Pakarti Tata	Real Industry Estate
Pen Asia Express Lines	Real Industry Estate
Asuransi Beringin Sejahtera	Finance/Insurance
Asuransi Wahana Tata	Finance/Insurance
Indosuez Indonesia Bank	Finance
<b>KOPASSUS (Komando Pasukan Khusus, Army Special Force Command)</b>	
Yayasan Kobame	Holding Company
KMP Tribuana	Transportation
Kobame Kopertindo	Other
<b>MABES ABRI (Markas Besar ABRI, ABRI's headquarter)</b>	
Yayasan Mabes ABRI (Yamabri)	Holding Company
Yamabri Dwibakti, PT Utama	Highway Construction
Balai Sudirman	Other
Primasel, PT	Telecommunication
Manunggal Air Service, PT	Other
Joint with PT Elang Mahkota	Internet Services Provider
<b>DEPHANKAM (Departemen Pertahanan dan Keamanan, Ministry of Defense and Security)</b>	
Bank Yudha Bakti	Finance
Asabri, Yayasan Sudirman, Yayasan Maju Kerja	Other
<b>The Army</b>	
Kartika Eka Paksi Foundation	Holding Company
Kartika Plaza Hotel	Tourism/Hotel
Orchid Palace Hotel	Tourism/Hotel
Duta Kartika Kencana Tours & Travel	Tours and Travel
Kartika Aneka Usaha	General Trading
Kartika Buana Niaga	Export – Import
Duta Kartika Cargo Service	Cargo
Kartika Cipta Sarana	Construction
Mina Kartika Samudera	Fishery

<sup>40</sup> This table only presents the involvement of military in business as an institution. There are lots more involvement of the military in business as the individual. For further information, see Indria Samego (et.al.), *Bila ABRI Berbisnis* (The involvement of military in Business), 1998 and Iswandi, *Bisnis Militer Orde Baru* (The New Order Military Business), 1998.

Rimba Kartika Raya	Timber
Mitra Kartika Sejati	Shrimp
Kartika Inti Perkasa	Holding Company
Mahkota Transndo Indah	Holding Company
Tri Usaha Bhakti	Holding Company
Aerokarto Indonesia, PT	Air Service
Aerotografia Pratama, PT	Air Service
Indomas Pratamacitra, PT	Air Service
Mandala Dirgantara, PT	Air Service
Asiagraha Securindo, PT	Finance
Asuransi Cigna Indonesia	Finance/Insurance
Private Development Finance, Co.	Finance
Bank Artha Graha, PT	Finance
Bank PDCFI, PT	Finance
Danayasa Arthatama, PT	Finance
Cilegon Fabricators, PT	Metal Product (Supplier)
Purna Sadhana, PT	Metal Product
Saksi Sakti, PT	Metal Product
Truba Gatra Perkasa, PT	Metal Product
Bakti Wira Husada, PT	Trading
Kartika Paksi Perkasa, PT	Trading
Prasada Samya Mukti, PT	Trading
Sinkona Indonesia Lestari, PT	Trading
Kultujaya Tri Usaha, PT	Trading
Lukita Wahanasari, PT	Trading
Indotruba Barat, PT	Plantation
Indotruba Tengah, PT	Plantation
Indoruba Timur, PT	Plantation
Karko Kultura Utama	Fishery
Minamulia Djaya Bhakti	Fishery
International Timber Group, PT	Forestry
Sumber Mas Timber, PT	Forestry
Sumber Mas Indonesia, PT	Forestry
Taliabu Lina Timber, PT	Forestry
Kayan River Indah Timber Plywood, PT	Wood
Kayan River Timber Product, PT	Wood
Meranti Sakti Indah Plywood, PT	Wood
Panca Usaha Palopo Plywood, PT	Wood
International Timber Corp. Indonesia (ITCI), PT	Wood
Truba Anugerah Elektronik, PT	Manufacturing
Truba Gatra Pekrasa, PT	Manufacturing
Truba Sadaya Industri, PT	Manufacturing
Truba Raya Trading, PT	Textiles
Sinkoma Indonesia Lestari, PT	Pharmaceutical
Truba Daya Konstruksi, PT	Construction
Truba Jatipurna Eng.	Construction
Truba Jurong Eng., PT	Construction
Truba Jurong Eng., Pte., Ltd.	Construction
Truba Inti Development, PT	Real Industrial Estate
Pondok Indah Padang Golf, PT	Real Industrial Estate
Sempati Air, PT	Transportation
Universitas Ahmad Yani, Bandung	Education
Private Development Finance Co. Ofina	Finance
<b>The Navy</b>	
Yayasan Bhumyamca	Holding Company
Admiral Lines	Shipping
Jasa Bhakti Yasbhum	Other
Sekolah-sekolah Hang Tuah	Education
Bhumiyamca Film	Other



Karimun Kecil	Oil
Bank Bahari	Finance
Pelayanan Nusantara Bahari	Finance
Bintan Beach International Resort	Tourism/Resort
Pulau Bayan Marina Club	Tourism
Marintour Ina	Tourism
Yala Gada, PT	Trading
Yala Trade	Trading
Yala Trading	Trading
Yala Ladang Kurnia	Trading
Sangkuliang Bhakti	Wood
Sangkuliang	Forestry
Samudera Gunadharma	Construction
Yala Nautika	Construction
Yala Perkasa International	Construction
Yala Persada Angkasa	Construction
Bhumiyamca Sekawan	Property-office/Shopping Centre
Adhini Barna Lines	Transportation
Jasa Transportasi Yala Githa	Transportation
PBM Adhi Gunung Persada	Transportation
PBM Bintang Upaya Samudera	Transportation
Halmahera Kayu	Forestry
<b>The Air Force</b>	
Yayaysan Adi Upaya	Holding Company
Bank Angkasa	Finance
Dirgantara Air Service	Cargo
Angkasa Pura	Aero Service
Cargo Dirgantara	Cargo Ground Handling
Mediarona Dirgantara, PT	Publisher
Kreshna Puri Dirgantara, PT	Telecommunication, general trading
Konstruksi Dirgantara, PT	Engineering
Uoaya Guna Dirgantara, PT	Cargo
Padang Golf Halim, PT	Property
Surya Dirgantara, PT	Transportation
Angkasa Wana, PT	Forestry
Jasa Angkasa Semesta, PT	Aero Service
<b>The Police</b>	
Yayasan Bhayangkara	Holding Company
Yayasan Brata Bhakti	Holding Company
Tansa Trisna, PT	General Trading, Wood, Chemistry, Shrimp
Bhara Induk, PT	Textiles, Forestry
Braja Tara, PT	Transportation
Bhara Union, PT	General Trading
Braja Tama, PT	General Trading, Forestry, Plantation, Hotel
Asuransi Bhakti Bhayangkara, PT	Finance/Insurance
Sapta Pursa Mandiri, PT	Finance/Insurance
Bank Yudha Bhakti	Finance
Gedung Bimantara	Property

Source: *Modified from Susanto and Supriatma, ABRI Siasat Kebudayaan 1945-*

1995 (*Cultural Deception of ABRI 1945 – 1995*), Penerbit Kanisius-Lembaga Studi  
Realino, Yogyakarta, 1995 and  
[http://www.munindo.brd.de/artikel/artikel\\_02/artikel\\_02.html](http://www.munindo.brd.de/artikel/artikel_02/artikel_02.html)

## Appendix B: Major Business Conglomerates in Indonesia

<i>Conglomerate</i>	<i>Principal Owner<sup>a</sup></i>	<i>Principal activities</i>	<i>Turn-over Rp<sup>b</sup></i>	<i>Ranking</i>		<i>Number of Companies 1993</i>
				1993	1987 <sup>b</sup>	
Salim	Liem Sioe Liong	Cement, finance, autos, agro-industry	18,000	1	1	450
Astra	Prasetia Mulya Group and public	Autos, estates	5,890	2	2	205
Lippo	Mochtar Riady	Finance	4,750	3	4	78
Sinar Mas	Eka Tjipta Widjaja	Agro-Industry, pulp and paper, finance	4,200	4	3	150
Gudang Garam	Rachman Halim	Kretek cigarettes	3,600	5	5	6
Bob Hasan	Bob Hasan, Sigit Harjojudanto <sup>s</sup>	Timber, estates	3,400	6	12	92
Barito Pacific	Prajogo Pangestu	Timber	3,050	7	26	92
Bimantara	Bambang Trihatmodjo <sup>s</sup>	Trade, real estate, chemicals	3,000	8	13	134
Argo Manunggal	The Ning King	Textiles	2,940	9	15	54
Dharmala	Seohargo Gondokusumo	Agro-industry, real estate	2,530	10	14	151
Djarum	Budi and Micahel Hartono	Kretek cigarettes	2,360	11	6	25
Ongko	Kaharuddun Ongko	Real estate, finance	2,100	12	11	59
Panin	Mu'min Ali Gunawan	Finance	2,080	13	10	43
Rodamas Surya Raya	Tan Siong Kie Soeryadjaya	Chemicals Property, estates, trade	2,000 1,980	14 15	18 n.a.	41 242
Jan Darmadi CCM/Berca	Jan Darmadi Murdaya Widyawimarta Poo	Real estate Electronics, electricity	1,940 1,800	16 17	9 n.a.	60 32
Humpus	Hutomo Mandala Putra <sup>s</sup>	Oil, trade, chemicals	1,750	18	23	11
Gadjah Tunggal	Sjamsul Nursalim	Tyres, finance, real estate	1,650	19	24	49
Raja Garuda Mas	Sukanto Tanoto	Pulp and rayon, finance	1,590	20	34	66
Gemala	Wanandi	Chemicals, autos	1,550	21	7	78
Pembangunan Jaya	Several	Real estate	1,390	22	n.a.	57
Metropolitan Soedarpo	Several Soedarpo Sastrosatomo <sup>p</sup>	Real estate Shipping, trade,	1,200 1,200	23 23	n.a. 16	57 35

Tahija	Julius Tahija <sup>P</sup>	pharmaceutic als Finance	1,200	23	n.a.	39
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<sup>a</sup> In some cases owned by the family of this individual. ‘P’ denotes *pribumi* ownership; otherwise the conglomerate is majority or solely non-*pribumi* owned. ‘S’ denotes Soeharto’s son (*italic added*).

<sup>b</sup> n.a. indicates the conglomerate was not ranked in the top 40 in 1987.

Source: Hill. *The Indonesian Economy Since 1966*, Cambridge: Cambridge University Press, 1996, p. 111.

### Appendix C: Cabinet Members of Military Background (% in the whole cabinet members) in Korea

Rhee Gov (1948 – 60)	Jang Gov (1960 – 61)	Park Gov 1 (1963 – 71)	Park Gov 2 (1973 – 79)	Chun Gov (1980 – 86)	Roh Gov (1987 – 93)
5.1	0	35.4	31.7	24.5	14.7

Source: Kie-Duck Park, “Civil-Military Relations in Korea”, in

<http://www.pdgs.org/partners/korea.htm>

### Appendix D: Congressmen of Military Background (% in whole Congress) in Korea

Congress	Percentage	Congress	Percentage
1 <sup>st</sup> Cong. (1948 – 50)	0	9 <sup>th</sup> Cong. (1973 – 79)	22.4
2 <sup>nd</sup> Cong. (1950 – 54)	1.0	10 <sup>th</sup> Cong. (1979 – 80)	16.0
3 <sup>rd</sup> Cong. (1954 – 58)	2.4	11 <sup>th</sup> Cong. (1981 – 85)	9.4
4 <sup>th</sup> Cong. (1958 – 60)	2.1	12 <sup>th</sup> Cong. (1985 – 88)	12.9
5 <sup>th</sup> Cong. (1960 – 61)	4.2	13 <sup>th</sup> Cong. (1988 – 92)	6.0
6 <sup>th</sup> Cong. (1963 – 67)	17.7	14 <sup>th</sup> Cong. (1992 – 96)	15.0
7 <sup>th</sup> Cong. (1967 – 71)	21.1	15 <sup>th</sup> Cong. (1996 – )	5.0
8 <sup>th</sup> Cong. (1971 – 72)	17.2		

Source: Kie-Duck Park, “Civil-Military Relations in Korea”, in

<http://www.pdgs.org/partners/korea.htm>

### Appendix E: Members of People’s Consultative Assembly Based on Fraction in Indonesia

Period	Military	Karya Pembangunan	PDI	PPP	Region	Total
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1972 – 1977	230	392	42	126	130	920
1977 – 1982	230	381	39	131	139	920
1982 – 1987	230	395	32	123	140	920
1987 – 1992	151	548	61	93	147	1000
1992 – 1997	150	524	84	93	149	1000

Source: <http://www.mpr.go.id>

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