Strong State and Sustainable Development: Post-Independence Growth in India and Indonesia.

Gamzikov, Jaroslav

https://doi.org/10.15017/3000233

出版情報：経済論究. 106, pp.11-30, 2000-03-31. Kyushu Daigaku Daigakuin Keizaigakukai

Strong State and Sustainable Development:

Post-Independence Growth in India and Indonesia.

Jaroslav GAMZIKOV

Introduction.

The development problem has been important up to the present and its commonness has been calling for both long lasting elaborated research efforts and drawing up of governments' policies. Since the formation of the UN and de-colonisation the economic development of "the third world" has been considered crucial for the steadiness of the whole planet's economic development. However today we still can witness poverty and backwardness in the countries where development was declared as the ultimate aim decades ago and where both state and academic institutions have done their best to make the process vital. Meanwhile, the world economy in general continues to develop and it has been becoming obvious that revolutionary technology, excessive investments, globalisation of international economic activities can co-exist with underdevelopment and even economic degradation.

Today there are chances to see fruits of different countries' developing strategies varying in pretentiousness, pattern, and implementation. It is possible to make general assumption that minimum inner and outer stability and the governments able to govern and determined to act are the conditions for achieving visible results. However, even the determined development policy can take the wrong direction. There are no universal recipes but some key points of models used are being highlighted and one of them is manipulation with the economy's degree of openness. Though exclusiveness of import-substitution/export-orientation or inward looking/outward oriented opposing alternatives has been criticised (Raj 1976: 231i), it seems that practical evidence and scientific research stand for this duality (Sinha and Sinha, 1996; Clark, Sawyer and Sprinkle 1999). Then it is promising to look at causalities between persistence in governing of either a closed or an open economy and growth fluctuations.

The paper describes real countries travelling between different models of economic development and put stress on the effective state economic policy that allocates scarce and abundant resources and positions countries in global world. We deal with countries of market economy, diversified industry, big poor multiethnic and multilingual population and strong governments located in the South of Asian continent, namely India and Indonesia. In both countries the profound planning development strategies have been implemented since independence. The governments initially tried to promote growth on self-reliance path and accelerate capital formation. Considerable investments of scarce capital were made in infrastructure, capital and investment goods industries that resources from agriculture had to be moved to. Public sector was considered to become sizeable tax base and locomotive of growth for private enterprises. Governments generally practised trade restrictions and nurtured industrialisation was to be a sign of independent national growth. Later, reverse reforms towards market and liberalisation took place and nations tried to explore openness to bring desirable growth[1]. Would it be the sharpest curve of the development strategy graphic or the closure of the circle figure? Are the ultimate recipes really visible? It will help us to answer these questions if we have a look at the chronology of the process. Surely pre-conditions, circumstances and dynamics of the process vary in two countries, but a number of comparable similarities persist, thus overall observations promise to be of some interest.

The First 20 Years[2].

Relative institutional complexity and sophistication of economy that for a long time served as a substantial diversified market within British colonial empire seemed to be sound base for implementation of the large scale development strategies in India. Indonesia in contrast was rather typical colony with distinct agricultural and natural resources extraction specialisation, minor industry and comparative absence of trained native bureaucracy. In their most precious overseas possession[3] Dutch led much more paternalistic policy and did not promote competition for they had smaller fiscal interests in Indonesia than British in India. With bright exception of Muslim merchants' *Sarekat Islam* movement strong pro-independence political movements and powerful bourgeoisie were in shortage in Indonesia and nation unity still had to be achieved. Indian independence was a result of long and persistent struggle inspired by the true leaders of the nation and as early as in the 1920s some efforts had already been put into thinking over Indian post-colonial economical future. The World War II that brought slight economic revival to India (Booth 1987: 9), turned Indonesia into re-colonisation and instability. Hence changes were fast and turbulent there and revolutionary war of 1945–1949 brought new aggressive leaders spiritually affected with radical Muslim and communist ideas (Schlossstein 1991: 47).

Elite in both countries had admiration for socialism, but this ideology had much deeper roots in India and for a long time was a core of independence movement. In Indonesia during early years of Sukarno's presidency even political parties supporting private business had to favour the concept of the strong state, and socialistic issues were widely spread among government officials. However in a country with Chinese minority's dominance in sectors free of European control nationalist issues proved to be stronger. As barely satisfactory results of the first planning programmes became visible, romantic socialists similar to those who occupied Indian National Planning Agency were gradually oppressed (for growth figures during the planned periods see Table 1). Issues of independence and national sovereignty still played very important role and promotion of national businesses that were supposed to replace Dutch ones was the central point of development policy. Except for common declarations to give up colonial trade model the country's economic placing in the world was not much considered at that time The profound "return" of socialism in Indonesia in 1959 marked with sacrificing of national democracy institutions to 1945 Constitution and inauguration of "Guided Democracy", was proclaimed to a great extent to introduce the policy of "Guided Economy" and enhance the power to lead it. Self-reliance and social justice were being embodied in promotion of heavy industry and co-operative movement. National Planning Board was established in 1959 and populist Eight-Year Overall Development Plan was launched in 1961 to be successfully shelved in 1964 and replaced by policy of even less foreign capital and more import substitution by state corporations. Foreign assets were consecutively nationalised to free the space for national businesses and FDI were barred from accustomed mining, agriculture, and land ownership. Meanwhile mounting political instability and overall economic distress[4)] caused by chaotic state regulation policy, inflation, and growing international debt streamed to political violations of 1960s that put decided stabilisation policy of the "New Order" on stage.

In first post-independence years India seemed to have best prospects for achieving economic growth among developing nations. National Planning Agency, founded in 1950 had a privilege to be officially headed by prime minister. Hence, since the very beginning planning policy had being treated favourably and responsively. Self-reliance and independence were also issues of utter importance but Indian government had generally much more space for economic manoeuvring. We can name some crucial factors that in contrast with Indonesia were favouring Indian planners at that period: a) the diversity and stability of economy; b) the diversity of national market; c) the diversity of infrastructure facilities; c) absence of external public debt; d) availability of inner as well as outer investment resources; e) strong national entrepreneurs (e.g. not only countrymen, but also non-Chinese in case of Indonesia); and finally f) inherited strong governance system, that encouraged the rulers to have experiments finished not only in draughts.

If Indonesia had extremely scarce financial resources to invest and distribute, India's resources were just deficit. Although public investment during the First Five Year Plan (FYP) was less than planned, national income

Table 1.

Rates of Growth During Planning Periods, %			
Indian *Five Year Plans and Annual Plans*		Indonesian *Plans* and *Repelitas*	
I *FYP* (1951/52-1955/56)	3.6	5.6	*Urgency Plan* (1951-1955)
II *FYP* (1956/57-1960/61)	4.0	1.4	*Five Year Plan* (1956-1960)
III *FYP* (1961/62-1965/66)	2.5	1.9	*Eight Year Plan* (1961-1968)
Annual Plan (1966/67-1968/69)	4.1	-	-
IV *FYP* (1969/70-1973/74)	3.4	7.3	I *Repelita* (1969/70-1973/74)
V *FYP* (1974/75-1978/79)	5.2	6.9	II *Repelita* (1974/75-1978/79)
Annual Plan (1979-1980)	-5.3	-	-
VI *FYP* (1980/81-1984/85)	4.4	4.6	III *Repelita*(1979/80-1983/84)
VII *FYP* (1985/86-1989/90)	4.9	4.8	IV *Repelita* (1984/85-1988/89)
VIII *FYP* (1992/93-1996/97)	6.2	6.9	V *Repelita* (1989/90-1993/94)

Notes: 1) FYP is for Five Years Plan; 2) The Indian plans: data refer to annual average growth of GNP in 1970/71 prices up to IV FYP. V FYP, Annual Plan and VI FYP growth data refer to GDP data; the VI FYP data are preliminary; 3) Indian VII and VIII FYPs' data are NNP growth rates during the periods; 4) The Indonesian plans: data refer to annual average growth of GNP in constant 1955, 1960 and 1973 prices up to the II Repelita, later data refer to growth of GDP; 5) Economic Urgency Plan data refer to 1953-1955; 6) V Repelita's data refer to preliminary results of 1993.
Sources: Compiled from Booth (1987: 30); Hill (1996: 97); Nayar (1997: 56).

growth surpassed expected figures. Agriculture effectiveness, interregional balance and employment problems were emphasised. Encouraged by early success, Indian planners launched ambitious Second FYP (1956/57-1960/61), that stood as a classic piece of rapid heavy industrialisation breakthrough effort. Fair financial situation in the beginning of reforms and political stability let nurse public enterprises and allowed to mobilise considerable investment resources with outer borrowing and inner deficit spending[5]. Those resources flew to heavy industry, investment goods industry and communications and caused incredible growth justifying the right choice of the self reliance development model. Import substitution of almost everything was supported by high import tariffs which, in turn, isolated industries from international competition and through their gradual weakening led to the growing dependence on imported technology in the future. The supply of capital intensive products, such as machinery, was not followed by the demand from stagnant consumption goods production sector. The private sector was meant to take this burden but its expansion was complicated. Since 1951 the state proclaiming the best usage of scarce resources started to license any industrial activity and control not only entry into an industry, but also capacity expansion, technology, and import content.

That was the time when the problem of the last link of the demand chain began to show: income per capita stayed low and Indians had to spend money on food rather than bicycles or radios.

"Socialist pattern of society" paradoxically tended to pay much less attention to the sustainable agriculture growth that was the source of life for majority of the nation; but as Raj (1976) pointed out the dynamics of such growth crucially influenced industry via performance of small enterprises. Absence of really distributive land reform made it hard to expect changes in old income distribution scheme, rise in cultivation efficiency[6] and emerging of villagers' private savings. Agriculture was mechanically viewed as a concentration of necessary resources and while private industry was favoured as a tax bringing producer of consumption goods agriculture was left on its own. Investments in irrigation and fertilisers subsidies did not help much because public irrigation was ineffective and fertilisers went to rich farms, that enjoyed excess landless labourers supply and generated demand for luxuries but not for necessities.

First phase of post-independence growth ended displaying that neither capital intensive state industries, nor private small and cottage industries were able to absorb population growth and radically transform the economy. Border hostilities, intensifying inflation and great draughts of 1965-1966 stressed bankruptcy of both ruling politicians and their economic concepts. Then planning in India was temporarily suspended and the country entered (in 1966) liberalisation phase. Interestingly, the government together with influential international financial organisations proposed import liberalisation and simultaneous devaluation of rupee as the stimulus to the economic growth on the whole and to utilisation of excess capacity in particular, but in reality it neither increased export earnings nor insulined industry with enough materials and intermediate goods and worsened the problem.

The Second 20 Years.

For all post-war period authoritarian Indonesia had more capabilities to reform agriculture, enforce fiscal discipline and take other unpopular measures than democratic India. Hand of the state trembled only occasionally here. The "New Order" government initially moved towards liberalisation and relied on market forces. Foreign investments were welcomed, some nationalised enterprises had their owners back and the government showed its willingness to pay or reschedule old debts and, also, make new ones, which were badly necessary for economy's reforming. Balanced budgeting and setting of high interest rates on time deposits encouraging savings threw inflation rates down.

New bureaucracy tended to use old practices to realise new policies of economic orthodoxy, therefore mobilising and allocating of resources remained the state exclusive prerogative. However there were no actual contestants. Manufacturing sector was truly tiny for a country with huge and constantly growing population, light industries and small scale firms dominated (Hill 1996: 152). The government reformed public sector enterprises concentrated near major cities into limited liability corporations for the sake of efficiency. And some ambitious heavy industry and energetic projects launched before 1966 were to be postponed for political reasons and preferences of consumption goods production and stimulation of exports earnings.

The "New Order" brought unexpectedly quick recovery that was the start of long-lasting astonishing, sometimes double-digit, rates of growth. First success of 1968–1969 strengthened new generation of nationalistic neo-orthodox technocrats. As well as preceding ideologists of self-reliance they treated pure economic concepts as the most favourable framework independent Indonesia had better develop within. Hence, new elite could do well with planning and the newly-founded National Planning Agency produced the First *Repelita* (1969/70–1973/74) in 1969. Contrary to Indian practice *Repelitas* were from the very beginning filled with achievable aims[7].

Reasonable aspirations of Indonesian planners were rewarded when oil shocks of the 1970s poured the country over with sudden export revenues. However oil prices were hardly predictable (Hill 1996: 95-96), and complicated planning in a country with such a high (and increasing) non-manufacturing export share in GDP formation. Excess money not only helped to continue tight financial policy but let put social justice on the agenda again and provoked return to more restrictive policy towards FDI and controversial promotion of public sector by the middle of the 1970s. Nevertheless, private capital was still not mature enough not only to lead the growth but also to be taken into account. Though the Second and the Third *Repelitas* (1974/75-1978/79 and 1979/80-1983/84 respectively) backed agriculture and labour intensive industries, also fighting against regional disparities, credit policy was implemented through the state owned banking institutions and heavy manufacturing had unofficial support. While household savings in generally poor agrarian country were still low and tax collection rates were among the lowest in Asia non-manufactured export earnings played ultimate role in subsiding and investing. Growth in production of steel, fertilisers, cement and oil refinery was being generously sponsored with the exception of 1977–78 when scandal disclosure of enormous external debts made by state owned oil empire Petramina caused distrust for investing in large-scale state projects. Nevertheless, economical trends were discarded with abundant outcomes of the unexpected second oil shock.

Doubtful though initially successful guidance practices were not the only problem of the Indonesian state. Economy inefficiency, financial instability, rice shortages, regional disparities and unemployment were fought with during the 1970s. As within self-reliance framework investments from abroad gradually became restricted domestic investments grew and share of agriculture in GDP shrank in favour of manufacturing and services. The government favoured large scale enterprises with growing capital-intensity restricting labour force increments and forcing former villagers to cottage industries. Labour intensive production of consumption goods rose substantively as well as of investment and capital goods, but its growth was more due to the satiation of inner market with cheap commodities than to export expansion. Despite rapid technological changes most of Indonesian manufactured goods were of poor quality and could not enter international markets. At home national companies felt safe under protection of high trade barriers. Obviously, import bans and restrictive programmes such as of "deletion" of foreign components in manufacturing (Fane 1999: 655-656) also complicated purchase of foreign modern technology and equipment. Generally, "Protection of importables rose while promotion of exportables was low or even negative." (Jomo *et al*. 1997: 130). To the great extent it was oil that determined the situation on the world market till the beginning of the 1980s, and it was oil that positioned Indonesia there.

Still one supreme aim was undoubtedly achieved by India in the 1970-1980s when increase in food grains production surpassed the growth of population. In addition to new varieties, cultivation methods, widespread of irrigation that were provided by the "Green Revolution", the government heavily spent on annual crop purchases and fertilisers subsidies. The planners had to omit old ideas to keep agriculture prices low to speed industrialisation up, but still the course to state sponsored industrialisation survived and flourished in the 1970s. After some populist nationalisation acts and maintenance of the political stability of the late 1960s the government announced the Fourth FYP (1969/70-1974/75) that concentrated on agriculture, increase in household incomes, income disparity reduction and overall development issues. Despite the fact that plan supposed completion of previous industrial projects and investments to agricultural related machinery, fertilisers and, noticeably, increase in production of consumer goods, share of industrial value added formed by capital industries expanded in inertia[8]. Since then it became also noticeable that "in fact, the five years plans were reduced to a kind of commentary on the economic development than took place regardless of the plan." (Rothermund 1988: 149-150). While the Second FYP was inventive and determinative, later Indian FYP lacked far-sighted revolutionary concepts and creativity and simply tried to predict the way country should better go in the nearest five years. The Fifth FYP (1974/75-1978/79) which was started during severe inflation caused by the first oil shock, served as a clear example of superficial secondary paper advocating more self-reliant growth, higher efficiency, less unemployment and regional disparities and stress on agriculture, key and basic industries.

India had no such abundant and provisionally expensive natural resources as Indonesia did, but it completed creation of substantial and diversified industrial base in the 1960s and the development financing has since been supplied with accumulated capital assets. During the Fifth FYP new restrictions were put on non-technology transferring foreign investments and state inclined to direct all FDI inflows to manufacturing sector. Simultaneously the government of India took some steps to encourage outward activities by Indian corporations, avoiding extra outflows of still scarce capital and stressing export promoting. One could observe steady growth of share of manufactured goods and also machinery and transport equipment particularly in total exports in the 1970s, but it is hard to ignore the fact that Indian share in the world export shrank twice between 1968 and 1981 (Majumder 1991: 226-229). To the date capital and intermediate goods production which hardly got away of import-substitution pattern fed the domestic market up and problem of rising capital output ratio and unutilised capacity in manufacturing became evidently striking[9] and has drawn attention ever since (Raj 1976; Chaudhuri 1979: 158-163; Naidu 1988: 9-10). In 1980 public sector accounted for 66% of total fixed capital and 27% of total employment, but just 25% of value added (Kamath 1993: 237).

The "Green Revolution" of the 1970s mostly brought wealth to rich villagers and population growth concealed increase in per capita income. Not taking public enterprises, private industrial ones as well as their Indonesian counterparts enjoyed an umbrella of import restrictions and assisted in building of an oligopoly structure of economy that oppressed competition since then (Majumder 1990: 147-148, Neogi and Ghosh 1998: M-23 -M-24). Huge and growing market of undemanding local customers allowed private companies to forget innovations and stress on concentration of production of low technology products. Thus planning unintentionally caused emerging of economies on scale in all sectors of Indian industry, not counting unofficial small and cottage businesses, but low efficiency spoiled rare merits[10].

The finance situation was troublesome in the beginning of the 1980s. Plus to the heavy burden of agriculture, steel and exports subsidies oil imports amounted 41% of total Indian imports in 1980 (Rothermund 1988: 154). While rate of tax and customs collection stayed traditionally low money supply (M1) steadily grew and inflation trends became more profound. Still plentiful yields helped to keep economy on feet and new government decided to make some steps towards exports promotion, reduction of import tariffs to sharpen domestic competition and cutting technology gap via imports and foreign investments. The cabinet managed to improve tax collection after tax cuts and revised public investments policy.

India enjoyed economic revival before and during implementation of the Seventh FYP (1985/86-1989/90) with buoyant demand caused by mostly high-yield years (with exception of 1987 drought), widening capital market and quantum raise in industrial production. However pronounced modernisation continued to remain capital intensive and was becoming import intensive due to equipment and technology purchases. Liberalisation of trade predictably favoured foreign importers and enormously distressed domestic manufacturers, whose lobby began to suppress state initiatives. New course was also criticised by development ideologists since it somewhere sacrificed labour intensive technology and broke the everlasting issue of social justice. Finally serious threats of external debt's increase and rise in inflation gave birth to the new government just before the discussion on the new FYP started. The Eight FYP was scheduled to be launched in 1990 but had poor fate. The prime-ministers changed twice more and harsh and unprecedented series of reforms took place later.

The Third 20 Years.

The "New Order" model growth had serious complications to be dealt with. But problems such as of inherent increasing public spending, weakness of private enterprises and inadequate character of the public ones were not solved till the painful crisis of 1982-1986.

Two enjoyable Indonesian achievements of the early 1980s, namely decrease in average fertility rate and self-sufficiency in rice were soon shadowed with some grievous external events. Oil prices stagnated in the beginning of the 1980 and then fell. In addition, rises in world real interest rates and in the value of yen in which Indonesians served nearly half of their debt buried early economical measures. Indonesia managed to survive those disasters[11)] because of the prudent and decisive government policy. Rupiah evaluation was made in 1978 (quite anticipatory), 1984 and 1986. Budget spending was cut and with the help of international financial organisations a number of initiatives covering almost all aspects of national economic life were presented throughout the 1980s (Winters 1996: 156-157). The sacrifice of some IV Repelita's objectives was the price for making these initiatives workable.

The restructuring measures were so crucial for further development that popular concept emerged that the second half of the decade was the time when the country really started to catch up with admitted ASEAN leaders: Malaysia and Thailand. Government have relaxed requirements for foreign investors since then but made a short break during 1989-1992 period, when boom in domestic and foreign investments was registered. Sometimes such relaxes happened almost simultaneously with Indian ones (Lecraw 1996: 327-330; Kumar 1996: 372-373). The government progressively withdrew itself from involvement in directly productive activities by privatising public enterprises and also tried to decentralise public planning and administration down to the level of provinces and cities. As for the outcome, though manufacturing response was slower than that of trade and finance due to the order in which deregulation had been happening, non-oil exports rates were markedly increasing by double digits in 1983-1989 period and export-oriented industries have started to lead productivity's rise (Sjöholm 1999a). Not ignoring the fact that still there is co-existence of competitive outward oriented enterprises (usually highly concentrated) that use modern technologies and equipment, and more traditional small-scale businesses basically catering to the domestic market, one can see ripe fruits of Indonesian industrial development.

Luckily Indonesia finished the first phase of import substitution before external shocks jeopardised state's ability to invest enormously in public enterprises. Protective trade barriers had been being removed slowly. Gradual encouragement of private business' expansion and investments, strong promotion of export oriented production and stimulation of domestic demand for domestic goods did quite well in boosting national manufacturers. Inner demand continued to grow further after the middle of the 1980s as less Indonesians remained poor and unemployed. Modernisation of economy was happening surprisingly fast and bright economic indicators impressed foreign observers and inspired countless writings on the subject. However, while putting aside current turbulence in the country, there is a long-run question: will the latecomer be able to switch from exploitation of existing comparative advantages to the creation of the new ones ?

As state planning was less associated with numerous bureaucrats which lost touch with people's needs like it was in India the state had always heard less complains for *Repelitas*. Political cataclysms for a long time passed Indonesia by and the second President made the state's ideology first dominant and then exclusive. Both India and Indonesia are ethnically, linguistically and religiously colourful; corruption, income distribution disparities, discrimination, regional tensions and separatist movements are inherent to these countries. But cruel oppression of many annoying obstacles had until recently made Indonesian "statist-nationalism" able to perceive and achieve practicable goals voluntary using instruments regardless of their origin, reputation and controversy[12]. Hence, practice of economic planning had good fate in the country and would rather not be disrespected in the perspective.

For all time since the middle of the 1960s Indonesia has been steadily integrating into international markets and some may call it return to outward looking position of pre-independence period. From the beginning it had excesses of labour and natural resources but though such endowments initially provoked ideas of full self-reliance, Indonesia luckily changed the course just not to miss the train. Though sometimes extreme pressure was necessary to have the development course corrected authoritarian character of governing always let fast reforms be completed. However maintained openness[13] also proved to have a reverse side during the outbreak of Asian financial crisis of 1997 when businessmen borrowed outer short time money too fast and more money from money makers was offered during the boom period. Since striking and gloomy multiplying evidences of Indonesian crisis shocked public and world financial markets common and country specific causes have been searched for (McLeod 1998: 916–922; Sadli 1998, etc.). Undoubtedly the crisis outcomes need very elaborated analysing, hence we put these immensely interesting issues aside of the current paper.

It was not economic underdevelopment that put wide scale reforms on stage in India in the middle of the 1980s and in the 1990s; pace of development impressive in the 1980s, did not trouble politicians and economists either. It was rather spread of disillusion in the core of national development strategy that called for reformers. At the time it became evident that international comparison brought lamentable conclusions. Korea had also tried to build heavy and chemical industry but had overtaken, Southeast Asian countries initially had bet on light industries and had overtaken and giant and populous China had rapidly been modernising and overtaking. Unlike in Indonesia, Indian gurus had avoided unsightly disavowing, and inspiring influence of Nehru's vision of state and Mahalanobis' vision of economy had been determining the fate of the country for decades.

Notably, inherited planned industrialisation's fruits have put serious obstacles for later modernisation. New projects that applied new technologies have been getting stuck with obsolete industrial base that is still characterised with cost ineffectiveness, high energy and material consumption and excess employment. Considerable outer borrowings of the 1980s and inner financial imbalance caused severe crisis in 1990/91 and forced government to put old dogmas aside and accept macro-economic stabilisation programme supported by international financial organisations.

Within the New Industrial Policy that had to be announced instead of the troubled Eight FYP in 1991 Rupee was devalued twice and privatisation and liberalisation of economy started. Privatisation had very modest support of population and proceeded under heavy pressure from organised labour[14], bureaucracy, virtually all opposition parties and laissez-faire antagonistic economists[15]. Congress Party minority government and multiparty coalition later led persistent but cautious reforming policy and got supporters due to decentralisation of power and transparency of state's policy. While capital market is traditionally weak private enterprises have since been encouraged to lead the way of national growth by modernising, competing, expanding, accumulating and investing. Despite reforms' costs such as falls in domestic savings, capital formation,

Table 2.

Two Countries in Figures		
	India	Indonesia
Area, million km2	3.29	1.94
Population, million (mid-1998)	979.7	203.7
Poverty rate, %	35 (1998)	11 (1996)
Fertility rate (1992)	3.7	2.9
Adult illiteracy rate, % (1995)	48	16
GNP per capita,	430 (1998)	880 (1994, PPP)
Annual Average Growth of GNP per capita in 1988-1998, %	3.8	4.8
Annual Growth of GDP, %	5.0 (1998)	8.1 (1995)
Sectors Share of GDP, %		
Agriculture	27.5 (1998)	16.1 (1997)
Industry	26.1 (1998)	44.3 (1997)
Services	46.4 (1998)	39.6 (1997)
Average annual growth of industry, % (1997)	6.0	5.2
Share of Public Sector in GDP, % (1995/96)	26.2	na
Share of Public Sector in Gross Domestic Capital Formation, % (1995/96)	29.0	na
Domestic Savings to GDP, % (1997)	19.6	31.5
Tax to GDP, % (1996/97)	16.8	11.3
Total Debt to GDP, % (1997)	23.5	63.1
FDI Inflow, million US$	3525 (1998)	4677 (1997)
Average annual balance of trade, million US$ (1993-1996)	-2810.5	6987.3
Export Value of Manufactured Product, million US$ (1996)	23.40	28.64
Export Value by Technological Categories, % (1996)		
Resource-based	31.1	35.0
Low-technology	52.3	41.9
Medium-technology	13.1	8.5
High-technology	4.4	14.7

Notes: 1) GNP per capita: GNP is by the Atlas method; PPP stays for Purchasing Power Parity; 2) Growth of GDP: Indonesian GDP is real GDP; 3) Sectors Shares of Indonesian GDP are at current market prices; 4) Tax to Indonesian GDP Ratio: GDP is non-oil GDP, tax revenues do not include regional taxes and retributions; 5) Share of Indian public sector in GDP is in current prices and of quick estimates.

Sources: Compiled and calculated from: Statistical Abstract India 1997, vol. I and II (1997: 3, 484); Statistik Indonesia 1997 (1997: 6, 548-549, 579, 596); data downloaded from the World Bank Internet site http://www.worldbank.org/html/extdr/regions.htm; Jones and Visaria (1997: 7); Nayar (1997: 59); James (1998: 228); data downloaded from The Indonesian Ministry of Finance Internet site http://www.depkeu.go.id/information/berita/indikator/economic.htm.

agriculture investments and unavoidable rise of inflation and unemployment, improvement of overall industrial performance has followed: industrial growth reached impressive 12.8% in 1995/96 to slow down to more modest rates: 5.6% in 1996/97 and 6.6% in 1997/98 (http://budget.allindia.com/1999/ecoind.asp). Foreign companies were allowed into new fields and permitted to raise considerably the equity share in trade and key industries (Kumar 1996: 372). Import-substitution seemed to be out of date as fully export-oriented enterprises and export processing zones were announced. In this situation one can observe rise in inward foreign investment and MNEs' interest but outer investors still do not hurry to bring up-to date techniques and practices: while possibility of building of International Network is drawing multinationals to Indonesia, Indians can rely only on the bait of indigenous market size (Zaidi 1996: 59). In addition recent East Asian countries' currencies devaluing has eroded competitiveness of Indian products.

Considering current state of affairs India is in the middle of restructuring the economy that had been built for a long time to meet challenges that vanished. It should be done not ignoring some traditional problems of a giant country: unstable budget, outdated technology, bad infrastructure, losses of inefficient enterprises, unemployment, low productivity and poor export performance. Still hundreds of millions live under the poverty line and produce neither significant demand nor considerable savings. Looking back at the first independence years we witness that a lot has been successfully achieved but it is also obvious that much more might have been achieved.

For a long time India was a model country that consciously planned its sizeable achievements: international development experts advised and economists from other developing countries followed its courageous experiments and the World Bank considered it a favourite client. But the country gave up the role when Indian powers i.e. political elite, ministries' bureaucracy and oligarchic tycoons did not show the will to make drastic turns despite the fact that it was already being realised that self-reliance had turned to be a trap. Hill (1996: 158) notes that such a trap especially attracts big countries and we can presume that for big countries it is particularly painful to abstain from following the track of development model once chosen. Even during planning periods of imports and FDI promotion India's competitiveness was eroding and finally came its "cumulative marginalization... in the world economy" (Nayar 1996: 53). Though recent implementation of liberalisation policy demonstrates impressive results we should wait for long-term ones to produce predictions of Indian future. Too much time was wasted and the country still has first to overcome numerous inner obstacles to enter world markets successfully and find new development impetus. Anyhow international competition has been getting fierce now and grave challenges are ahead.

Conclusion.

In this paper we took a look at the ways of development India and Indonesia had chosen. One who takes the task to produce elaborated analysis evidently finds some limitations imposed by different factors such as early data shortages and breathtaking current changes in Indonesia. However some observations, instructive as well as inspiring, are possible to make.

While Fane (1999) draws attention to the fact that wide analysis has shown little differences between growth rates under regulation and liberalisation policy regimes, Rock (1999) proposes that state industrial policy in Indonesia was crucial factor in "development of strong, diversified, industrialised and outward-oriented "economi nasional". We generally concur with the latter observation, remarking that there is not strict correlation noticed between nature of governing and disposition to tighten or loosen economic regulation. However the former observation is quite questionable to produce some conclusions because hardly measurable nature of growth absolutely needs to be taken into account.

Obviously, capital intensive industrialisation failed in labour abundant countries if no additional demand had been generated for goods manufactured. Private enterprises were initially too weak or obsolete to create such demand with rising of production of consumption goods and employing more labour. In situation characterised with poor saving generation and narrow taxation base state tended to concentrate scarce investments in inefficient public sector. It conserved inefficiency and finally inefficiency at home called for tariff protection which in turn spurred inefficiency. Resources' allocation within planning that aimed at reducing imbalances in fact had aggravated them. These outcomes do not necessarily mean that planning is worse bet but planning practices have evidently proved to bring inflexibility and be adhesive.

Even in pursue of self-reliance and consequent self-enclosure a country can really neither avoid outer influences nor develop on its own. On the one hand both Indian outer borrowings till the end of the 1960s and Indonesian oil revenues till the middle of the 1970s provoked preferring of investments into heavy industrialisation to investments into infrastructure, primary education and internationally competitive units. On the other hand these inflows let make the desirable development catch-up possible.

At present one would hardly doubt that either India or Indonesia, despite its recent troubles, will give up their general transformations towards openness. Nevertheless two countries to the different extent are not in too favourable positions to succeed on global markets. In the circumstances when some of the inevitable consequences of openness have been revealing themselves much faster than safety measures are being taken, for most of the developing countries there

Table 3.

Value Added per Worker in Selected Industries (three-digit level), US$		
Year / Country	India	Indonesia
Textiles		
1981	1497.76	1958.52
1985	1487.42	2320.22
1990	2326.32	3150.26
1995	1965.46 (1993)	5569.48
1996	na	na
Electrical Machinery		
1981	3311.46	5136.20
1985	3398.20	5650.88
1990	5158.53	5489.52 (1991)
1995	4114.71 (1993)	10671.91
1996	7121.13	na
Industrial Chemicals		
1981	5729.93	18060.08
1985	5770.42	13063.64
1990	8131.06	13663.51
1995	10575.61 (1993)	20325.50
1996	15234.28	na

Note: Data are based on the following exchange rates: 8.66Rs or 632Rp per US$ for 1981, 12.37Rs or 1111Rp per US$ for 1985, 17.50Rs or 1240Rp per US$ for 1990, 1950Rp per US$ in 1991, 30.49Rs per US$ for 1993, 2249Rp per US$ for 1995 and 35.43Rs per US$ in 1996.
Source: Calculated from UNIDO data files.

will still exist only two familiar directions, outward and inward, to go. Seemingly both Indonesian and Indian rulers who proved to be persistent in breeding their economies according to their original recipes will undoubtedly face more chances to make independent decisions about development strategies' choice. To make the final note, we suppose that there will be numerous complications on the way to determine a modern optimum strategy of economic development. At the same time future enlightenment in such activities is predictable.

Comment on Table 3.

Table 3 lets us roughly overview the recent dynamics of labour productivity in three industries which are of considerable shares in investments and total value added in manufacturing: comparatively labour intensive (textiles), comparatively capital intensive (industrial chemicals) and rather labour intensive and comparatively technology and skill intensive one (electrical machinery).

Data show that Indian economy continued to lag behind throughout the observed period in terms of VA per worker. Moreover lag between two countries' value added (VA) per worker tended to increase in labour intensive textiles. However Indian electrical machinery received positive impetus from economic reforms and competitive environment has been formed. Meanwhile heavy state investment in industrial chemicals boosted India's catching up with Indonesia by means of further rise in capital intensity.

Being highly tolerant to international regulations textile industry plays important role as a source of export earnings for two countries. Indian textile producers have very long history of presence on the world market especially in cotton fibre but their positions were shaken by some newcomers such as Indonesia that increased its exports 16 times during the 1980s. With saturation of home markets both countries put stress on the development of synthetic fibre production with Indonesia undoubtedly doing better in this respect. The VA per employee in textiles increased 184% in Indonesia and only 31% in India in observed period. The striking difference can be explained by rapid emergence of Indonesian green-fields (with consequent purchases of imported modern equipment and technology) that pushed small obsolete producers out of the market; inefficiency of Indian state owned mills; traditionally high diversification in Indian textiles with higher share of small-scale looms. We should note that the difference in rates of VA growth becomes less striking if we exclude datum of 1993 when economic stability in India had not yet been achieved. This observation is also viable for electrical machinery.

Highly capital intensive industrial chemicals were of particular state attention during periods of planning. By the time of economic liberalisation both countries had state owned facilities for production of base chemicals with India meeting constant undercapacity problems. Now rapid expansion of synthetic fibres, plastics and yarns production has been underway in both countries. While India continues to invest in and exploit its enormous economies of scale, Indonesia succeeded in drawing foreign investment to construct modern plants serving both inner and outer markets and has outperformed India in term of capital productivity. The dynamics of VA per worker growth in industrial chemicals demonstrates Indonesia's modest results, opposite to those of textiles. However Indonesian adjustment to the fall in oil prices and economic restructuring in the beginning of the 1980s should be taken into account. Accurate comparison of 1985-1995 period reveals almost similar path of growth.

Nowadays high share of electrical machinery enterprises in Indonesia results from comparatively recent collaboration with foreign partners and initially had high export propensities. The growth of the industry was financed with FDI and outer borrowings and later with private savings. In contrast, Indian counterparts (mostly public enterprises) were planned to substitute imports and assist industrialisation. They are still more inward than outward oriented and their products are less competitive on the world market.

More than moderate growth of VA per worker in Indonesian electrical machinery during the 1980s can probably be explained by industry's restructuring in the beginning and by the expansion of outward oriented production lines in the end of the decade. The latter process inclined industry to highly labour intensive mode and therefore expansion of output was caused rather by additional labour inputs than by rise in labour productivity. Later investment in capital and technology caused impressive nearly two-times growth in 1991-1995. Interestingly, economic liberalisation in India caused fall in capital to labour ratio in 1991-1994, which can point to the similar trends, i.e. rise in capital utilisation and growth of labour intensive production. Also higher technical efficiency of Indian electrical machinery enterprises comparing with textiles and especially chemical industry in the post-reform period (1989-1994) was observed by Neogi and Ghosh (1998: M-23). By now electrical machinery is one of the fastest growing sectors in Indian economy. Hence one can assume that this growth has prospects to be stimulated not only by fierce competition in the inner market but more by internalisation as it was in Indonesia.

Note

1) Clark, Sawyer and Sprinkle (1999) argue that in fact industrialisation is positively correlated with degree of openness. Their calculations based on real exchange rate distortion show that 10% change in openness would increase the rate of growth of manufacturing value added by more than 3%.

2) The periodicity offered in this paper was simplified for easier observations and comparisons. Quite roughly "The First 20 Years" are 1949-1966 in Indonesia and 1947-1966 in India; "The Second 20 Years" are 1967-1983 in Indonesia and 1967-85 in India; "The Third 20 Years" are since 1983 in Indonesia and since 1986 in India (It is worth noting, however, that the paper does not investigate causes and outcomes of Asian financial crisis 1997-1998). For other views on two countries' periods of development see Jomo *et al*. (1997: 122); Nayar (1997: 37-38); Majumder (1991: 213-214), etc.

3) According to Tomlinson (1987: 156) in 1921-1938 Indonesian surplus as ratio of Dutch net domestic product (NDP) was 8.0% while Indian surplus as ratio of British NDP was 0.8%.

4) Winters (1996: 50) estimates that by 1966 Indonesian factories were using an average of about one-fifth of their capacity.

5) It should be noted that in financing of Indian industrial development the World Bank and other international financial institutions played role that is hard to overestimate. Today it is obvious that fast and careless building of public sector heavy industries as well as unsuccessful reforming efforts such as those in 1966 were feasible due to these institutions' active encouragement and participation. See Raj (1976) and especially Kamath (1993). However at the same time any notable development would have hardly been possible without outer capital inflows whose impacts are too complicated to be mostly or exclusively negative (Chaudhuri 1979: 94-109, 164-175; Rothermund 1988: 140; James, Naya and Meyer 1989: 90-92).

6) For comparison of cultivation patterns in India and East Asia see Vaidyanathan (1993: 220).

7) S. Sumavinata, then the head of Soeharto's team

of political advisers, said in 1968: "We believe that the Repelita is small in scale, yet quite realistic in view of people abilities and the specific capacities of social and development leaders. It is precisely a small but realistic plan which will better guarantee good results." (Chalmers and Hadiz 1997: 62).

8) Burange (1999: M-40) indicates that in Maharashtra state the shares of consumer goods industry, and capital and intermediate goods industries in value added were respectively 52% and 48% in 1960 and 35% and 63% in 1980/81.

9) Chaudhuri (1979: 159) says, that "in 1970 the rate of utilisation of capacity in the three public sector steel plants that were then operational were as follows: Bhilai-65 per cent; Rourkela-48 per cent; Durgapur-30 per cent. By comparison, the utilisation rate in the two private sector plants were: TISCO-65 per cent and IISCO-58 per cent... In 1969-70, the rate of capacity utilisation in some of the major public sector plants was as follows: Heavy Engineering Corporation - mechanical items 17 per cent, castings and forgings 61 per cent; Bharat Earthmovers-93 per cent; Instrumentation Ltd-6 per cent. In 1968-69, the various units of Heavy Electricals Ltd were operating between 33 and 94 per cent, three out of four operating below 60 per cent; Bharat Heavy Electrical were operating below 30 per cent and Hindustan Machine Tools below 50 per cent."

10) See Mahajan (1991: 78), Bagchi (1988: 173-174).

11) Fane (1999: 658) estimates that incremental effect of these three negative factors was equivalent to the loss of about 10.5% of GNP.

12) As market mechanism has been used to keep planned things going. On 16 August, 1990 president Soeharto said in his State Address to the Parliament: "The measures of deregulation and debureaucratisation are designed to put the...state in its most appropriate place for development. They are certainly not measures to abolish the role of the state. It is definitely not a step towards liberalism. The role of the state remains very important in providing guidance and encouragement to people's initiative and creativity for achieving development goals. That is precisely the reason why our development is implemented through planning." (Chalmers and Hadiz 1997: 185).

13) Though the degree of openness has been argued (James 1998).

14) Kuruvilla (1996: 649-652) overviews interdependence of Indian industrial relations/human resources and development strategy.

15) See for example number of papers in Prakash *et al*. (1992).

References.

Bagchi, A. *Economic Development of India and China: A Comparative Study*. New Delhi: Lancer International, 1988.

Bhalla, A. *Uneven Development in the Third World*: A Study of China and India. London: Macmillan, 1992.

Booth A. "The Colonial Legacy and its Impact on Post-independence Planning in India and Indonesia." In *India and Indonesia: from the 1920s to the 1950s: theOrigins of Planning*, pp.1-30. Leiden: E.J. Brill, 1987.

Burange, L. "Industrial Growth and Structure: Manufacturing Sector in Maharashtra." In *Economical and Political Weekly* 34 March 5 1999, pp.M-39-M-48.

Chalmers, I., and Hadiz, V. *The Politics of Economic Development in Indonesia: Contending perspectives*. London: Routledge, 1997.

Chaudhuri, P. *The Indian Economy: Poverty and Development*. London: Crosby Lockwood Staples, 1979.

Clark, D., Sawyer, W. and Sprinkle, R. "Openness and Industrialization in Developing Countries." In *Applied Economic Letters* 6 March 1999, pp.161-164.

Fane, G. "Indonesian Economic Policies and Performance, 1960-98." In *The World Economy* 25 July 1999, pp.651-668.

Hill, H. *The Indonesian Economy Since 1966: Southeast Asia Emerging Giant*. Cambridge: Cambridge University Press, 1996.

James, W., Naya, S., Meier, G. *Asian Development: Economic Success and Policy Lessons*. Madison: The University of Wisconsin Press, 1989.

James, W. "Trade and Financial Market Reforms in

ASEAN: Putting the Cart before the Horse ?" In *ASEAN Economic Bulletin* 14 March 1998, pp.224-237.

Jomo, K. *et al. Southeast Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia.* Boulder: Westview Press, 1997.

Jones, G. and Visaria P. "Urbanization of the Third World Giants." In *Urbanization in Large Developing Countries: China, Indonesia, Brazil, and India*, ed. by G. Jones and P. Visaria, pp.1-23. Oxford: Clarendon Press, 1997.

Kamath, S. "Great Expectations: Foreign Aid and Indian Economic Development." In *Indian Journal of Economics* LXXIV October 1993, pp.209-245.

Kumar, N. "India: Industrialisation, Liberalisation and Inward and Outward Foreign Direct Investment" In *Foreign Direct Investment and Governments: Catalysts for Economic Restructuring*, ed. by J. Dunning and R. Narula, pp.348-379. London: Routledge, 1996.

Kuruvilla, S. "Linkages between Industrialisation Strategies and Industrial Relations/Human Resource Policies: Singapore, Malaysia, The Philippines, and India." In *Industrial and Labor Relations Review* 49 July 1996, pp.635-657.

Lall, S. "Exports of Manufactures by Developing Countries: Emerging Patterns of Trade and Location." In *Oxford Review of Economic Policy* 14 Summer 1998, pp.54-73.

Lecraw, D. "Indonesia: the Critical Role of Government." In *Foreign Direct Investment and Governments: Catalysts for Economic Restructuring*, ed. by J. Dunning and R. Narula, pp.316-347. London: Routledge, 1996.

Mahajan, V. S. *Social, Economic and Political Development of India: Leading Issues and Emerging Crises*. New Delhi: Deep & Deep Publications, 1991.

Majumder, B. "Export Oriented Industrialisation Strategy in Indian Economy: A Critical Evaluation." In *Indian Journal of Economics* LXXII October 1991, pp.213-231.

McLeod, R. "Crisis to Cataclysm ? Indonesia's economic Ailments." In *The World Economy* 21 September 1998, pp.913-930.

Naidu, M. "Pattern of Industrialisation in India." In *Industrialisation and Regional Development in India*, ed. by M. Naidu, pp.1-30. New Delhi: Reliance Publi shing House, 1988.

Nayar, B. "The Political Economy of India's Economic Performance since 1947." In *The India Handbook: Prospects onto the 21st century*, ed. by S. LaRue, L. Rudolph, S. Rudolph, and P. Oldenburg. Chikago: Fitzroy Dearborn Publishers, 1997.

Neogi, C. and Ghosh, B.. "Impact of Liberalisation on Performance of Indian Industries: A Firm Level Study." In *Economic and Political Weekly* 33 1998 February 28, pp.M-16-M-24.

Prakash, J., *et al. Privatisation of Public Enterprises in India.* Bombay: Himalaya Publishing House, 1992.

Raj, K. "Growth and Stagnation in Indian Industrial Development." In *Economical and Political Weekly* XI №.№.5, 6, and 7, pp.223-236.

Rock, M. "Reassessing the Effectiveness of Industrial Policy in Indonesia: Can the Neoliberals be Wrong ?" In *World Development* 27 April 1999, pp. 691-704.

Rothermund, D. *An Economic History of India.* New York: Croom Helm, 1989.

Rudra, A. "The Second Five Year Plan Strategy: A Reappraisal." In *Development and Change: Essays in Honour of K. N. Raj*, ed. by P. Bardhan, M. Datta-Chaudhuri, and T. Krishnan, pp.301-317. Bombay: Oxford University Press, 1993.

Sadli, M. "The Indonesian Crisis." In *ASEAN Economic Bulletin* 15 December 1998, pp.272-280.

Schlossstein, S. *Asia's New Little Dragons: The Dynamic Emergence of Indonesia, Thailand and Malaysia.* Chicago: Contemporary Books, 1991.

Sinha, D. and Sinha, T. "Openness and Economic Growth in India." In *Indian Journal of Economics* LXXVII July 1996, pp.115-125.

Sjöholm, F. "Exports, Imports and Productivity: Results from Indonesian Establishments Data." In *World Development* 27 April 1999, pp.705-715. (1999a).

Sjöholm, F. "Productivity Growth in Indonesia: The Role of Regional Characteristics and Direct Foreign Investment." In *Economic Development and Cultural Change* 47 April 1999, pp.559-584. (1999b).

Srinivasan, T. "Demand Deficiency and Indian Industrial Development." In *Development and Change: Essays in Honour of K. N. Raj*, ed. by P. Bardhan, M. Datta-Cha udhuri, and T. Krishnan, pp.246-264. Bombay: Oxford University Press, 1993

Tomlinson, B. "Foreign Investment in India and Indonesia: 1920-1960." In *India and Indonesia: from the 1920s to the 1950s: the Origins of Planning*, pp.145-151. Leiden: E.J. Brill, 1987

Vaidyanathan, A. "Agrarian Reform and Agricultural Development." In *Development and Change: Essays in Honour of K. N. Raj*, ed. by P. Bardhan, M. Datta-Chaudhuri, and T. Krishnan, pp.217-233. Bombay: Oxford University Press, 1993.

Watson, C. "Nehru and Sukarno, 1919-1942. An Essay in Comparison." In *India and Indonesia: from the 1920s to the 1950s: the Origins of Planning*, pp.97-116. Leiden: E.J. Brill, 1987.

Winters, J. *Power in Motion: Capital Mobility and the Indonesian State*. Ithaca: Cornell University Press, 1996.

Zaidi, N. "External Capital Inflows and Structural Adjustment Programme in India." In *Indian Journal of Economics* LXXVII July 1996, pp.49-62.

India: New Dimensions of Industrial Growth. Oxford: Basil Blackwell Ltd, 1990.

Indonesia in the 1990's. London: Euromoney Publications, 1991.

Statistical Abstract India 1997 vol. I and II. New Delhi: Government of India, 1997.

Statistik Indonesia 1997/Statistical Yearbook of Indonesia 1997. Jakarta: Badan Pusat Statistik, 1998.