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ECONOMIC NATIONALISM AND THE THIRD WORLD STATE: 
THE POLITICAL ECONOMY OF THE INDONESIAN 
AUTOMOTIVE INDUSTRY, 1950-1984

A thesis submitted for the degree of Doctor of Philosophy 
of the Australian National University

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Statement

I hereby declare that this thesis is the product of my own independent research, and that all authorities and sources that have been consulted are acknowledged.

Ian M Chalmers
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Many people are involved in producing a thesis. My two principal supervisors were Jim Richardson, whose support and considered advice sustained me throughout the project, and Jamie Mackie, who provided valuable and constructive criticism when arguing my case. I also appreciate the discussions with my two other advisers, Dean Forbes and John Ballard, on the theoretical implications of the study. I want to thank Russell Lathorne for close reading of some early drafts, and Hal Hill, David Henley, Krishna Sen, Greg Fry and Ken Young for their comments on particular chapters, as well as Randal Stewart, for some engaging theoretical debates.

This thesis is written for Aisha and Ratna, whose patience at times seemed endless, and for my parents, who helped in so many ways. I am also heavily indebted to the many Indonesians who were willing to share their experiences and impressions with a foreigner, providing insights into the complexities of the Indonesian political economy.

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Abstract

At the theoretical level, the purpose of this thesis is to examine how the relationship between state and capital in developing countries changes during the process of industrialisation. In Indonesia, automobile production is frequently championed as a symbol of economic nationalism and an example of successful industrialisation. This study attempts to identify the social forces influencing policy in this politically-important industry. It traces its evolution, showing how the state-business relationship passed through a number of distinct stages. Using a typology of the social forces behind state intervention in the economies of the Third World, different theoretical models are used to elucidate these periods in the industry's development.

The essentially ideological objective of fostering the development of a national automotive industry had become entrenched within the bureaucracy by the early 1960s. Following the overthrow of President Sukarno's Old Order in 1966, the modern sector was opened up to foreign capital and such symbols of official economic nationalism were repudiated. Patrimonial state-business relations became the norm, as state intervention restructured ownership to attract foreign investment. During a revival of economic nationalism in the early 1970s, however, a handful of indigenous capitalists became prominent advocates of automotive industrialisation. State-business alliances were established which induced certain international automotive firms to support important manufacturing initiatives. These successes in turn reaffirmed the state commitment to automotive industrialisation. By the early 1980s, formidable political and bureaucratic forces were once more promoting the industry — now a symbol of the New Order's nationalist development strategy.

A considerable expansion in state authority was necessary to coordinate foreign and national investment in the industry, but state instrumentalities have not come to dominate. The internationalisation that accompanied the production programme was also accompanied by the steady concentration of ownership. To realise its policy objectives, the state has come to depend on investments by subsidiaries of international automotive firms, business conglomerates that now wield considerable influence over policy implementation. Automotive development policy has thus become the expression of a mutual dependence, linking those sectors of the state promoting industrialisation to the internationalised sector of national capital.
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GLOSSARY

Technical Terms and abbreviations used in the thesis
AMC .................. American Motor Corporation (Jeep)
ASEAN ................ Association of Southeast Asian Nations
                     (Indonesia, Malaysia, Singapore, Philippines, Thailand, Brunei)
automobile ........... four-wheeled vehicle (truck, bus, car, jeep)
auto-TNC .............. transnational automotive firm
BTV ................... 'basic transport vehicle', a hardy vehicle first designed by GM for use in developing countries;
similar to Mitsubishi's 'Asian Utility Vehicle'
CBU ................... 'completely built up', an assembled vehicle ready to drive
CKD ................... 'completely knocked-down', components, power train, and pressings; packed in crates to be shipped for assembly overseas
CV ..................... 'commercial vehicle', a generic term for trucks, buses, vans, etc.
EEC ..................... European Economic Community
GDP .................... Gross Domestic Product, a measure of total goods and services produced annually within the economy
GM ..................... General Motors
GMH ..................... General Motors Holden
GNP .................... Gross National Product, GDP plus income accruing from overseas investments
IGGII .................. Inter-Governmental Group on Indonesia, the major aid consortium of international banks and donor countries
IMF ..................... International Monetary Fund
ISI ...................... 'import substituting industrialisation'
ISIC ................... International Standard Industry Classification
motor vehicle ............ motorised vehicle (automobile, motorcycle, heavy vehicle)
MVA ................... Manufacturing Value Added, the value 'added' to raw materials and components in the production process
MVMA .................. Motor Vehicle Manufacturers Association of America
NIC .................... 'newly industrialised country'
NIDL ................... 'new international division of labour'
OECD ..................... Organisation for Economic Cooperation and Development
OEM .................... 'original equipment manufacturer'
OPEC ................... Organisation of Petroleum Exporting Countries
power train .............. engine, gearbox, clutch, and other parts of the transmission
PV ...................... 'passenger vehicle', a sedan
SKD ................... 'semi-knocked-down', a partly dis-assembled vehicle
SRI ..................... Stanford Research Institute International
TNC .................... 'transnational corporation'
Newspapers and Periodicals used in the text
AFR .................. Australian Financial Review
AWSJ ................. Asian Wall Street Journal
BI ..................... Berita Industri, fortnightly publication of the Department of Industry
BIES .................. Bulletin of Indonesian Economic Studies, a quarterly publication of the Research School of Pacific Studies, ANU
BN ..................... Business News, Jakarta, a summary of commercial news and new regulations, issued three times a week
BY ..................... Berita Yuddha, Jakarta daily newspaper owned by the Armed Forces
EKI ................. Ekonomi dan Keuangan Indonesia
Eksekutif ................ glossy business magazine, monthly
FEER .................. Far Eastern Economic Review, weekly journal [Hong Kong]
ICAT .................. Indonesian Current Affairs Translations, a monthly survey of the Jakarta press, with extracts of major articles; 1968-1978; published by 'Antara' news agency, edited by Molly Bondan
ICN .................. Indonesian Commercial Newsletter, a Jakarta business survey, published fortnightly
JE .................. Jurnal Ekuin daily Jakarta newspaper owned by Probosutedjo; banned in 1985
Kompas ................ independent daily Jakarta newspaper
Nusantara ............... independent daily Jakarta newspaper, banned in 1974
Progres ................ popular business journal, fortnightly
Promosi Ekonomi ........ popular business journal, monthly
SH ................ Sinar Harapan, independent daily Jakarta newspaper
SI ............... Suluh Indonesia, daily Jakarta newspaper during the Old Order SK ............... Suara Karya, daily Jakarta newspaper linked to Golkar
USET ................ United States Embassy Translation Unit Press Review, extracts from the Indonesian press, published daily

Indonesian Terms and Abbreviations
Note - the common practice of forming acronyms by combining the first few letters of one word with the first syllable of the second, eg. ASPRI, Asisten Pribadi
abangan .......................................................... from the Javanese, 'red', a nominal, syncretist Muslim

ABRI (Angkatan Bersenjata Republik Indonesia) ........ Armed Forces of the Republic of Indonesia

Ali-Baba firms .................................................. a term common in the 1950s, where an indigenous Indonesian (Ali) obtains the license for a venture managed by a Chinese entrepreneur (Baba)

ASPRI (Asisten Pribadi) ..................................... 'personal assistant' to President Suharto, posts formally dissolved in 1974 following the Malari riots

bapak angkat ..................................................... 'foster parent'

BAMUNAS (Badan Musyawarah Pengusaha Nasional) .... National Council of Entrepreneurs (1963-67)

BAPPENAS (Badan Perencanaan Pembangunan Nasional) .. National Development Planning Board

batik ............................................................... traditional process of dyeing cloth using wax

bemo, 'becak bermotor' ....................................... a motorised pedicab

benteng ........................................................... 'fortress', policy to protect importers in the 1950s

BIN (Bank Industri Negara) ............................... State Industrial Bank (1951-1960)

BKPM (Badan Koordinasi Penanaman Modal) ........ Investment Coordination Board

BNI (Bank Negara Indonesia) ......................... Central State Bank

BPN (Biro Perancang Negara) ......................... State Planning Bureau (1952-1959)

BPS (Biro Pusat Statistik) ................................. Central Bureau of Statistics, Jakarta

BPPT (Badan Penelitian dan Penerapan Teknologi) .... Office for Research and Application of Technology

CSIS (Centre for Strategic and International Studies) ........ also formerly known as Yayasan Proklamasi, a private Jakarta research institute established in 1971

cukong .......................................................... Hokkien term for 'boss' or 'grandfather', in Indonesia a pejorative term for wealthy Chinese entrepreneurs who collaborate with leading military or political figures
DEPERNAS (Dewan Perancang Nasional) ........ National Planning Council (1959-1965)

DPR (Dewan Perwakilan Rakyat) .............. Peoples Representative Council, the parliament

Drs (Doktorandus) .................................. honorific prefix indicating someone who has completed all the requirements for a doctorate except the thesis; roughly equivalent to an MA

DSP (Daftar Skala Prioritas) . Investment Priority List, listing fields of investment open to foreign and national firms, first drafted in 1977

GAAKINDO (Gabungan Agentungan dan Asempler Kendaraan Bermotor Indonesia) . Association of Indonesian Automobile Assemblers and Sole Agents

GBHN (Garis Besar Haluan Negara) .......... Broad Guidelines to State Policy

GIAMM (Gabungan Industri Alat-alat Mobil dan Motor) . Association of Car and Motorcycle Component Manufacturers

GOLKAR (Golongan Karya) ......................... Functional Groups, the government political organ

H (Haji) .............................................. honorific prefix for a Muslim who has made the pilgrimage to Mecca

Hankam (Departemen Pertahanan dan Keamanan) .................................. Department of Defence and Security

IATO (Ikatan Ahli Teknik Otomotif) .......... Society of Automotive Engineers

Ir (Insinyur) ......................................... 'engineer', honorific prefix for a holder of technical degree, usually involving five years work at the tertiary level

'Interdep', Tim Interdepartmental Perumus Kebijaksanaan dibidang Kendaraan Bermotor........... Interdepartmental Team (later Committee) for Automobile Policy Formulation, 1978-1984

IRMC .................................................. Indonesian Republic Motor Coy., the Ford agency established in 1952

ISC .................................................... Indonesia Service Company, general assembler established in 1950

ITB (Institut Teknologi Bandung) .......... Bandung Institute of Technology

KADIN (Kamar Dagang dan Industri) .... Chamber of Commerce and Industry

KBNS (Kendaraan Bermotor Niaga Sederhana) .......... Basic Transport Vehicle

KEPPRES (Keputusan Presiden) ............... Presidential Decree
koneksi ................................................ 'personal connection', implying favours and favouritism
Kostrad (Komando Cadangan Strategis Angkatan Darat) .......... Army Strategic Reserve Command
kretak ................................................ mixed clove and tobacco cigarette
LIPI (Lembaga Ilmu Pengetahuan Indonesia) .......... Indonesian Institute of the Sciences
Malari (Malapetaka 15 Januari) ............. '15 January Calamity', the Jakarta riots that began on that day in 1974
Masyumi (Majelis Syoro Muslimin Indonesia) ...... Council of Indonesian Muslim Associations, a modernist Islamic party banned in 1960
MPR Majelis Permusyawaratan Rakyat) .... Peoples Consultative Assembly, the congress which meets every five years to select the president and decide basic state policy (GBHN)
non-pribumi ........................................ non-indigenous Indonesian, usually Chinese
NU (Nahdatul Ulama) ....................... Religious Scholars Party
NV (Naamloze Vennootschap) ............ limited liability company
oplet ................................................. small urban bus
OPSUS (Operasi Khusus) ................. Special Operations Unit, a military security agency involved in semi-clandestine activities in the late 1960s and early 1970s
PALAD ............................................ army equipment maintenance unit in Jakarta
PARKINDO (Partai Kristen Indonesia) ... Indonesian Christian Party, established in 1945, merged into PDI(Parlai Demokrasi Indonesia) in 1973
Pancasila ........................................... 'five pillars', the five-point state philosophy enunciated by Sukarno in 1945: belief in God, sovereignty of the people, national unity, social justice, humanity
panglima ........................................... 'commanding officer'
pengusaha ........................................ 'businessman/businesswoman'
peranakan ........................................ Indonesian-born Chinese of mixed ancestry
Permesta (Piagam Perjuangan Semesta) ... Charter of Command Struggle, the 1958 rebellion in Sulawesi
Pertamina (Pertambangan Minyak
National Oil and Gas Mining, the state oil monopoly
PINDAD (Pusat Industri Angkatan Darat) ...... Army Industrial Center, the armament manufacturing complex in Bandung
PKI (Partai Komunis Indonesia) .......... Indonesian Communist Party, established 1920, suppressed 1927; reemerged 1945; banned 1966
PMA (Penanaman Modal Asing) .......... 'foreign investment'
PMDN (Penanaman Modal Dalam Negeri) ...... 'domestic investment'
PN (Perusahaan Negara) ................. 'state enterprise'
PNI (Partai Nasional Indonesia) .......... National Party of Indonesia, formed by Sukarno in 1927; dissolved 1930; revived 1945; merged into PDI in 1973
pribumi ......................................... 'son of the soil', indigenous Indonesian
PSI (Partai Sosialis Indonesia) .......... Socialist Party of Indonesia (1949-1960)
PT (Perseroan Terbatas) .......... incorporated limited liability company
rakyat ........................................... 'the (common) people'
REPELITA (Rencana Pembangunan Lima Tahun)....'Five-Year Development Plan', the first 1969-1974
santri ........................................... 'devout Muslim' (cf. abangan)
SK (Surat Keputusan) .......... a ministerial decree
TBN (Tambahan Berita Negara) .......... Supplement to the State Gazette, a supplement to BNPT
totok ........................................... Chinese-speaking Chinese, a 'pure Chinese'
wayang ......................................... a term referring to a range of classical Javanese performing arts involving puppets or costumed actors

Note:
1) The common Indonesian custom of referring to certain individuals by their given rather than their family name is used in the text. For bibliographic references, however, the accepted norm is to use surnames. Thus, although the Minister of Trade from 1968 to 1973 is referred to as Sumitro, an article he
wrote on Third World economic nationalism is cited as: Djojohadikusumo, 1975

2) Many Indonesian Chinese business figures have adopted Indonesian names. It is common practice to refer to the individual by his given name but to the business group by his adopted name. Thus, Liem Sioe Liong may also be known as Sudono Salim, but the large business conglomerate he leads is usually called the Salim group.
Chapter One:

ECONOMIC NATIONALISM AND THE ISSUE OF STATE AUTONOMY IN INDONESIA

An industrial bourgeoisie should be the leading class in promoting capitalist development. Marxist and liberal theories of development have different theoretical starting points, but they share this basic assumption. So do policy-makers in most developing countries. It has, however, generally been state institutions that have played the major part in stimulating new industries and in nurturing their growth -- if only to cure the deficiencies of local entrepreneurs. The principal theoretical concern of this thesis is to explore the interaction between state and bourgeoisie in the early stages of industrial development in the capitalist Third World.

This function of overseeing industrial development lends the Third World state a degree of independence it may not possess in advanced capitalist societies. By the same token, it is equally evident that state activities are not simply self-generating. The absence of a capable bourgeoisie in many developing capitalist countries and the prominence of the state in their economies raises a number of theoretical issues. If the state is not solely the political expression of a ruling bourgeoisie, what are the motivating forces behind state policy? Under what conditions might the state become independent of class pressure, and to what extent? Can the state itself become the protagonist in promoting capitalist development? How does the relationship between state and capital change as the economy matures? In particular, what effect does the internationalisation of production processes have on this relationship? The purpose of this introductory chapter is to indicate how these theoretical questions will be informed by this case study.

The often intense bargaining between state instrumentalties and international firms has meant that most analysis of peripheral capitalist development has focused on the relationship between these two forces, on the external aspect of
development. Questions such as these are, however, more amenable to an investigation of domestic social conditions. This study therefore deals with local aspects of capitalist development, attempting to trace the limits to state autonomy in the formation of industrial policy.

Historically, the autonomy of the Indonesian state derives from its revolutionary origins. Following hard on the heels of the Great Depression and the three-year Japanese interregnum, the social dislocation associated with the 1945-1949 struggle for independence completed the destruction of the colonial order. Based on alliances between the social forces unleashed by the social and economic turmoil of these decades, the revolutionary Republican leadership created new state structures and modified existing ones. The new constitution incorporated the ideal of an interventionist state, assigning it the historical task of combatting privilege and defending the interests of subordinate groups and classes. Indonesian nationalism thus had a markedly egalitarian, anti-capitalist flavour -- a characteristic it largely retains.

During the first two decades of independence, various attempts were made to realise the vaguely socialistic goals given expression during the revolution. At the same time, different governments also attempted to foster the development of an indigenous capitalist class, with limited success. As argued in a later chapter, these contradictory goals stemmed from the level of competition within society. From the very outset, the Indonesian state was conceived as the political unity in a cultural and economic diversity; the increasingly 'socialist' state orientation reflected official frustration with the pace of economic development in the context of a weak national capitalist class. The nationalist economic policies of the late 1950s and early 1960s, it will be maintained, gave political expression to state autonomy, an autonomy due to the failure of any social force to subject state authority to its own purpose.

As state activities expanded during the third and fourth decades after independence, increased political and
economic resources were used to foster the accumulation of
capital by a small number of politically-influential national
capitalists. A major concern of social scientists dealing with
Indonesia has been to explain the continued weakness of the
indigenous bourgeoisie, despite this state support. Less
attention has been given to state analysis, however, and this
thesis describes the development of one leading industry in
order to account for state activities in terms of tangible
social pressures. The immediate research objective is to
ascertain the extent to which the development of capitalist
social relations and the expansion of the national bourgeoisie
since 1966 has reduced state autonomy in the formation and
implementation of economic policy.

Where one draws the limits to capitalist state autonomy
depends, primarily, on one's theoretical starting point. In
order to lay some conceptual foundations, it is therefore
appropriate at this point to indicate what is intended by
particular concepts. 'Capitalism' is here understood to indi-
cate an economic system under which ownership of the means of
production is concentrated in the hands of a numerically minor
social class, 'the bourgeoisie.' Under 'state capitalism' most
of the economy may be privately-owned, but this category
indicates a very different economic system, where major
enterprises are state-owned and managed by state officials.
'Economic nationalism' signifies the attempt to insulate the
economy from foreign influences.

'The state' is here taken to indicate those individuals
or social groups that possess a monopoly of legitimate political
force. It thus consists of a set of institutions (the
apparatus: government, bureaucracy, armed forces, law courts)
and those who formally control them. This definition has the
advantage that it can account for the survival of state struc-
tures despite changes in either the formal institutions of
government or its personnel. Conversely, it can accommodate
changes in the relationship between state and society even if
the formal institutions of government remain the same.
A renewed interest in state theory amongst political scientists in the 1970s engendered a number of important debates on the definition of the Third World state. While other theorists made major contributions, it is the radical school of political economy that has most thoroughly explored the structural relationship between economics and politics in the Third World over the last two decades. This thesis is thus largely addressed to Marxist and dependency theoretical traditions. Chapter Two will discuss these debates in more detail, pointing out the assumptions that underpin the arguments of the chief participants and indicating what I consider to be their strengths and weaknesses. At this point, it is nevertheless worth noting that within the broad spectrum of views that constitutes this school, it is those views that encompass a range of cultural and historical factors that are considered most appropriate for the analysis of societies in the early stages of capitalist development. There has in fact been a marked shift within this school of thought since the late 1970s, away from attempting to theoretically derive the capitalist 'state-in-general' and towards more historically-grounded analyses (Frankel, 1982). Following this trend, it is a central premise of this study that the class nature of the state cannot be resolved purely at the level of theory, but requires detailed historical examination (see section 2.2 for a theoretical justification of this position).

This discussion also makes clear the need for specificity when considering capitalist state autonomy. Here, we may usefully distinguish three levels. The first and simplest level of autonomy occurs when the state is released from the direct instrumental control of a dominant class. It can be asserted at the outset that the capitalist state rarely, if ever, functions as a simple 'managing committee' for the bourgeoisie. This form of autonomy from class rule is not discussed.

The second and more relevant level of state autonomy is independence from the general influence of a capitalist class. Such autonomy is most likely to occur if the capitalist class is fractionalised, and internal differences prevent it from
imposing political control on the state. In this case, the issue for analysis is to determine the degree to which the state acts in pursuit of what are termed 'state interests,' objectives that have been defined independently by state actors and are implemented by state institutions contrary to the interests of the capitalist class, or major sectors of it.

The third, most profound, level, is state autonomy as an expression of the mode of production itself. Analysis based on conflict between capitalist and pre-capitalist modes of production was taken up with some relish by a number of radical theorists in the 1970s. We can assume that the capitalist mode is dominant in the capitalist periphery, however, so autonomy as a result of such conflict need not be considered. What is relevant are the developments that had their origins in this 'modes of production debate.' As described in the following chapter, a number of theorists argue that the state has itself became an integral part of the international capitalist system; the state's 'interest' is to oversee reproduction of the system which maintains it. In the capitalist periphery, this may entail frequent state intervention to restore equilibrium and discipline a weak capitalist class. In terms of our three levels, state autonomy from instrumental bourgeois control is a structural necessity.

Some implications of these propositions will be explored towards the end of this chapter. Prior to this and in order to locate these issues within the particular context of this study, it is instructive to consider some of the ways in which social scientists have sought to explain state autonomy in Indonesia.

Students of Indonesian society -- inevitably bearing the ungainly title 'Indonesianists' -- have long struggled to account for the centrality of politics in social life here. While it is true that past scholarship on Indonesian politics has rarely made explicit reference to 'the state,' many writers have nevertheless implied something broader than 'bureaucracy'
or 'government.' The following explanations for state intervention in the economy deal with social influences on decision-makers and describe how governmental decisions affect power within society, presenting at least implicit models of state autonomy from societal forces.

1.1 - Dualistic Conceptions of Indonesian Politics:

Changing Perceptions of State Autonomy

The historiography of Indonesian politics is littered with dichotomies. The prevalence of dualism as an explanatory device in Indonesian economics is well-recorded. Less frequently noted is that there are a number of scholarly traditions in which Indonesian politics is also seen to be informed by a deeper psychological, cultural or economic dualism. In the early postwar years, the scarcity of detailed and reliable information on social processes encouraged political scientists to rely on dualism as a methodological instrument. Ever since, there has been a recurring tendency for scholars to make sense of the complexities of Indonesian politics by suggesting that a fundamental polarity underlies its apparent heterogeneity.

We may identify three such dualisms of Indonesian politics used to explain state economic intervention. The first was originally associated with explanations for the decline of liberal-democracy. Domestic and foreign observers had hoped that independence would usher in a period of popular political participation and that this would lead to the mobilisation of economic forces. In the 1950s, however, political power became steadily more concentrated and economic achievements were disappointing. Scholars generally sought explanations in the personal inclinations of political leaders. Higgins (1956) counterposes 'economic-minded' to 'history-minded' politicians, the latter basically driven by an ideological imperative to

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1 Mackie (1980) summarises Boeke's notion of dualism, noting its persistence as an explanation for economic life in Indonesia and discussing critiques of its theoretical utility. In the same volume are to be found stimulating discussions of dualistic aspects of the Indonesian labour market (Manning), the weaving industry (Hill) and the shipping industry (Dick).
recover real or imaginary past glories. In *The Decline of Constitutional Democracy in Indonesia*, the classic work on politics in the 1950s, Feith (1962) contrasts pragmatic, administrative 'problem-solvers' with ideological 'solidarity-makers' adept at manipulating political and cultural symbols. The economist, Glassburner, explains the conflicts of these years in similar terms.

From the point of view of economic policy, the years 1950-1957 in Indonesia are best understood as years of a hopeless losing battle on the part of a very small group of pragmatically conservative political leaders against an increasingly powerful political opposition of generally radical orientation.

(Glasaburner, 1962: 113)

The major drawback of these accounts is the tendency to consider the causal relationship between economics and politics in only one direction. It is assumed that political processes remain largely separate from economic influences, and that the important determinant of economic policy is whether policy-makers are inclined towards rational economic management or the pursuit of ideological goals. While these descriptions do give us important insights into the motivations of key political actors of the past, a perspective which simply assumes state autonomy is unable to account for the economic forces that influence policy-making.

General Suharto's successful counter-coup of 1965 foreshadowed the physical annihilation of the Communist Party of Indonesia (PKI) and the political defeat of radical nationalism. This sea-change in Indonesian politics resulted in the capture of state authority by military officers allied to a pragmatic, technocratic elite. Initially, a number of foreign observers considered that the adoption of developmentalism as official state ideology marked the triumph of the 'economic modernisers' over political ideologues (Arndt, 1967; Pauker, 1968). When state intervention increased in the early 1970s and as it became evident that 'irregularities' in state-business relations had persisted, political scientists grew less confident that this was a genuinely modernising elite. Explanations were sought by
driving the first, political dualism to a deeper, cultural level.

In our second dualistic construct stressing continuity with the past, state autonomy is seen to reflect the primacy of traditional cultural values. A number of commentators had observed that politics in the Guided Democracy period from 1959 to 1965 harked back to the patrimonial traditions of the ancient kingdoms of Java (Willner, 1966; Geertz, 1968). In an important piece of work, Anderson (1972) argues that many apparent contradictions in Indonesian politics are resolved if politics is seen in terms of traditional Javanese notions of authority; particularly, the notion that power emanates from a charismatic leader rather than from civil society. For Anderson, the liberal-democratic period of the early and mid-1950s was exceptional, and the authoritarian regime inherited by Suharto represented the triumph of a Javanese cultural legacy which had survived both the colonial and immediate post-colonial experiences.

Applying this insight to development issues, Liddle (1973) argues that in the maze of personalised patron-client networks which constitutes the Indonesian bureaucracy, modernisation depends on the political success of technocrats committed to rational, liberal principles. Similarly, Emmerson (1976) pictures the modernising elite as constrained by traditional Muslim _santri_ and Javanese _abangan_ political traditions. For American political scientists in particular, Suharto's New Order state had become a battleground between the opposing cultural forces of modernity and tradition.

The definitive feature of this second, socio-cultural dualism is the belief that the nature of state intervention depends on the fortunes of political actors representing either traditional or modern values. Although these accounts do not reify cultural influences, the input of political actors in the policy-making process is considered significant chiefly to the

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* The theory of patrimonial politics on which these observations drew is outlined by Roth (1968).
extent that they are bearers of cultural values. Thus, the
propensity of bureaucrats and politicians to intervene in the
economy is seen to reflect the psychological grip of traditional
norms; economic modernisation depends on overcoming patrimonial
cultural legacies.

The third and final dualistic construct we may identify
came with the application of dependency theory to Indonesia.
The publication in 1973 of Showcase State, a collection of
articles edited by Rex Mortimer, was a frontal assault on the
vision of state policy as predominately determined by struggles
between modernising and traditional elites. The starting point
for Mortimer's own contribution is an observation originally
made by the PKI, that during the period of Guided Democracy
bureaucrats had manipulated office to gain a purchase on the
modern sector of the economy. Once the political turmoil of
1965-66 came to an end, he argues, this new stratum of 'bureauc-
ratric capitalists' used their positions for the extraction of
wealth, moving decisively to join with foreign capital in key
areas of the economy. The wave of foreign investment after 1966
consolidated the economic and political position of this group,
transforming them into a 'comprador class' beholden to foreign
business interests (Mortimer, 1973: 57-60).^3

According to this third dichotomy, state autonomy
vis-à-vis local classes expresses the state's subordination to
the interests of international capital. Mortimer considers that
the technocrats had managed to restrain the worst of the
compradors' excesses. However, both groups support the foreign-
propelled development of the modern sector, he predicts that
their interests would converge. State policy would thus give
rise to all the unfortunate social images portrayed in the
classical dependency model: increased external dependence,
accelerating economic concentration, the displacement of labour
by capital-intensive growth, the insulation of the Jakarta
enclave from the hinterland, and the submersion of the mass of

^3 Feith and Tiffen (1984) have edited a posthumous collection of
Mortimer's writings, which includes a useful introduction on his
career by Anderson.
the population in a sea of grinding poverty. The development path charted by Indonesia's technocrats steeped in modernisation theory therefore had to be rejected, for "that way lies moral complicity in the depredations of the industrial powers, multi-national corporations and Indonesia's own comprador class" (Mortimer, 1973: 66).

Although Mortimer had not theorised the nature of the Indonesian state per se, his seminal description of a regime under the sway of a comprador capitalist class dominated conceptions of the Indonesian state for much of the following decade. His assault on Indonesia's 'modernising elite' as self-serving villains rather than harbingers of progress provided those excluded from New Order development with a potent theoretical weapon. Throughout the 1970s criticism of the New Order surfaced and resurfaced in Jakarta, Bandung and Yogyakarta, as students, intellectuals and other critics focused their attacks on state development policy, alleging uncritical imitation of the West, dependence on foreign capital and a disregard for the rural sector.

Mortimer's short chapter also provoked a flurry of overseas scholarship. Indonesia rated a chapter in The Debt Trap, a popular book on the alleged manipulation of Third World states by the IMF (Payer, 1974). Weinstein (1976) also considers that the operations of the so-called 'Japan Lobby' epitomise the weakness of the Indonesian 'soft state' in its dealings with international capital. The influence of the dependency paradigm at this time is evident too in the criticism of liberal writers. According to Feith (1976), for example, the increased repressiveness of the regime reflects its 'borrowed power' and the need to ensure a stable political environment for foreign exploitation. Elsewhere, Feith (1977: 2) criticises writers of the American school of comparative politics who concentrate on elite political culture, ignoring the process whereby "the leading personnel of politico-bureaucratic empires have been able to dovetail their interests with those of foreign money." The influx of foreign wealth had corroded the legitimacy of the regime, he argues, increasing its dependence on
foreign capital. According to these domestic and foreign critics, the revival of official economic nationalism in the 1970s only served to obscure the regime's addiction to injections of foreign aid and investment.

It might thus appear that scholarship on Indonesian politics has passed through a number of distinct stages, as an emphasis on the predispositions of the political leadership gave way to a search for cultural implications then, more recently, to a rather relentless search for underlying economic interests. These three scholarly modes did not, however, mark paradigm shifts in any Kuhnian sense. In the first place, there were always scholars who, while operating within particular traditions, included other variables in their analyses. An early example was Schmitt, who describes the tension in policy formation during the 1950s in terms of the conflict between revolutionary ideals and the need for capital accumulation. In an account highly suggestive of later dependency theory, he contends that the continued Dutch presence in the economy split the political leadership, dividing "those who would risk financial stability to rid the economy of Dutch control from those who preferred foreign dominance to monetary chaos" (Schmitt, 1963: 181). Political differences were further exacerbated by the conflicting interests between the importers of Java and the exporters of the Outer Islands. Thus, for Schmitt, the tenacity of the Dutch was at least partly responsible for the rise of an economic nationalism centred on Java.

More significantly, each new conception of Indonesian politics and its explanation for state economic intervention did not entirely supplant the previous perspective; all three generated distinct explanations which are still evident today.
1.2. - The Political Economy of New Order Economic Nationalism

Most analysts recognise that the combination of foreign aid, increased foreign investment and the influx of oil revenues were contributing factors to an impressive expansion in state activities during the 1970s and 1980s. Most also recognise that increased state resources made the official economic nationalism of the New Order considerably more muscular. Interpretations of the impact of nationalist policies vary, however, according to the explanations used to account for continued state intervention in the economy.

In the vein of our first conception of Indonesian politics, most economists consider state policy to be essentially the outcome of political preferences. By the end of the 1970s prolonged state intervention had made it clear that political factors had to be included as variables in economic analysis. In a seminal article, Glassburner (1978) argues that the improved economic circumstances in which New Order state planners found themselves in the mid-1970s effectively 'unleashed' the more nationalistic technocrats, who were finally able to begin implementing the ambitious development plans held in check during the dark years of financial scarcity. A mainstream political economy was born -- apparently unrelated to its radical cousin.*

Although this perspective does recognise the importance of the broad social environment, economic forces and cultural influences are considered significant chiefly to the extent that they effect the personal choices of decision-makers. A common view amongst economists of the Australian National University, for example, is that the key issue in the political economy of Indonesia today is the struggle of those politicians and bureaucrats, classified as economic rationalists against the interventionists, motivated by a range of personal concerns and private interests. The official economic nationalism of the

* Glassburner (1978) attacks the 'new left' views of Payer, Palmer, Mortimer, Weinstein and Ransome for their allegedly political motivation.
regime is explained chiefly in terms of the ideological grip of statism upon the political leadership.\textsuperscript{3}

A second model for the political economy of the New Order state relies on our second dualistic conception. Writers in this category agree that the rapid economic growth of the 1970s and early 1980s legitimised the regime, but differ over whether it reinforced or eroded state unity. On the one hand, Jackson (1978) describes Indonesia as an extremely fragmented 'bureaucratic polity,' arguing that modernisation has further divided the political order. At the other extreme, Anderson (1983) describes the New Order state in somewhat monolithic terms, arguing that its expansion represents the triumph of the patrimonial Javanese 'state-qua-state' over societal forces. Lying somewhere in between these two positions are the analyses of Emmerson (1983) and Liddle (1985), who note that modernisation and the rise of new economic forces has brought a degree of regularisation to state authority, but believe that this has only begun to eat away at the personalised rule of the Presidency.

The point to be made about these different assessments of state fragmentation is that they are underpinned by the familiar contrast between traditional and modernising socio-cultural influences. The common assumption is that economic nationalism is essentially a cultural legacy of the past. Liddle (1985: 73), for example, points out that President Suharto, "the decision-making hub of the New Order," has generally followed the policy advice of the modernising technocrats. He warns, however, that his successor might choose to promote economic nationalism and rapid industrialisation, which could have the effect of removing the modernising institutions so carefully established by the technocrats.

\textsuperscript{3} McCawley (1982) considers the chief significance of debates such as that on the 'Pancasila economy' in the early 1980s to have been to reinforce the propensity of state officials to intervene in the economy, distracting attention from the task of economic liberalisation (see section 9.1.1 for a discussion of this debate). His views are associated with the 'public policy' school of political economy (section 2.1.1).
Turning to our third analytical conception, dependency theory continues to enjoy wide currency both within Indonesia and overseas. Domestically, associated concepts have entered legitimate nationalist discourse, a good example of which is provided by a popular book, *Dependency and Underdevelopment in Indonesia*. Indonesia’s political and economic dependency, the authors claim, is “essentially the result of the expansion of international capitalism, propelled by the MNCs and directed from the metropolitan centres.” Dependency “means that economic surplus is continually extracted from the masses and sent overseas,” necessitating state intervention in the economy to prevent social unrest (Arief and Sasono, 1981: 207, 190, my translation; for a similar argument see Wijaya, 1979). Studies by foreign-based scholars have also created a considerable literature on the impact of dependency on Indonesian society. A number of theorists have applied mode of production analyses to Indonesia, transferring onto another plane dependency theory’s dichotomy between internal and external interests. The common assumption of all these studies is that state intervention is necessary to satisfy the needs of international capital or, alternatively, is in response to domestic social pressure to lessen the deleterious impact of foreign exploitation.

This overview of scholarship on Indonesian politics has thus shown that despite the fact that the notion of dualism has been largely discredited as a methodological instrument, much state analysis still retains assumptions drawn from basically dualistic conceptions. Dualism may have been a useful explanatory device when data was scarce, but it is unable to encompass the diversity of an increasingly complex society. It is particularly inappropriate as a tool for political economic analysis.

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* To oversimplify their arguments, mode of production theorists who have dealt with Indonesia either distinguish pre-capitalist (internal) from capitalist (external) modes (Taylor, 1979; Tichelman, 1980), or ‘functional’ from ‘dysfunctional’ social formations (Catley, 1976; Gorden, 1982). Other analysts who have applied dependency theory to Indonesia include Utrecht (1978), Short (1978; 1979), Robison (1977) and Robinson (1986).
The concerns of political leaders do not always accurately reflect the broad cultural and economic environment in which decisions are made; the sweep of social and cultural explanations is generally too broad, with inadequate attention given to the prosaic influences upon policy-makers; finally, a preoccupation with external limits means that dependency theory is ill-equipped to account for processes of class formation that accompany economic change.

There are indications, however, that the study of the Indonesian political economy has begun to break free of such theoretical constraints. Largely in response to the questions originally posed by dependency theory, during the last decade a fruitful exchange has taken place between different schools of thought, an exchange which has partly dulled theoretical differences. Mention has already been made of the application of dependency theory by liberal political scientists. In the late 1970s a number of theorists also used a dependency framework to account for patrimonialism in Indonesian politics (Anderson, 1978; Crouch, 1979; Feith, 1979; Palmer, 1978). It is also possible that the application of mainstream political economy to Indonesia was in response to the broader popularity of dependency theory at the time. One consequence of this intellectual cross-fertilisation is that state activity has come to be seen as the outcome of competition between economic and political interests rather than an expression of a subterranean political, socio-cultural or economic dualism.

Probably the most important debate on the Indonesian political economy today -- certainly the most interesting -- is that taking place between those from 'cultural' and 'dependency' analytical traditions. The school of cultural politics has been criticised for failing to give sufficient consideration to structural economic factors (Robison, 1981). While these theorists may not have ignored structural factors to the degree implied by Robison, such critiques did lead these writers to examine state activity in terms of class formation. A number of years ago Crouch (1979), for example, had argued that it was
politics that dominated the relationship between state and society in the neo-patrimonial Suharto regime. Modernisation may have begun to destabilise this patrimonial system, but he argued that the survival of the political order primarily depended on decisions made at the peak of the political system. Inherited social structures and cultural norms restricted political activity to struggles for patronage within a palace elite, so there was little external class pressure on the state. In a later work, however, Crouch (1986) describes state policy as increasingly reflecting the interests of bourgeois social forces. The direction of state economic policy may be still heavily dependent on elite decisions, but he notes the growing pressure from societal forces for the rationalisation of state authority -- specifically that from the business class.

A greater heterogeneity of views has also become evident in the radical school of Indonesian politics as the economistic bias of dependency theory fades and more attention is given to sociological analyses. Throughout the 1970s, Robison, for example, had written very much in the dependency tradition. He did raise the possibility of an indigenous capitalist class emerging as the 'bureaucratic-bourgeoisie' reinvested tribute exacted from office, but ultimately rejected its applicability (Robison, 1977; Robison, 1978). He has now departed from the dependency dualism, however, arguing that internationalisation of the Indonesian economy is leading to a full-scale capitalist revolution.

It is capitalism which constitutes the most dynamic social, economic and political force at work in Indonesia today, rapidly and remorselessly uprooting and reshaping the lives of its people. It is within the development of capitalism that we may also find a key to the understanding of political power in contemporary Indonesia because it is within the growing interaction between politico-bureaucrat and capitalist that the genesis of a new ruling class is to be found.

(Robison, 1986: xii)
1.3 - An Agenda for Research

Despite this greater interaction and, perhaps, convergence, between exponents of different perspectives on Indonesian politics, there remains at least one obstinate difference; namely, disagreement over how the relationship between state and capital is likely to change in the near future.

For Robison, state intervention was necessary in the early years of the New Order to maintain the general interests of the capitalist class. This patrimonial legacy is now being eroded, he argues, as national and international economic changes have increased the political influence of a more integrated capitalist class, transforming it into the engine of far-reaching social change.

Increasingly, the New Order state can be regarded as a capitalist state rooted in the social power of a growing bourgeoisie and consequently much stronger than the fragile, factionalised Sukarnoist state.

(Robison, 1985: 307)

While conceding that Robison has accurately described a recent trend, observers such as Crouch and Mackie feel that the process of class formation is still rudimentary, and emphasise the social barriers constraining capitalists from realising their political potential. Ethnic divisions, for example, are seen to increase state leverage over the bourgeoisie as a whole because the most economically powerful capitalists, the overseas Chinese, are prevented from exercising significant political power. It is argued too that the greater capacity of the state to implement policy has made it less, rather than more, responsive to class pressure. On this view, Indonesian capitalists have been succoured by a lifeline of contracts and licenses, facilities which might still be withdrawn by senior state actors. For Mackie, three decades after the military-bureaucratic state moved massively into the economy following the forced withdrawal of Dutch capital in 1957, politics is still panglima in the Indonesian economy, the 'commander-in-chief' (Mackie, forthcoming).
These different perspectives on the nature of Indonesian capitalism stem, in part, from different emphases. If Robison's scenario of mutual dependence suggests private deals and trade-offs as planners come to depend on investment by large national capitalists, the image invoked by the latter, more cautious, perspective is of the businessman summoned to the government department, kept waiting for hours until it is considered convenient to hold a meeting, and is finally informed that the application made months ago has been rejected.

There are, however, differences between these perspectives with important theoretical implications. All commentators agree that the Indonesian state retains a significant degree of autonomy; all recognise that the national capitalist class is now vastly more economically powerful than was the case in the first decade of the New Order, and that state operations have changed considerably as a result. But different perceptions of the reasons for state autonomy and the mechanisms that have led to increased bourgeois influence mean different expectations over whether this trend will continue.

For Robison, state autonomy was initially necessary because of Indonesia's incorporation into the international capitalist system. The early New Order state did not represent the interests of any one fraction, but, on this view, constituted the general interest of different fractions, acting as a kind of structural cement to maintain capitalist hegemony. However, the policies put into effect by the new regime eventually led to structural economic changes of which the growth of the national bourgeoisie is symptomatic. Purely ideological concerns may intrude into the policy-making process, he notes, and in the absence of a dominant capitalist class a range of policies were enacted, some legitimising the new regime and others systematising the allocation of resources. But in a capitalist society such policies will only endure to the extent that they contri-

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*Robison's chapter in an edited volume on the political economy of the ASEAN states is the most succinct version of his thesis that the New Order state itself constitutes the ruling class coalition (Robison, 1985: especially pp. 306-309).*
bute to, or are tolerated by, the logic of capitalist accumula-
tion. The policy initiatives that charted the course of
Indonesia's current capitalist revolution were those later
reinforced by the economic power of a national bourgeoisie.
National capitalists initially sheltered behind the walls of
protective state policies, expanding their interests in the
local market and then using these domestic bases to forge inter-
national links. Robison's account therefore has about it a
strong sense of inevitability, for the current expansion of
national capital is evidence of a long-term structural change, a
trend making the state increasingly capitalistic in nature.  

The penetration of the capitalist class into
the state apparatus therefore invades and
subsumes the very heart of military and
politico-bureaucrat power. As a consequence,
the demands of capital are impressed more
insistently and immediately upon the power-
holders. (Robison, 1986: 396)

For those who stress the primacy of the political
process, on the other hand, the state is seen to have retained
its autonomy from both business influences and structural
factors. State economic intervention in the early years of the
New Order is also seen as necessary because of the lack of a
business class capable of undertaking economic rehabilitation.
However, the state is considered to have remained largely impen-
vous to the influence of the capitalist groups that emerged in
the 1970s, for changes in the state-business relationship are
seen in essentially instrumental terms. It is argued that the
new wealth was generated from import licenses and state-
allocated monopolies rather than investments in productive

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*Robison's position is more complex than this brief account may
suggest. Although he does not discount the possibility, he
thinks it unlikely, for example, that Indonesia will undergo a
full bourgeois revolution, seeing an authoritarian form of
state-led capitalism more probable (Robison, 1985: 325-327).
But as the above quotation illustrates, he does argue that the
primary political significance of a more powerful bourgeois is
that it is subjecting the state to the laws of capitalist
accumulation. See Robison (1988) for a description of the
expansion of the domestic bourgeoisie and a structuralist
account of its implications for the Indonesian state.
enterprise. Emphasis is also placed on the small size of industry in Indonesia's total GNP, evidence that the industrial capitalist revolution identified by Robison is still a long way off. With the national capitalist class ethnically divided and access to influence concentrated around the peak of the political structure, the national capitalists who benefitted from state policies in the 1970s and 1980s are thus still unable to function as effective political lobbyists. Indeed, the very strength of the New Order state identified by Robison signifies the continuing political weakness of a bourgeoisie unable to overcome the patrimonial legacy of the past.

In such circumstances, the prospects for the emergence of a strong 'bourgeoisie' of a conventionally capitalist stamp are not at all promising. (Mackie, forthcoming)

Explaining continued state autonomy in the context of a growing domestic bourgeoisie raises a number of issues about the state-business relationship. The first set of questions involves ascertaining, empirically, the extent to which national capitalists have become involved in the policy-making process. Did policy initiatives originate within the state apparatus, or were they the result of pressure from non-state actors? Whose interests were served by subsequent policy changes? How and to what effect has business attempted to influence policy implementation?

A more fundamental set of issues, more difficult to answer with any certainty, concerns the relationship between the political and economic power structures; namely, to determine the extent to which policy changes have structural repercussions. Which policy initiatives were necessary because of changed economic conditions? If other policy options were considered, why were they not taken up? Have policies not conducive to capitalist development but politically necessary been promulgated? How has business reacted? Have they been resisted, tolerated, absorbed, or just allowed to slip into irrelevance? In other words, by what process have certain policies gathered momentum while others have been forgotten?
Finally, have political decisions themselves shaped economic developments? Whenever the state has attempted to 'discipline' capital, has the bourgeoisie resisted, circumvented, or adapted to political pressure?

Relations between state and capital are complex and varied, particularly in the Third World, where cultural and ideological influences are pervasive. It is nevertheless important to determine the precise nature of the relationship between state instrumentalities and the national bourgeoisie. Understanding that relationship provides a key to understanding how capitalist development is transforming these societies, and will help us to ascertain the extent to which changes in the state-capital relationship are 'structural' or 'instrumental' in nature.

As mentioned briefly earlier and as argued at greater length in the following chapter, the answers to questions such as those posed above cannot be demonstrated theoretically but require detailed empirical investigation. I chose to focus on industrialisation policies because preliminary investigations conducted in Jakarta in 1982 had made it evident that state intervention in the industrial sector was largely in pursuit of nationalist policy objectives. Indonesia's more economically powerful capitalists have also invested heavily in manufacturing, and it is in this sector that they have sought most strenuously to influence the policy-making process.

The automotive industry was specifically selected for a number of reasons. Firstly, the industry was chosen for a purely pragmatic consideration, the availability of data. As the authority of the New Order state has grown over the last two decades, so have governmental processes become more closed and decision-making processes less accessible to inquiry. Information is nonetheless more readily available on certain industries in the modern sector, and practical difficulties were minimised by focusing on this one key industry. Secondly, the automotive industry has historically served as an important generator for the development of other heavy industries, and can be used to gauge how far industrialisation has proceeded in Indonesia.
Thirdly, the industry has one of the longest histories in the modern sector and, from the very outset, manifested the state orientation towards promoting an indigenous bourgeoisie. Ownership of the industry is today ethnically mixed, however, and this study provides some indication of how ethnic conflicts have effected state policy. Finally, the interaction between state and business has been particularly intense in this industry, with successful entrepreneurs carefully cultivating state connections. The study thus serves to indicate more generally, the methods by which state and business figures have sought to influence policy formation.

The first group of questions, concerning the actors in the policy-making process, are dealt with in the empirical chapters. After these descriptive chapters we will be in a better position to comment on structural aspects of New Order state autonomy. The second set of questions, those with more theoretical implications, will be taken up in the concluding chapter, which makes a number of observations on how capitalist development in Indonesia has altered state operations.

1.4 - The Automotive Industry and the Structure of the Thesis

Automobile production in Indonesia dates from the late 1920s, when General Motors established a plant for the assembly of trucks and coaches on the wharves of Jakarta’s port, Tanjung Priok. Promotion of the industry became a significant component of Indonesian economic nationalism after 1949, and one of the first development projects undertaken by the newly independent republic was the construction of an assembly plant for commercial vehicles, NV Indonesia Service Company (ISC). In the 1950s a number of national entrepreneurs won government protection to shift from automobile importation to assembly, eventually leading to an ill-fated state initiative in the early 1960s for complete automobile production, PT Imindo Uneswa. At the end of the 1960s General Suharto’s New Order government reorganised ownership in the industry and promoted investment in assembly. The industry then entered a period of explosive growth and by the mid-1970s virtually all imported units were assembled
locally, making Indonesia the largest automobile producer in Southeast Asia and the 17th-largest assembler of vehicles in the world (Swaminathan, 1982: 5).* The Department of Industry had also launched an import substituting industrialisation (ISI) programme with strong presidential backing and by the early 1980s a significant number of components had begun to be produced locally, making the industry a concrete symbol of the New Order's development strategy.

The thesis examines the industry in the period 1950 to 1984, with particular reference to the period since 1969, seeking to explain its transformation at three levels. Firstly, it provides an historical account of the forces behind the drive to promote the industry, a detailed study of which has not yet been carried out. Theorists warn against the tendency to reify the state and to attribute motives to it when describing decision-making processes. This is a particular danger in the study of politics in Indonesia, where popular discourse assumes state omnipotence. While accepting this caveat, the objective of local automobile production nevertheless seems to have been a sort of ideological leitmotif, appearing and reappearing during the complex changes that have taken place within the industry. This objective is, in fact, the thread that ties together the industry’s political economy during these 34 years, for many of the changes in its ownership structure ultimately resulted from the single-minded pursuit of this goal. This thesis will thus seek the historical origins of this state commitment and the reasons for its somewhat curious longevity, despite significant changes in other aspects of economic development doctrine.

Secondly, the thesis seeks to arrive at a better understanding of the impact of economic nationalism on the industry. The policy changes of 1967 mark a sharp historical disjuncture, coming as they do after a period of growing economic nationalism

* In 1969 the automotive assembly industry was the smallest of the five ASEAN states, with 14.1 per cent of the regional market. By 1976 it was the largest, accounting for 32.8 per cent of the 230,800 units produced in the region, a figure which rose to 45.7 per cent in 1982, double that of the second-largest producer, Malaysia (EIU, 1985: 9-10).
which culminated in a form of state capitalism. As mentioned earlier, the liberal economic attitudes of the early New Order period proved temporary, and throughout the 1970s economic nationalism reestablished its stamp on development policy. Relocating the assembly and manufacturing operations of international automotive firms to Indonesia involved considerable exertions by the New Order government, and the industry provides a valuable opportunity to examine the social roots for national-istic industrialisation policies.

Finally, the core concern of the thesis is to describe the relationship between state and national capital during the evolution of the localisation programme. It is shown how the ebb and flow of economic nationalism and the shifts in development strategy for the industry reflected changing alliances between state and business.

Chapter Two provides the theoretical foundation for the thesis. Recent theoretical developments in the political economy of underdevelopment are reviewed in order to derive a number of working models for state intervention in the economy. Two have already been mentioned, of state intervention as purely politically-inspired and as an expression of a changing international division of labour. These are broken down into four distinct models drawn from this literature, models which are related to the business-state relationships behind economic nationalism in Third World countries.

These models are further developed in Chapter Three, which concentrates on the internationalisation of automobile production specifically. It is shown how the relocation of production to developing countries is partly due to the changing pattern of auto-TNC investment, but is partly too in response to nationalist-industrialisation policies. The spread of production into the Third World has thus varied between countries; the development of the industry in these countries is here related to the particular class histories of their economic nationalisms. Chapter Four relates the changes in policy for the industry in Indonesia in the period from 1950 to 1965 to
struggles over the definition of economic nationalism. It presents historical themes that recur throughout the thesis: the deep-rooted ideological opposition to foreign capitalism, economic dualism as a political issue, economic indigenism as a moral concern, and the success of various business interests in calling upon state protection.

Chapter Five serves as an introduction to the empirical chapters, providing an overview of the industry during the years from 1969 to 1984 and presenting a number of issues for analysis. It describes how the move towards automobile manufacture was compressed into a period of 15 years, and sketches the changes in the state-business relationship behind automotive policy which are developed in the following chapters. Chapter Six examines the industry in the early 1970s, showing how state industrial policies were generalised throughout the business community; Chapter Seven describes the business response to state protection; Chapter Eight notes how this response encouraged key sections of the apparatus to promote localisation, with the state once more taking a leading role in guiding the industry's development; Chapter Nine steps back from the discussion of state-business relations, focusing on automotive policy debates in the late 1970s; finally, Chapter Ten describes the business forces responsible for the continuation of the localisation programme in the 1980s (a more detailed summary of Chapters Six to Ten appears at the end of Chapter Five).

1.5 - Sources of Information

No detailed study of the industry prior to 1966 has yet been carried out, although scattered references have been made to particular developments or certain business figures. Some information can be gleaned from the highly personalised memoirs of a figure involved in the industry from the outset, Hasjim Ning (1986). There is also an account of the first ten years of the assembly plant he directed, PT Indonesia Service Company (ISC, 1961).

Data on the development of the industry since 1969 are more readily obtainable, with the Department of Industry being
the principal source for raw figures. Other important primary sources of business data for this study were the published and unpublished figures provided by the various business associations listed in Appendix 3. Useful too were corporate reports and information provided by staff of the companies visited in 1984. Two economic journals published in Jakarta, Indonesian Commercial Newsletter (ICN) and Business News (BN), also have data collecting services and provide accurate summaries (the latter also publishes important decrees).

A dissertation has recently been completed by the President-Director of the Daimler-Benz licensee, PT Star Motors. The study is concerned almost exclusively with marketing aspects, but nevertheless provides a useful overview of the industry with a valuable compilation of data on the period 1976-1983 (Pawitra, 1985).

By far the most valuable primary source of information on the industry was the 'Supplement to the State Gazette' (TBN, Tambah Berita Negara) published by the State Secretariat and collated in a number of libraries in Jakarta. Details of the changing pattern of ownership of the industry can be obtained by close study of these gazettes (Appendix 4 presents a 'map' of the ownership pattern of the industry from 1950 to 1984 drawn from the supplements).

Mention should probably also be made of a study of automotive and other basic metal industries recently published by the 'Indonesian Business Data Centre,' a business organisation directed by a former journalist, Christiano Wibisono (PDBI, 1987). The first of these two volumes repeats the theme that state-business partnerships are necessary to form an 'Indonesia Incorporated' in the industry, consolidated conglomerates able to bargain on equal terms with international automotive firms. Little mention is made of state policy, except to argue that concentration is necessary to achieve this policy goal. The second volume had promised to be more useful, promising a compilation of data obtained from the TBN. The value of this data for an historical study turned out to be limited, however, because only the most recent information was
listed, giving little indication of how ownership in the industry had changed over time.

Documented information on state policy for the industry is most readily obtainable from the decrees themselves and the subsequent elucidations issued by the Department of Industry. General departmental policy guidelines are also outlined in its fortnightly publication, *Berita Industry* (BI). Other primary sources are the summaries of meetings held by the section of the Department responsible for automotive policy and circulated throughout the industry, an agency referred to as the 'Directorate-General' (various years). Useful too are policy statements by the Minister of Industry who served from 1978 to 1983 (Suhud, 1978), the recommendations made by the automotive policymaking committee he established (Interdep, 1981), as well as the views of the committee's chairman, Ramelan (1979). This man is a first echelon bureaucrat in the 'Office for Research and Application of Technology.' This government agency published a series of reports on the industry containing numerous policy recommendations (BPPT-SRI, various years).

Of secondary sources, the first study of the industry of which I am aware appeared in the *Bulletin for Indonesian Economic Studies*, a useful overview of the industry in the early New Order years by Hansen (1971). A good study of automotive ancillary industries was also carried out in the mid-1970s by scholars associated with the 'Bandung Institute of Technology,' ITB (Harahap, Witoelar, et. al., 1978). This research formed the basis for an insightful study of industry policy published some years later (Witoelar, 1983). Thee (1985) has also concentrated on the issue of linkages between small and large firms, exploring the policy implications. Apart from this handful of studies, however, references to development policy for the industry are rather sparse.

Thus, even though more information is available on the automotive industry than for other sectors of the Indonesian economy, most information on policy-formation was derived from over 100 interviews conducted over a period of nine months in 1984 (Appendix 1 lists these interviewees). This was particu-
larly the case for the period before 1969, although, in view of the passage of time, evidence thus obtained was carefully checked, where possible, against published data.

Even for recent years, however, the sparcity of published information on the policy-making process meant that interviews were undoubtedly the most important guide in interpreting the legislative process. I was able to interview senior directors of 15 of the 22 or so companies in the industry. These discussions proved particularly useful, because it was from these businessmen and businesswomen that I obtained the most candid accounts of the political interests behind policy changes. By constantly crosschecking the views of different businesspeople and seeking written evidence to support their claims, I was able to gradually build up a picture of the political events preceding important decrees, fleshing out the dry bones of the legislative process.

I had been warned that bureaucrats were generally unwilling to divulge information and had expected to obtain little of value from officials. Although this was often the case, and Indonesian government officials can be annoyingly evasive, quite a few were willing to speak with disarming frankness about the shortcomings of particular business groups -- especially if it involved the failings of another sector of the bureaucracy. I am indebted to a number of individuals who painstakingly explained the changing ownership pattern in the industry, relating it always to changes in government policy. To preserve the anonymity of these interviewees and others who provided confidential information, they are simply indicated with a number.
Chapter Two
ECONOMIC NATIONALISM, INDUSTRIALISM, AND THE THIRD WORLD STATE

Politics and the state in Third World countries, far too frequently ... are treated just as aspects of other, albeit interesting, developments. One result of this is the blurring of the importance of the state and politics in these formations in the collections that exist. Of course, this situation reflects, to a large degree, the fact that there is relatively little theorisation of politics and the state in these societies.

(Goulbourne, 1979: ix)

Despite frequent predictions that increased economic activity across national borders heralded the demise of the nation-state, its importance as an economic unit has increased fairly consistently since the mercantilist period of the 18th century. Since the end of World War Two in particular, nationalists in Japan, Western Europe and the Third World have used state authority to promote national development, eroding the economic hegemony of the United States and thereby placing economic relations on a less predictable base of bargaining between states (Gilpin, 1975). In the following analysis, the phenomenon of economic nationalism is understood as a set of policies intended to insulate the national economy from external forces and create an integrated economy under local control.¹

¹ There has been little social science analysis of economic nationalism in its own right, although Michael Heilperin's historical account is worthy of mention. Drawing a distinction with economic isolationism, he defines economic nationalism as "a body of economic policies aimed at the loosening of the organic links between economic processes taking place within the boundaries of a country and those taking place beyond those boundaries" (Heilperin, 1960: 27). Based on case studies in Southeast Asia, Golay et. al. (1969) seek to build a theoretical framework for analysing nationalist economic policies in developing countries. The concept of 'indigenism' explored in Chapter Four below, was first used by one of these authors, Ralph Anspach. Itagaki (1973) proposes a general theory for the political economy of Third World economic nationalism based on
The term 'economic nationalism' seems to have first gained currency during the trade wars of the 1920s, although those who seek to establish a longer intellectual pedigree sometimes note that Aristotle praised economic self-sufficiency. The concept gained a certain notoriety during the 1930s when it was associated with the policies of the authoritarian regimes of Western Europe. In the postwar period, economic nationalism has been most often associated with the Third World, where it has ebbed and flowed, but never long been absent. Partly due to a desire to expand the national economic base, but partly also to an accumulated resentment that is not so easily assessed, the leaders of developing countries have demonstrated a repeated propensity to restrict overseas trade and the operations of foreign companies in order to promote national development, especially industrialisation. The purpose of this chapter is to provide an analytical framework able to account for the phenomenon and its various manifestations in Third World countries.

The intellectual roots for state-led industrialisation policies lie in the 19th century, in the mercantilist and historical schools of political economy. In his 1791 *Report on the Subject of Manufactures*, Alexander Hamilton had attacked Adam Smith's free trade principles when advocating protectionist measures for United States industry, particularly textiles. Friedrich List took the infant industry argument a stage further in *The National System of Political Economy*, published in 1840, in which he urged state reorganisation of German industry to duplicate the success of Great Britain.
Two was soon attached to the goal of industrial development, making industrialism a key component of Third World economic nationalism.3

In what is now a considerable literature in development studies, analysis of Third World economic nationalism has chiefly focused on its external manifestations, with less attention paid to its internal dynamic. This lack of concern partly reflects the fact that the study of economic nationalism has generally been the preserve of economists. Rarely examining it as a political phenomenon in its own right, economists have tended to rely on psychological factors to explain its motivating causes. Harry Johnson (1965: 183), for example, observes that in developing countries activities such as automobile production are targeted because of their symbolic value. Economic nationalism therefore tends to direct industrial policy "towards the production of psychic income in the form of nationalistic satisfaction, at the expense of material income." Economists sympathetic to Third World aspirations also often refer to the ideological motives of political leaders to explain the phenomenon. Gunnar Myrdal (1957: 70-73), for instance, had advocated government restrictions on foreign investment, considering this an appropriate means to redress international imbalances of wealth. However, in his magnum opus on poverty and underdevelopment, Asian Drama, he calls into question the development aspirations of Third World leaders, describing the desire to emulate the West as the primary determinant of economic policy. Industrialisation was expected to bring concrete economic benefits, diversifying the economy and satisfying basic human needs. Yet underlying its prominence in economic planning after World War Two was the expectation that industrial progress would bear less tangible social and political rewards associated with the achievement of independence. In the climate of

3 In his recent effort to rehabilitate the concept of Third World nationalism, the late Dudley Seers (1986: Chapter Two) notes the prominence of industrialisation in the 'ideology of national development.' Burnell (1986) also emphasises the importance of the industrialisation objective in a useful summary of Third World economic nationalism.
nationalism that reigns in the Third World, "the image of colonial economic history dominates the thinking of the intellectual elite who now subscribe to the industrialisation ideology" (Myrdal, 1968: 1152).

Social scientists have sometimes used alternative explanations. The political scientist, William Wriggins (1969: 43, 234-236), views economic nationalism sceptically, as an exercise in political obscurantism, observing that foreign scapegoats are often targeted in Asian and African countries to deflect domestic criticism from planning shortcomings. The anthropologist, Clifford Geertz (1977: 252), also suggests that as industrial progress draws dominant local groups into the modern world, leaders intensify nationalist ideologising in order to conceal growing domestic inequities. Most, however, employ a mode of analysis similar to that which prevails in economics. Itagaki (1973: 226) describes Third World economic nationalism as part of a general social revulsion against alien domination. It is an expression of a "'love-hate syndrome' that has as a backdrop [a] deep-seated psychology of frustration, suspicion, jealousy and dissatisfaction." Guy Caire (1980: 137) also argues that the doctrine of industrial self-sufficiency has been transformed into dogma in the Third World, a policy imperative that has infused all economic planning. But because self-reliance is only possible for a handful of developing countries, he concludes that the doctrine of industrial independence has become so deeply ingrained in the worldview of Third World leaders that they have committed their countries to a new form of ideological dependence.

These observations on the ideological persistence of the industrialisation objective in Third World economic nationalism are valid as far as they go. Yet they beg the question, why has the commitment to industrialism proved so resilient at the political level if it makes little economic sense? In the 1950s and 1960s organisations like the World Bank strongly promoted import substitution industrialisation (ISI) policies, promotion which heavily influenced Third World planners. Yet the commitment to industrialisation has outlived the reversal in
the advice emanating from these international bodies, now
generally critical of ISI. Drawing up grandiose plans for
building industrial strength may provide Third World leaders
with a deal of personal satisfaction, while ‘beating the anti-
imperialist drum’ might be effective in rallying diverse social
forces around the dominant political group. However, explana-
tions at a psychological, cultural or ideological level cannot
account for this persistence; nor can they explain why the
almost universal commitment to industrialisation has had such
varied results.

Neither is it sufficient, it should be noted, to
account for the ideological emphasis on industrial development
solely in terms of international shifts in production. We can
accept that the international division of labour is an important
influence on domestic state-business relations. The gradual
relocation of production processes to developing countries that
has taken place in the last few decades, generally referred to
as the ‘tendency towards a New International Division of Labour’
(NIDL), is a major influence on the policy-making environment in
developing countries. The possibilities this trend opens up is
one of the most important considerations for industrial planners
and potential investors, perhaps in most developing countries.
But this tendency only sets the economic parameters to what is
feasible; it is not directly determinative of state policy,
which is subject to a variety of historically-specific factors, both
domestic and international.

What we need for the study of nationalist industrial
policies in developing countries, therefore, is an analytical
framework able to account, structurally, for the social forces
fueling Third World economic nationalism, a framework which can
also encompass its multiple political forms. As mentioned in
the Indonesian context, the approach used here assumes that
state activity is subject to a variety of factors: ideological,
cultural, economic, as well as political. It is the argument of
this chapter that the interaction between state and bourgeoisie
provides the dynamic for nationalist economic policies, and that
its different manifestations reflect variations in that relationship.

Marxists and dependency theorists concerned with development issues have long focused on this relationship, and the debates within this school, here referred to as the 'political economy of underdevelopment,' will provide this framework. The first half of this chapter describes these theoretical developments, tracing the debates that produced diverse perspectives on the class nature of the Third World state. The latter section presents four heuristic models of nationalist state intervention in economy drawn from these debates. Two have already been mentioned in the Indonesian context and recurred in the above discussion: economic nationalism as purely politically motivated, and state intervention as structurally necessitated to oversee changes in the international division of labour. To these are added two more: economic nationalism as the ideology of an emergent bourgeoisie, and economic nationalism as the expression of the interests of a 'state class' forming around the state apparatus itself.

The existence of two common, but distinct, definitions makes necessary some preliminary comments on terminology. Understood broadly, 'industrialisation' often refers to the process whereby sectors of the economy grow more interdependent, a process characterised by greater specialisation, the application of advanced technologies, and a more complex division of labour. In this sense, 'industry' is equated with the 'modern sector' and also includes economic activities associated with mining, construction and public utilities. It was, however, the application of mechanised production techniques in factories that was the hallmark of profound changes in the political and social structures of Europe during the industrial revolution (Kemp, 1978: 44-48). The development of manufacturing became the guiding light for economic planners in the majority of developing countries after the war, and industrialisation is therefore used here in this second, narrower sense, to refer to the deepening of manufacturing production structures. The terms 'industry' and 'manufacturing' will be used interchangeably.
2.1 - THE THIRD WORLD STATE IN THE
POLITICAL ECONOMY OF UNDERDEVELOPMENT

The attention given to theories of the state within development studies over the last two decades stands in stark contrast to the paucity of political theorisation before this. Prior to World War Two, social science displayed little interest in the countries that now form the Third World -- apart from some detailed anthropological investigations into the distinctive features of the peoples of the 'undeveloped regions.' When political scientists eventually did turn their attention to politics in developing countries, they made fundamental assumptions about the development process based on the European experience. In the first two decades after World War Two students of development studies assumed that the bourgeoisie should be the motor of development, and so tended to regard nationalist economic policies as meaningful only if supported by a capable business class.

Modernisation theory remained the politically dominant development paradigm for most of the postwar period. Relying on a dichotomy between 'traditional' and 'modern,' most modernisation theorists considered that the transition to modernity primarily depended on the ability of the business class to accumulate capital. Investment was essentially the business of entrepreneurs, and political scientists were sceptical of the development aspirations of Third World leaders. To take one well-known example, LaPalombara (1971: 282) warns that the use of scarce resources to realise ambitious industrial development schemes in countries with a fragile sense of national identity would exacerbate problems of allocation; such an ideological commitment could thus be "nation-disintegrating rather than nation-building." This emphasis on nation-building meant there was little systematic discussion of the relationship between state and society, or of the role of the state in promoting
modernisation. The term 'state' virtually disappeared from the lexicon of development studies."

Marxists come from a different theoretical tradition with a completely different terminology, but during these decades made an assumption curiously parallel to that of modernisation theory. Marx's best known position on underdevelopment was that contact with advanced capitalist countries would have a progressive impact, stimulating the emergence of a national bourgeoisie. He had on occasion put forward another argument, never fully reconciled with the first, that imperialism hampered capitalist modernisation (Palma, 1978). This second perspective would be revived during the theoretical revisionism of the 1970s and was an important point of departure for dependency theory. In the first two postwar decades, however, Marxist ideologists reified the distinction between feudalism and capitalism, and hopes for development were also pinned on the bourgeoisie. Constrained by the straightjacket of orthodoxy, Marxists thus made few innovations to theories of political economy and in development studies at least, were unable to capitalise on the questioning of established assumptions that marked the 1960s.]*

* Perhaps the best-known writer of this school is Huntington (1968: 47; 296-300), who dwells on the negative effects of state intervention. Although somewhat more sympathetic, Seymour Lipset (1963: 46) also describes the development aspirations of Third World leaders in psychological terms, "part of their more general effort to overcome feelings of national inferiority, particularly *via-a-vis* the former metropolitan ruler." Higgott (1983: Chapter Two) describes the role of the Committee of Comparative Politics in shaping the concerns of development studies in the United States.

* In many respects a forerunner to later dependency theory, Paul Baran (1957) contends that the continued 'sucking out' of surplus by the imperialist powers precluded a normal process of capital accumulation. Baran's argument did not, however, gain significant acceptance in Marxist circles until a decade after its initial publication.
2.1.1 - The Erosion of Development Orthodoxies

In the mid-1960s these two orthodoxies began to be eclipsed by a new perspective on underdevelopment, one that directly challenged assumptions drawn from the European experience. The immediate concern of dependency theory was to demonstrate the structural limits to industrial development in the capitalist Third World. This concern largely accounts for its sudden popularity.

The roots of dependency theory are to be found in the Economic Commission for Latin America, ECLA, particularly the seminal contribution of its director, Raul Prebisch. Rejecting the diffusionist assumption of modernisation theory, Prebisch (1950) divides the international economy into two inherently antipathetic camps, the capitalist centre and the capitalist periphery. He argues further that worsening terms of trade for agricultural exports were ultimately responsible for the impoverishment of the periphery. An outpouring of studies by the economists of ECLA and their Western supporters, Myrdal, Singer and Lewis, advocated state-led industrialisation, a remedy which readily appealed to Third World leaders.

Policy-makers in developing countries became increasingly disillusioned with the ISI strategy during the 1960s, however, as the move beyond the first, 'easy' stage of consumer goods production proved economically disruptive (Hirschman, 1968). Planners were faced with a choice of demolishing tariff walls in the search for comparative advantage, or erecting new ones to encourage a shift into upstream production. Most chose the latter. When further difficulties arose, a common response was to point to external obstacles. A number of nationalist

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a Active in the 1940s in Argentinian policy-making circles, in the 1950s Prebisch's personal influence extended throughout the continent via ECLA, and in the 1960s throughout the Third World after he became Secretary-General of UNCTAD. His enormous impact on both development theory and practice is summarised by Love (1980) and Jameson (1986).
theorists adapted Prebisch’s center-periphery dichotomy to argue that dependency was preventing industrialisation.7

In the first half of the 1970s, the emphasis on structural economic impediments to capitalist development began to take on the form of a new orthodoxy. Explanations of underdevelopment in Asia and Africa along lines of those applied to Latin America abounded. ‘World Systems theorists’ elaborated and considerably refined dependency theory (Emmanuel, 1972; Wallerstein, 1974; Amin, 1974). The growing popularity of the dependency perspective gave it the status of a theoretical paradigm, determining the choice of subject under investigation and limiting the scope of the findings.

Notably absent from much of the dependency literature, however, is reference to the social influences on policy formation. Dependency theorists certainly made important contributions to political economy, in particular the stress on historical processes and the vision of the peripheral economy as a component in a global system. The school was also more diverse than is often recognised, with the more ‘political’ theorists who focused on domestic aspects of dependence probably as influential within Latin America as those who focused on its economic aspects.8 Nevertheless, it is a central assumption of these writers that the international division of labour is determinative, and that the transfer of economic surplus from the periphery to the centre constitutes the major obstacle to capitalist development. If Marxists and modernisation theorists

7 The best-known of these, Andre Gunder Frank (1967), extends dependency theory the furthest, describing development and underdevelopment as two sides of the same coin and arguing that full capitalist development is impossible without disassociation from the imperial centres, probably involving considerable social turmoil.

8 A good example of the views of these ‘political’ dependistas is Cardoso and Faletto (1979), who, writing in the mid-1960s, describe economic nationalism in Latin America in sociological terms, relating it to the rise of national bourgeoisie. I also have in mind here Dos Santos (1973), more flexible than Frank, who stresses that dependence is a ‘conditioning situation’ that influences but does not determine historical outcomes.
had tended to focus on the domestic situation to the exclusion of external restraints, dependency theory had moved too far in the opposite direction, drawing attention away from social change in the periphery (O'Brien, 1975).

It is therefore no exaggeration to say that for much of the postwar period, analysis of the Third World state was constrained by essentially ideological presuppositions. This highly condensed overview of postwar development theories has indicated the persistent attempt to arrive at a general theory for capitalist development, a Procrustean law to which, with a few adjustments here and there, different circumstances could be made to conform. Modernisation theorists were primarily concerned that the state provide the conditions for the free play of social forces; Marxists were not theoretically equipped to mount an effective challenge; the rising popularity of the dependency school in the early 1970s made it appear that this Latin American export would assume the status of a new orthodoxy, that the pessimistic outlook of certain dependency theorists would once more relegate the state to theoretical irrelevance. Little recognition was given to the complexity of Third World states and the diversity of options open to their planners.

Political developments were, however, simultaneously eroding the foundations on which these orthodoxies were built. The economic assertiveness displayed by a number of Third World states in imposing sanctions against foreign capital in the early 1970s caused many theorists to question the assumptions underlying their analyses. As recalled by the author of the 'sovereignty-at-bay' model, a spate of nationalisations undermined his argument that transnational corporate controls were inexorably encroaching on state planning prerogatives (Vernon, 1981). The demand for economic sovereignty was clearly an important factor in economic policy formation, and adherents of modernisation, Marxist, and dependency traditions could no
longer ignore this ideological concern. Two schools of political economy emerged in response.\footnote{The following two paragraphs draw on Staniland’s (1985) illuminating discussion of different schools of political economy, particularly his account of the renaissance of international political economy in the 1970s (Chapter Five, esp. pp. 94-104).}

The events of the early 1970s encouraged mainstream economists to include political factors in their analyses. Higgott (1983: 24-30) locates the origins of the ‘public policy’ school of political economy in the disenchantment of liberal political scientists with the exclusion of economic variables. Also known as the ‘political economy of development,’ its exponents claim an intellectual heritage with roots in the economic analyses of Kindleberger, Hirschman and Schumpeter in the 1950s (Frey, 1984). Whatever its genealogy, this school retains the conceptual framework and methodological assumptions of modernisation theory. Development is regarded as essentially a transition from tradition to modernity; domestic constraints are considered the primary obstacles; too little cognisance is given to historical and social factors. For these theorists, the state is introduced chiefly as a vehicle for allocating economic resources.

Less theoretically constrained is the ‘political economy of underdevelopment.’ The ideological cross-currents generated by radical critiques of modernisation theory in the 1970s produced a plethora of theorising on peripheral capitalism and its relationship to the international economy. The voluminous literature that was the product of these debates has been summarised elsewhere, and its finer details need not concern us here. What is relevant are the perspectives on the social forces behind state policy associated with different theoretical positions.\footnote{Cox (1979) and Higgott (1983) provide useful overviews of these theoretical developments. Brewer (1980) traces the development of Marxist theories of imperialism. Blomstrom and Hettne (1984) offer a stimulating and sympathetic account of the transformations that took place within the dependency school.}
As we have seen, writers in both Marxist and dependency theoretical traditions had exhibited a strong tendency to adopt doctrinaire positions on development issues, and, as much as modernisation theorists, to reify findings applicable to particular cases into general laws of development. However, the debates between exponents of these two traditions in the context of a more assertive Third World leadership produced an enriching diversity of perspectives, which, as we shall see, had important repercussions for political economy.

2.1.2 - The Theoretical 'Rediscovery' of the State in the Capitalist Periphery

It was through Marxist critiques that dependency theory lost its status as a universal explanation for underdevelopment, setting in train a debate that eventually led to a broader recognition within the political economy of underdevelopment that forms of dependence will vary from country to country, influenced by different internal and external factors.

Marxist scholars concede that the concept of the state is still probably the least adequately theorised area of Marxist scholarship. A past preoccupation with gaining power meant an emphasis on party rather than state, creating a major conceptual lacuna (Poulantzas, 1969; Miliband, 1969; Bobbio, 1978). Beginning with the Miliband-Poulantzas debates of 1969-1972, however, there have since been concerted efforts to develop a theoretically-grounded concept of the capitalist state.\(^{11}\)

The issue of state autonomy was one focus for these debates. State autonomy is controversial for Marxists since, by definition, the state typically preserves the interests of the dominant class. However, Marx and his intellectual descendants recognise that the state can on occasions play a more active role, disciplining individual class fractions in order to maintain social order or promote future development. This view

\(^{11}\) The Miliband-Poulantzas debates are best summarised by Laclau (1975) and the implications for LDCs by Roxborough (1979: 118-125). The diversity of recent Marxist perspectives on the state is emphasised by Jessop (1979).
of state power was seized upon by a number of Marxist theorists in the 1970s, who argued that a degree of state autonomy is necessary to represent the interests of the bourgeoisie as a whole.\footnote{Marx and Engels (1970: 80, 106) describe state autonomy as necessary for capitalist development in Germany. The best-known case of instrumental state autonomy is Marx’s ‘Bonapartist state’ in 19th century France, where the retreat of the land-owning class before the bourgeoisie had consolidated its position created a political vacuum temporarily filled by Napoleon’s military regime (Marx, 1935: 105-106). For Engels, state autonomy would become a permanent structural feature of capitalist society, a “confession that society is caught up in an insoluble contradiction with itself ... In order that the antagonists, the classes with economically opposed interests, not be consumed ... the necessity of a power is imposed which ... must soften the conflict, maintaining it in the limits of ‘order’: that power, coming from society but situated above it and increasingly foreign, is the state” (Engels, 1972: 229).}

The practical relevance of these theoretical debates was that dependency theory was soon challenged to account, theoretically, for the evident autonomy of the Third World state. The sharp reaction of foreign firms to restrictions on their activities in developing countries had indicated that these states were not simply the agents of foreign capital. But the bourgeoisies in these countries were generally very weak. Was then, the state acting to protect a capitalist class that was still embryonic? Was it acting independently? Or to protect the capitalist system as a whole? Dependency theory proved unable to formulate a suitable response to these questions; three chinks had appeared in its theoretical armoury.

The first was the contention of the Argentinian Marxist, Ernesto Laclau, that capitalism must be characterised as a mode of production with distinct relations of production. Dependency and World Systems theorists generally define capitalism in terms of relations of exchange, considering a peripheral society capitalist if it produces goods that ultimately realise profits on an international market dominated by the capitalist centres. Laclau (1971) points out that it is possible that goods sold on the international market were not produced on the basis of wage-labour, but had been appropriated by a pre-
capitalist elite by virtue of traditional social dominance. If participation in world trade is, in itself, insufficient to define a society as capitalist, then it follows that all peripheral formations cannot automatically be classified under the same rubric.

The ensuing controversy, over whether a Third World social formation should be considered capitalist or only partly so if penetrated by the capitalist mode, was largely semantic (Foster-Carter, 1978). The significance of the Modes of Production debate for our purposes is the rejection of the notion that the world capitalist system operated as a *diabolus ex machina*, determining social change in the periphery. With Third World social formations seen to be determined by a *conjunction* of modes of production, attention was directed towards the analysis of class histories of particular societies.

The second gap in the dependency paradigm was associated with the success of the Newly Industrialising Countries. Reviving the classic Marxist position on the pioneering role of imperialism, Bill Warren argues that the postwar expansion of capital had spread industrial development around the globe, an expansion which was digging the grave of that international system of exploitation.

If the extension of capitalism into non-capitalist areas of the world created an international system of inequality and exploitation called imperialism, it simultaneously created the conditions for the destruction of this system by the spread of capitalist social relations and productive forces throughout the non-capitalist world. (Warren, 1973: 41)

More than simply weakening the theoretical defenses of the dependency paradigm, the recognition by Marxist theorists that East and Southeast Asian countries were rapidly industrialising "cut a swathe through the ideology of dependency theory, which had been as keen to recognise the underdeveloping tendency of world capitalism as was modernisation theory to recognise capitalism's developing tendencies" (Higgott, 1983: 57).
It was the application of radical development theory to Asia that finally brought the state into closer theoretical focus. In a seminal article seeking to explain the dominance of the military and bureaucracy in Pakistan, Bangladesh, India and Indonesia, Hamza Alavi (1972) argues that it is a misconception to consider the state to be dominated solely by a foreign ruling class. The state in these societies is immunised against class pressures, he suggests, partly because of the large military and bureaucracy inherited from the colonial *ancien régime*. This bloated 'overdeveloped state' reverses the traditional relationship between state and class. "In this situation the military-bureaucratic oligarchies, the apparatus of the state, ... assume also a new and relatively autonomous *economic* role, which is not paralleled in the classical bourgeois state" (Alavi, 1972: 62, emphasis in original).

More significantly, Alavi also considered state autonomy to be structurally necessary for the preservation of capitalism in the periphery. After independence, the metropolitan bourgeoisie had to share political power with local classes, creating an uneasy equilibrium in which no class could exercise political hegemony. Recalling Marx, Alavi contends that this fractionalism made state autonomy an enduring feature of Third World societies.

The central proposition which I wish to emphasize is that the state in the post-colonial society is not the instrument of a single class. It is relatively autonomous and it mediates between the competing interests of the three propertied classes, namely the metropolitan bourgeoisies, the indigenous bourgeoisie and the landed classes, while at the same time acting on behalf of them all to preserve the social order in which their interests are embedded, namely the institution of private property and the capitalist mode as the dominant mode of production.

(Alavi, 1972: 62)

The debates sparked by these theorists led, in a round-about way, to a more historical approach to state analysis in radical political economy. After Laclau, it could no longer be assumed that the political order was simply the epiphenomenon
of one economic system. And if we accept the possibility that Warren's argument may be correct, that foreign investment may accelerate capitalist development in the periphery, then we must also reject the a priori position that political independence is irrelevant. Finally, Alavi's 'post-colonial state' thesis had indicated, in specific terms, how the Third World state might be free of instrumental control by any one class. There was a perceptible shift amongst the heterogenous group of scholars within the political economy of underdevelopment, away from attempting to derive general 'laws' of underdevelopment that define the nature of state.

One lengthy and influential article in particular gave the trend towards greater pluralism a firmer theoretical basis. The thrust of Brenner's argument is that it is insufficient to offer evidence that a peripheral social formation conforms to theoretically-derived laws to show that it has become capitalist, and that the question of development and underdevelopment cannot be reduced to processes of capital accumulation. He criticises the 'neo-Smithian Marxism' of many dependency and World Systems theorists for failing to recognise that, in its early stages, capitalist development is "centrally bound up with historically specific class structures of production and surplus extraction, themselves the product of determinations beyond the market" (Brenner, 1977: 87). State activity is critical to the evolution of capitalism, he argues, and it is necessary to isolate the specific alliances between state and social groups before characterising the class nature of the peripheral state.

Subsequent attempts to reconcile theory with specific conditions in Africa, Asia and Latin America created a wider acceptance within this school that the nature of the peripheral state cannot be determined by theory alone, but has to be anchored in historical analysis. In an analogy especially appropriate for a study of Indonesia's political economy, Palma (1978: 910) characterises these efforts to reconcile concrete situations with abstract laws as creating an awareness of "the diversity within the unity."
2.2 - FOUR MODELS OF STATE, CLASS AND ECONOMIC NATIONALISM IN THE CAPITALIST PERIPHERY

In order to clarify the theoretical framework within which these models of state-class relations have been developed, it is necessary to first indicate the premises upon which this effort is based, underlining the differences with structuralist approaches to state autonomy within the political economy of underdevelopment.

As in Robison's account of the New Order state, structuralists recognise that a range of influences may be brought to bear on the policy process, but, to a greater or lesser extent, consider the economic environment to be decisive. For instance, the best-known proponents of the NIDL discuss state activity in developing countries almost exclusively in terms of the ability to provide the infrastructure that will attract foreign capital (Frobel, Heinrichs and Kreye, 1977: 85-87). Other NIDL advocates consider that the state may function independently and according to a coherent set of political criteria, perhaps in contradiction to the interests of dominant classes. But here too, the outcome is seen to depend on structural factors beyond state control. Thus, Palloix describes how state resistance to encroachments on national sovereignty by TNCs hastens the localisation of production, thereby accelerating national development. This apparent

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13 Structuralist explanations for state activity draw on the early work of Poulantzas (1973), who, in the context of the revival of French radicalism, describes state activity in functional terms, as inevitably reproducing capitalist society, whatever the inclinations of its personnel.

14 James Caporaso has provided a useful summary of radical and neo-classical NIDL theories, pointing out their weaknesses and strengths. He also ultimately adopts a structuralist position, calling for a new approach in international political economy, one that "might recognize the driving force of the process of competitive capital accumulation and try to interpret domestic activities in relation to this governing process" (Caporaso, 1987: 33).
autonomy in development planning is a chimera, however, for the state’s function is ultimately set by the logic of the structural economic forces driving the internationalisation of production.

Internal economic policy becomes more and more a matter of external economic policy; the internal situation adapts itself, moulding itself to the external situation which determines it. (Pallekix, 1977: 13)

Block (1977; 1980) has proposed a more sophisticated structuralist theory of capitalist state autonomy. In seeking to maximise profits, he argues, individual capitalists are essentially motivated by a non-class consciousness, thus creating the need for political coordination to preserve the system as a whole. The prominent role of the state in the economy does not negate the power of capital, however, for the state and the bourgeoisie are mutually dependent, albeit with separate political and economic responsibilities. For Block, the power of the capital-owning classes is not formal but structural: state authority rests on reproduction of the present social order, so the state is dependent on the class that controls the investment vital to the survival of the economic system. Once a country has entered the capitalist orbit, therefore, the economic and social context in which political decisions are made will mean that reformist and even ostensibly socialist policy initiatives are redefined or implemented so as to serve the process of capital accumulation.

Despite the appeal of this formulation, the difficulty with structuralist approaches to state autonomy is that they tend to be economically reductionist, shifting attention away from analysis of important processes of social change and state formation. Change in the global economy is obviously a major consideration for state planners, and the tendency towards a NIDL may dominate economic policy-making; it constitutes one of the models below. But such changes are not definitive of state policy. More importantly, an approach which concentrates on the constraints to change is not likely to identify transformative tendencies in the state-capital relationship. The approach used
here makes no *a priori* assumption about the determinative role of structural factors.

It is axiomatic for theorists within the school of the political economy of underdevelopment that these states can operate contrary to the capitalist mode of production only under exceptional conditions. As perhaps the best-known proponent of state autonomy has colourfully put it, even if state oligarchies are free to chart their own economic course, "the enrichment of public officials, politicians, bureaucrats and the military officers bears its best fruit when they can invest their ill-gotten gains, and for that they must again operate within the framework and logic of peripheral capitalism" (Alavi, 1982: 303). Within these limits, however, development policy and the impact of state intervention will vary. In the capitalist Third World, where processes of class and state formation are less advanced than in developed countries, the interaction with the national bourgeoisie provides an important dynamic for changes in state activities.

Robert Cox has argued persuasively for a broadening of analytical perspectives in international policy economy, for a shift away from structural determinism and a return to historical materialism, an approach which seeks to account for the variety of state forms in terms of specific influences. International relations theory, he feels, has failed to allow for the important interaction between state and social forces.

As a consequence, the prospect that there exist a plurality of forms of state, expressing different configurations of state/society complexes, remains very largely unexplored.

(Cox, 1986: 205)

The following models of the Third World state have been designed to explore this 'plurality of state-society configurations.'

Crucial to the construction of these models was the debate on the state in Africa that took place in the 1970s and 1980s, for it was here that a number of perspectives were first made explicit. The absence of an established intellectual tradition in Africa lent social research there a degree of openness, and the so-called 'Africa debate' had ramifications
for development studies in general, providing an important corrective to the reductionism that still prevailed. Because of its importance in the following discussion, a brief description is in order.15

The starting point for this debate, as for the political economy of underdevelopment more generally, was the widespread acceptance of the dependency paradigm. In his 1967 study of the Ivory Coast, Samir Amin had argued that wealthy African planters had become compradors to the metropolitan bourgeoisie, and that their political influence had subordinated the economy to the needs of international capitalism. In 1970 Amin became head of the UN 'Institute for Economic Development and Planning' based in Dakar, from where he popularised his version of dependency theory throughout African intellectual and policy-making circles (Blomstrom and Hettne, 1984: 141). His theory of a Third World state structurally wedded to a comprador class was subsequently contested, however, by Tanzanian political scientists, who argued that the state had a greater degree of because a capital-owning class was coalescing around the state itself. By way of Marxist critique, there then emerged a third perspective on the state in Africa, of an economically weak national bourgeoisie wielding sufficient political influence to win state support for a primarily national process of capital accumulation. Finally, a fourth perspective depicted state instrumentalities functioning to promote modern capitalist production techniques, interlinking national and international fractions of capital in order to accelerate capitalist accumulation.

By the early 1980s, therefore, four distinct models had been employed as explanations for state intervention in the economies of Africa. These we may label Dependent, State-for-Itself, Nationalist, and Internationalising models. While these

15 Important participants in this debate included Amin, Shivji, Swainson, Leys, Beckman and Saul. Nursey-Bray (1981) and Higgott (1985) provide useful summaries, although some of the most important arguments are discussed in the relevant models below.
theorists did attempt to draw general implications from their findings, the significance of this debate is that it did not involve the complete rejection of alternatives. Rather, one can sense that the debate forced participants to recognise the limits to their analyses. No longer attempting to define the nature of the state and then apply it to concrete situations, the debate shifted to the suitability of different models to particular situations.16

The following models form a taxonomy which allows us to identify a variety of state-class relations, to indicate the main actors in the policy-making process, and to discuss the implications for state autonomy. They go beyond cultural or psychological accounts, describing the state’s role in the economy in terms of the relationship between state and bourgeoisie. Because of this concern with state analysis, the term ‘perspective’ is too weak, suggesting simply a number of assumptions. On the other hand, we have witnessed a trend towards a more agnostic position on the class nature of the state, and should avoid the inference of logical consistency suggested by ‘theory.’

The term ‘model’ is appropriate at this preliminary stage of analysis, suggesting general patterns and postulating causal relationships in the state-class relationship informing economic policy. In order to organise the subsequent discussion, Figure 1 categorises four major models of the state in the capitalist periphery in relation to national and international forces, arranged along a spectrum of increasing state autonomy. In addition, each model is presented in terms of its key assumptions, the impact of state economic intervention on national business, and the motivating force for official economic nationalism.

16 Leys (1978), the most prominent proponent of what I have termed the Nationalist perspective, notes that few states were endowed with the physical and managerial resources which had made Kenya’s capitalist sector viable. In his description which using the State-for-Itself model, Shivji (1976) concedes that his concept of a ‘bureaucratic bourgeoisie’ is relevant only where no large landowning or trading classes exist.
## Figure 2.1

FOUR HEURISTIC MODELS OF THE SOCIAL FORCES UNDERPINNING ECONOMIC NATIONALISM IN THE CAPITALIST PERIPHERY

<table>
<thead>
<tr>
<th>1</th>
<th>The Dependent State</th>
<th>2</th>
<th>The Nationalist State</th>
<th>3</th>
<th>The Internationalising State</th>
<th>4</th>
<th>The State for Itself</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Intervention in the economy:</strong></td>
<td>is structurally necessary to integrate the economy into the international division of labour</td>
<td>is in response to pressure for protection from national capitalists</td>
<td>is necessary to co-ordinate the integration of capitalist fractions across national boundaries</td>
<td>is governed by politically-determined considerations</td>
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<tr>
<td><strong>Impact on national capital:</strong></td>
<td>co-ordinates a weak capitalist class according to international requirements</td>
<td>bolsters a national capitalist class and promotes national development by limiting foreign investment</td>
<td>selective promotion of capitalist groups according to state-defined criteria</td>
<td>the state operates largely in isolation from social forces</td>
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<tr>
<td><strong>Key assumptions:</strong></td>
<td>the function of the state is to serve foreign capital</td>
<td>the state can be politically 'captured' by different social forces</td>
<td>the state derives authority over national capital from controls on foreign investment</td>
<td>the state replaces private capital, initially in management, increasingly in ownership</td>
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<tr>
<td><strong>Official economic nationalism:</strong></td>
<td>expresses frustration with foreign domination, or is an exercise to obscure the state's objective function</td>
<td>expresses the expansion of a national bourgeoisie</td>
<td>expresses the state definition of national development objectives</td>
<td>expresses the emergence of a propertied 'state class'</td>
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By classifying descriptions of different states in this way, I do not intend to advocate the analytical superiority of one or other of these models. I do, however, aim to make explicit the assumptions they imply. Although for each of these categories it is the weakness of the national bourgeoisie that initially invites state intervention, its effect will vary according to the social forces that most influence policy formation and which give rise to nationalist economic policies.

2.2.1 - Model 1: The Dependent State

The defining assumption of this model is that the state serves the interest of foreign capital. To neglect this function invites destabilisation and, ultimately, direct intervention from imperialist powers. Any inquiry into the role of the Third World state in the economy must therefore begin with an examination of capitalism on a world scale.

In this model, the relationship between state and capital typical of advanced capitalist states is effectively reversed. Reproduction of the capitalist system in advanced capitalist countries is facilitated by the hegemony of capitalist ideology; in the periphery, direct state power is necessary to ensure suitable conditions for foreign investment. The role of the state, therefore, is to coordinate a weak capitalist class according to the requirements of international capital. As technologies become more complex and it becomes more important to co-ordinate economic activity, the state’s economic responsibilities correspondingly increase -- in direct proportion to the inability of the national bourgeoisie to promote capitalist development.

The later work of Amin perhaps best demonstrates this emphasis on external economic determinants. According to Amin (1977), the 'classical' stage of imperialism ended in the first half of this century, when bourgeoisies of the Third World took control of national liberation movements, later rebelled against the metropolitan bourgeoisie, and finally won the right to industrialise. This success did not, however, diminish the exploitative nature of the imperialist system. During a 'second
stage of imperialism' after World War Two, national bourgeoisies were compradorised by the monopolies of the centre. The rhetoric of nationalism associated with demands for a New International Economic Order indicates that the bourgeoisies in the capitalist periphery are once more rebelling against their subordinate status. Should they succeed, however, Amin argues that this will only hasten the transition to a third stage of imperialism: success will heighten dependence on the capitalist centres for research and development, the crucial factors of production in the new stage of imperialism.

Amongst political economists who apply this theory to particular cases, Thomas (1984: 49-62) presents a model for the Caribbean, where, in the absence of capable bourgeoisies, it was local bureaucracies that were initially integrated into international production structures. As capitalist social relations expanded, the prominence of the state in the economy steadily increased. Referring to Latin America, Petras (1982: 415) also describes deeper state intervention as necessary to secure the interests of international capital. Finally, in the Africa debate of the 1970s, Ziemann and Lanzendorfer (1977: 164) present a more sophisticated version of Amin's thesis, arguing that capitalist penetration had fragmented African societies, creating a permanent state of crisis which can now only be resolved politically, by "the interventionist state in permanence."

Economic nationalism has an ambiguous quality where this model has been employed. State intervention perpetuates the reliance of the national bourgeoisie on externally-sourced factors of production, so economic nationalism is often no more than ideological, an official veneer serving to obscure the state's objective function. The specific implications for economic policy is that Third Worldist ideologies of developmentalism and building national economic strength do no more than legitimate authoritarianism, hiding the fact that the state is securing the interests of international capital while reorganising the business class to conform to foreign investment requirements.
On the other hand, economic nationalism might also reflect official frustration with the inability of the bourgeoisie to realise state development aspirations. State intervention is necessary to regulate investment, to promote industrialisation, to co-ordinate planning, and to provide the necessary infrastructure for foreign investors. Subordination to the requirements of international capitalism, however, contradicts the aspirations that are generated by this increased state capacity.

The growth of nationalism in the periphery is not a product of dependence per se, but the result of a growing capacity among the petty-bourgeoisie to manage and control the productive forces under metropolitan domination ... It is within the gap between capacity and control that petty-bourgeois nationalism emerges. (Petras, 1975: 306)

2.2.2 - Model 2: The Nationalist State

The key assumption of this model is that the economic function of the state is determined by class struggle; specifically, the opposing interests of national and international capital. The weakness of the national bourgeoisie also initially invites state intervention, since only the state can ensure the appropriate conditions for capitalist accumulation. The state has greater autonomy from class forces than in Model 1, however, for economic dependence does not necessarily connote political domination. State activities primarily depend on political influence, making it possible for politically influential national capitalists to effectively 'capture' the state apparatus. Specifically, personal links between state officials and national capitalists redirect state policies, hastening the process of national capitalist accumulation.

Kay (1975: 180-182) has made some theoretical observations that are relevant here, arguing that the political success of the bourgeois coalitions that came to dominate postwar nationalist movements led to the postwar expansion of capitalism throughout the Third World, and, ultimately, a major shift in the international pattern of investment. Also important is
Brenner (1977: 88), who suggests that the movement towards a mature capitalism can be set in train "under a banner of anti-dependency, national development and anti-imperialism."

The concerns of these two writers are primarily theoretical, however, and they are making general observations about processes of development and underdevelopment. The most unambiguous and persuasive application of this model of state-class relations to a particular case comes from a political scientist deeply involved in the Africa debate. Leys's specific concern is to describe the expansion of capitalism in Kenya. In the 1950s, he argues, state policies were determined by the neo-colonial projects of the metropolitan bourgeoisie. But by 1966 the indigenous bourgeoisie had taken control of the nationalist movement, winning state instrumentalities over to support of its own 'class project.' Establishing their political hegemony within an international capitalist power bloc, national capitalists were thereby able to carve out a significant stake in the manufacturing sector. The political influence of the national bourgeoisie was thus converted into a capital base, and Leys suggests that Kenya possesses the historical preconditions and resources for full capitalist industrialisation under local control. 17

Also included in this category would be Cardoso's (1973) model of 'Associated-Dependent Development' in Latin America. Here, the state's interests merge with those of national capital, and state departments take a leading role in directing national development. O'Donnell (1973) also describes in some detail how the bourgeoisies of Latin America overcame their economically subordinate position through appeals for state protection. In a later work, he details more fully the convergence of interest between state and national capital.

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17 Leys had previously been a keen advocate of dependency theory (Leys, 1975; 1975a). His argument that dependency theory was not applicable to the Kenyan case had a considerable impact on African studies. See Leys (1978: 251-252) for the reasons for his change of view.
The myth of the 'economic miracle' of this capitalism is not so much nationalist as statist; more precisely, it is 'national-statist.' Its goal is the expansion of the Bureaucratic-Authoritarian state and the growth of the national and private component of the national bourgeoisie which that state has practically reinvented.

(O'Donnell, 1977: 64)

In this model, the state intervenes in the economy primarily to buttress the position of national capital vis-a-vis international capital. Whether because of ideological appeals or interests in particular companies, state personnel are won over to support the projects of national capitalists, and state departments take a direct role in organising national business to compete with foreign firms. Initially, we can therefore expect policies promoting 'national champions' in certain industries, flagbearers of national development. The long-term effect of state intervention, however, is to create an economic space that can be filled out by a national capitalist class. Economic nationalism becomes the political expression of an emergent national bourgeoisie.

2.2.3 - Model 3: The Internationalising State

Although this, our third model, is in certain respects an extension of the second, it is nevertheless conceptually distinct. Its characteristic assumption is that it is the state's strategic position at the juncture of national and international capital that enhances state autonomy. If a weak national bourgeoisie gains the economic high ground via state support, individual capitalists become beholden to state protection. The revival of a national bourgeoisie also creates a need for deeper state involvement to coordinate the integration with international capital. According to the studies grouped together under this category, it is this function that provides the critical source of state influence: control of market access and approval of foreign investment applications provides opportunities to manipulate international alliances according to state-defined criteria. Consequently, the position
of state managers at the fulcrum of national and international capital opens up possibilities for independent state initiatives.

Cases where this model seems appropriate would include Alavi's descriptions of states in Asia, where state autonomy derives from its mediating role. A number of specialists of the political economy of Latin America have also described the Brazilian case in these terms. Cardoso and Faletto (1979: 200) note that after the 1964 military coup, foreign firms had to negotiate with state departments for access to the market in a competitive international economic environment, loosening the state's external dependence. Meanwhile, internally, the prominent role of state agencies in introducing modern production methods meant that they became the dominant social force reinforcing the new capitalist order. Peter Evans (1979: 264) has likewise observed that the administrative and technical capacities of the Brazilian state expanded enormously when it was called on to resolve the bottlenecks and tensions that inevitably arose in joint ventures between national and international capital -- as did state autonomy from individual capitalist factions.

As with the other models developed here, perhaps the most persuasive application of this model was in the Africa debate. In an influential article on the state in Kenya, Beckman criticises both dependency theorists and their nationalist critics for assuming that the interests of national and international capital are irrevocably opposed. Foreign investors and their local representatives need each other, he argues, and efforts to prove that the state is subject to instrumental pressure from either comprador or nationalist fractions ignores this mutual dependence.

On both sides, therefore, an unjustified emphasis is placed on the state as an instrument of 'fractional' interests at the expense of its functions as determined by the general, 'non-fractional' requirements of capital accumulation. (Beckman, 1980: 59)
Applying this insight to the Nigerian experience, elsewhere Beckman (1981: 17) describes how this mutual dependence grows stronger as capitalist social relations deepen. "The more advanced the form of appropriation by foreign capital, the greater the need for a strong domestic bourgeoisie capable of managing capitalist state institutions." According to this model, the state apparatus functions to link capitalist fractions across national boundaries, blurring the boundaries between state, national and international capital.

Where this model is applicable, economic nationalism expresses the convergence of interest between more powerful sectors of the state and favoured fractions of the national bourgeoisie. The greater complexity of capitalist forces allows the state to distance itself from instrumental capitalist influence. Meanwhile, as technocrats in state enterprises take over operations previously carried out by the private sector and begin to equip themselves with entrepreneurial skills, the state begins to generate its own social base. Historical factors influence policy-formation more heavily; a distinct 'state interest' may emerge.

Unlike Model 4, however, the state does not become independent of capitalist influence, for the source of state autonomy simultaneously marks its limits. These descriptions recall Block's formulation, that state autonomy from instrumental control expresses its integration into international capitalist structures. The state serves as the conduit for introducing capitalist means of production, and is dependent on the success of the economically-powerful fractions most able to promote capitalist development. Its 'project' is, ultimately, peripheral capitalism. As Alavi (1972: 72) notes, state autonomy is "determined within the matrix of class society and not outside it."
2.2.4 - Model 4: The State for Itself

In this, our final model, the state itself takes upon the role of entrepreneur, initially in management, but increasingly too in the ownership of productive enterprise. As in Model 1, economic dependence is seen to reverse the relationship between economics and politics typical of advanced capitalist states. Here the state has a maximal degree of autonomy, however, generating its own material base and allowing state officials to determine policy free of structural constraints. The important assumption is that the state functions largely in isolation from societal forces.

The diverse writers grouped together under this category put forward cases where a fluid class structure initially led the state apparatus to take a leading economic role. Post-colonial state theory achieved a certain intellectual vogue in the Africa debate, and it was here that its theoretical implications were most extended. Arguing that Alavi's perspective of the state is "exemplary -- and immediately illuminates the historical basis of the situation in East Africa," Saul (1974: 351) proposes that the absence of a dominant class in Uganda, Kenya and Tanzania created a social vacuum that was filled by the state. These writers go further, however, suggesting that this function is becoming a permanent feature of African societies. Thus, Saul speculates that this 'oligarchy-in-the-making' might eventually coalesce into a state class. This model of the class nature of the state becomes explicit with the contention of Shivji (1976), that the Tanzanian bureaucracy is using political power to convert itself into a propertied class.

The 'state class' model of the developmentalist state has achieved considerable respectability over the last decade. Fitzgerald (1979) suggests that in Latin America, state ownership of production foreshadows the emergence of state bourgeoisies. A study of state capitalism in four diverse developing countries (Mexico, Brazil, Algeria, South Korea) also describes the growing pressure for development defined according to nationally-determined political principles. At the same
time, TNCs are less and less willing to invest in industries they can no longer control. The internationalisation of production is thus releasing the state in these countries from external economic dependence, as officials themselves initiate and manage new industries using finance borrowed on the international market.

The banks provide the capital, the state provides the muscle and brains to force-march the countries involved into the industrialised world. (Frieden, 1981: 408)

This model has been proposed as a general theory for development in the Third World, where state-directed capitalist industrialisation causes a class to coalesce around the state apparatus. Elsenhans (1983: 29), for example, contends that developing countries are not subject to the same economic laws that pertained during the development of capitalism in the West, for economic development controlled by a class of bureaucrats who collect rents but are not constrained by the need to seek profits has created "a qualitatively new social structure in the Third World."

Although he is not writing within the political economy of underdevelopment, Stepan's observations on the 'organic-statist' Peruvian economy also serve to illustrate this model. For Stepan, dependency generates a nationalist response from the bureaucracy, leading in turn to increasing state control of the economy as a whole.  

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18 Stepan is representative of the North American statist school of political economy. Touched by the intellectual comeback of the state in radical political economy, this school nevertheless put down its own intellectual roots, challenging mainstream pluralist methodology. The best-known examples are Nordlinger (1981) and the collection edited by Evans, Rueschemeyer and Skocpol (1985). Krasner (1984) reviews the works of writers in this school, drawing out the differences with the pluralist school. As the following quotation demonstrates, the essential difference of this approach from that of other writers discussed in this chapter is that state autonomy is assumed rather than demonstrated.
The military in Peru emerged in the late 1960s as a major innovator in using the power of the state to create new mechanisms to increase the capacity of the state to control foreign capital and to respond to the challenge multinationals present to the sovereignty and integration of a dependent state.

(Stepan, 1978: xvii)

This model of state-business relations differs from our three previous models in that the state intervenes chiefly to pursue politically-defined national development goals. Controlling the integration of national and foreign capital, the state's expanding supervisory role allows it to grow autonomous of both instrumental and structural capitalist influence. The implication is that policies which enhance state autonomy from domestic class pressures also serve to release the state from the influence of foreign capital; official economic nationalism becomes the policy expression of state sovereignty over society.

2.2.5 - Concluding Comments

None of these four models implies a greater or lesser degree of nationalist sentiment, the depth of which will depend on the particular case regardless of the model that is applicable. These models have been arranged along a scale of increasing autonomy with the purpose of examining the policy implications. Examining different forms of economic nationalism will, in turn, allow us to reflect on changes in the state-business relationship, serving as a 'window' onto the degree of state autonomy.

This spectrum has been designed chiefly with reference to state policy, so it is worth reiterating how forms of economic nationalism will vary from model to model. In Model 1, the tight state controls exercised over the national capitalist class reflect limited state autonomy from international capital; economic nationalism tends to be either manipulative or an expression of frustration. In Model 2 the domestic bourgeoisie emerges as an important political force promoting capitalist development, releasing the state from its subservience to foreign capital. The nationalist economic concerns of state
officials express the interests of national capital; links to senior state officials are more definitive of business success. In Model 3 state autonomy is greater, with the state independent of instrumental control by either national or international capital. However, nationalist economic policies mask a convergence of interest with major sectors of national capital, for the state is also dependent on investment by these groups. Finally, in Model 4, capitalist industrialisation under state auspices enhances state autonomy from structural factors; economic nationalism expresses state sovereignty over the process of domestic class formation itself.

The theme tying together the disparate elements of this chapter has been the trend towards greater theoretical openness in the political economy of underdevelopment, a shift away from attempting to construct internally consistent theories of capitalist development and a renewed interest in historical investigation. There is still a tendency for conceptualisations of the Third World state to be rather closed, however, and for the applications of these models to be somewhat static. Although the reality will only approximate these conceptual constructs, it is nevertheless a useful exercise to test their applicability to concrete situations. Using nationalist economic policy to illuminate the nature of the state-class relationship in a number of Third World countries, the following chapter will test the extent to which different models apply to different states. The remainder of the thesis uses the automotive industry to explore themes of continuity and change in Indonesian capitalism, examining how the state-class relationship has changed over time and attempting to identify the forces leading to changes in state forms.
Chapter Three

THE INTERNATIONALISATION OF AUTOMOBILE PRODUCTION AND THE THIRD WORLD STATE: SOME COMPARISONS

Whether we like it or not Africa, Asia, Latin America are going all-out into the industrial age ... It does no good to tell them this is all very unsound, that they ought not to try to do so much so fast, that they should relax and buy from us a lot cheaper than they can make it. They just won't go along; they are deeply committed to fast industrialisation.

If we want to share in those markets, rich and vast as they will some day surely be ... we are going to have to go in with our capital and tools and know-how and help them get the things they want. (Henry Ford II, 1961 speech on Foreign Competition, cited in Wilkins and Hill, 1964: 414)

After the Second World War, the automotive industry was the lodestar upon which the industrial hopes of many Third World politicians became fixed. The prestige associated with the development of a full manufacturing capacity and the industry's potential for creating linkages with other sectors of the economy made it a widely favoured candidate for ISI. A number of lesser industrial countries such as Australia and Canada expended a great deal of energy in promoting automobile manufacture. As Henry Ford's observation indicates, the political promotion of the industry was also a major contributing factor in the expansion of automotive production into the Third World. Nationalist industrialisation policies established the conditions under which foreign firms could gain market access; the possibility of exclusion triggered the relocation of production into these countries.

The development of the industry has, however, come to depend more heavily on the geographically dispersed manufacturing operations of international automotive firms. Automobile production is today a complex activity requiring heavy investments, considerable research and development, and the consolidation of sophisticated organizational structures across national borders - distinctive structural characteristics that tend to favour large firms. A postwar 'automobile boom' was consequently accompanied by a concentration of production activities and an extraordinary degree of vertical integration world-wide. By 1980, over 97 per cent of production in the market economies was carried out by 22 firms, with almost 65 per cent accounted for by only six
firms: General Motors, Ford, Toyota/Daihatsu/Hino, Nissan/Fuji, VW and Renault (UNCTC, 1983: Table 15). As the industry became more capital-intensive and technology-intensive, economic barriers to new entrants grew, the opportunity for autonomous development correspondingly receded, and the success of ISI programmes came to rest on integration into the global production networks of these automotive giants.

The same structural features that favour concentration also make automobile production more susceptible, however, to state control and regulation than is the case for most other industries. Once a foreign automotive firm has established a market presence and invested in production facilities, it is less able to make use of its ultimate sanction, the threat of withdrawal. These firms are thus in a certain sense helpless giants, vulnerable to political pressure to conform to national development goals. In this chapter, I argue that the expansion of the industry in the Third World took place as a resolution to the tension between the ideology of economic sovereignty and the economic power of these transnational automotive firms. The first section describes the economic climate in which postwar ISI policies were formulated, drawing out relevant factors in the changing pattern of automotive TNC investment. It describes the increasingly global nature of the industry, and briefly surveys theories of the spread of automobile production in developing countries. Given the significance of state policy in the relocation of production into these countries, it is also necessary to examine the domestic forces promoting the industry. The second part of the chapter seeks the historical roots of automotive development policy in a number of developing countries well known for automotive ISI. It demonstrates that variations in automotive industrialisation in these countries can be explained, at least partly, as the expression of different class-state dialectics in the formation and implementation of nationalist economic policy.

3.1 The Internationalisation of the Automotive Industry

The internationalisation of the automotive industry implies more than the rapid expansion of motor trade and increased overseas investment, although these are significant aspects. The years since the mid-1950s have witnessed the steady dissolution of nationally based industries and their replacement by one global industry marked by the interpenetration of markets, growing competition between firms on a worldwide basis, and the
internationalisation of the production process itself. It is in this sense that some speak of the creation of a single industry linking different parts of the globe in a New International Division of Labour.

It is appropriate at the outset to establish the usage of technical terms that relate to this process and which recur throughout the thesis. According to item 3843 of the United Nations International Standard Industrial Classification (ISIC), the 'automotive industry' includes three activities: the production of passenger vehicles (cars), the production of commercial vehicles (CVs: trucks, vans and buses), and the production of parts and components used in the final assembly of these vehicles. This widely-accepted definition thus excludes the production of closely-related vehicles such as motor cycles, tractors and other forms of motorised transport and heavy machinery. 'Automobile' here refers to both cars and CVs.

Writers have classified automobile production in different ways. In his study of the dynamics of the global industry, Krish Bhaskar (1980: 19-21) examines only two of these three activities, the production of cars and CVs. Gerald Bloomfield (1978: 18-20) groups these two activities together, but considers the manufacture of bodies a category separate from component production. In the following discussion, production is considered to comprise two distinct activities: the first and better recognised sector is assembly of automobiles, both cars and CVs, dominated by the well-known automotive TNCs (hereafter referred to as 'auto-TNCs'). The second category encompasses a wide range of activities, involving the manufacture of approximately 2,500 individual parts and components which are incorporated in final assembly. An important activity in the early stages of developing an automotive industry, the manufacture of bodies close to the point of sale is included in this second category.

As a country localises assembly, the nature of imports shifts from fully assembled vehicles (CBU, 'completely built up') to partially disassembled vehicles (SKD, 'semi knocked-down') and, finally, fully disassembled vehicles imported as individual components (CKD, 'completely knocked-down'). As industrialisation proceeds, local manufactures replace components previously imported in CKD kits. It has been estimated that between 40 and 60 per cent of the value of an automobile is usually bought from independent producers (Lall, 1980: 789). It is this need for hundreds of manufactured components that
makes the industry highly linkage-intensive and gives it its tremendous potential as a leading industrial sector.

The dividing line between assembler and manufacturer is not absolute, however, and is probably growing less distinct. Although "assembly" is commonly taken to mean a reliance on components produced externally and "manufacture" mainly their independent production, virtually all assemblers manufacture at least some parts themselves. The trend towards vertical integration between assembler and component manufacturer has grown stronger in recent years and, as described below, auto-TNCs are themselves undertaking the design, development and 'in-house' manufacture of a greater number of components. Auto-TNC involvement in manufacture is particularly important where the pace of automotive industrialisation is spurred on by policies that induce terminal assemblers to use local products. For many countries, full manufacture implies production of everything except the 'power train', the engine, clutch and transmission. Planners in many developing countries however, also aim to establish industries to manufacture these major components, and here heavy auto-TNC involvement becomes crucial.

3.1.1 - Auto-TNC Competition and the Postwar Expansion

The birth of the first auto-TNCs can be dated to the period between the wars, when the two largest US firms established a worldwide chain of assembly plants, including several in Asia and Latin America. By 1920 Ford was assembling in 20 countries, and between 1923 and 1928 General Motors established plants in 15 countries (Maxcy, 1981: 70-71). A precursor of postwar developments, the first significant relocation of production facilities took place when these two auto-TNCs established manufacturing bases in Europe. GM purchased and renovated the production facilities of Vauxhall Motors (England) in 1925 and Opel (Germany) in 1929, while Ford established fully-owned subsidiaries in England, Germany and France. Production was overwhelmingly for domestic markets prior to World War Two, however, and overseas production was generally limited to low-level SKD and CKD assembly to reduce freight costs. The small international trade in automobiles was thus dominated by the export of CBU vehicles. The US firms became more reluctant to relocate production after Ford succumbed to pressure from Stalin's regime to establish a manufacturing plant in Russia under local control in 1928; the company incurred substantial losses before withdrawing in 1933 (Wilkins and Hill, 1964: 208-227). Production remained concentrated in Europe
and North America, and as late as 1950 these two regions still accounted for almost 95 per cent of units produced world-wide (Table 3.1).

The internationalisation of automobile production in the decades following the war entailed the spread of both assembly and manufacture throughout the world. Three distinct phases can be identified, with the start of each roughly corresponding to the decades of the 1950s, 1960s and 1970s.

Initially, the pattern of international trade in automobiles became more fluid after VW and other German companies began a vigorous export drive in the mid-1950s. They successfully penetrated North and Latin American markets, setting an example which was soon followed by other European firms. The result of this new export orientation was deeper interpenetration of the leaders' markets and greater competition between firms for new markets. Exports of automobiles from the eight largest producing countries grew faster than world production - which was itself growing rapidly - rising from ten percent of world output in 1950 to almost 18 percent in 1960 (Jenkins, 1977: 25). This period of trade competition led to a complete restructuring of the industry in Europe, for example, as producers competed for new markets (Kronish, 1979).

The second phase in the internationalisation of the industry flowed from the rivalry between different auto-TNCs exporting to the same market. Automobile exports continued to increase throughout the 1960s, reaching 26 per cent of world production in 1970. This competition took on new dimensions as firms sought to increase their market share by taking advantage of local protection and investing in assembly operations in host countries. The number of countries assembling automobiles increased from 42 to 70 between 1960 and 1968, while the number of auto-TNC assembly contracts jumped sharply, from 170 to 430 (UNIDO, 1972: 8).

Competition between auto-TNCs was also the major contributing factor to internationalisation during the 1970s. International trade continued to grow, and by the end of the decade about 40 per cent of vehicles produced were exported (Hood and Young, 1985: 96-97). More countries moved to establish assembly operations. This third phase of internationalisation was, however, characterised by the relocation of manufacturing operations. It commenced when Japan emerged as a third geographic centre of research and development, challenging the position of European- and US-based firms.
3.1.2 - The Japanese Challenge and Internationalisation in the 1970s

The Japanese automotive industry has become the archetype for automotive ISI, as planners in other countries attempt to follow the same development path. The future giants, Isuzu, Nissan, Toyota and Mitsubishi, emerged in the 1930s, as rising nationalist sentiment stimulated protectionist measures for CV production. After Isuzu introduced a locally produced truck, the Army grew confident that American interests could be excluded, and in 1936 legislation was passed requiring the indigenisation of management and equity.

When the government targeted the automotive industry as a leading industrial sector after the war, it was immediately faced with what would prove to be a familiar dilemma: how to acquire vital foreign technology while preserving inviolable national control. As in previous years, it chose to pursue both objectives, mandating the localisation of production while excluding foreign investment. In 1952-53 Nissan, Isuzu, Hino and Mitsubishi negotiated agreements for the production of vehicles under license from Austin, Rootes, Renault and Willys respectively. Locally-produced components were incorporated and imports deleted from CKD kits in the following years, and by 1960 production was 100 percent locally-sourced. These firms also began to design their own vehicles, it should be noted that Toyota developed its 'Toypet' car without the benefit of an auto-TNC parent. Prohibitive tariffs on imports and restrictions on foreign equity prevented foreign companies from taking advantage of the surge in domestic demand that occurred in the 1960s (Bloomfield, 1978: 226-234). Japan's share of world production increased dramatically, rising from 2.6 per cent in 1960 to 18 per cent in 1970 (Table 3.1).

Table 3.1

| AUTOMOBILE PRODUCTION BY WORLD REGION |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| North America                      | 93.8   | 78.8   | 79.5   | 70.4   | 51.1   | 49.0   | 31.9   | 31.1   |
| Western Europe                     | 6.2    | 17.5   | 15.1   | 23.4   | 37.5   | 35.2   | 39.7   | 33.0   |
| Eastern Europe/USSR                |        | 3.4    | 3.7    | 3.8    | 4.5    | 3.8    | 5.2    | 8.2    |
| Japan                              |        | -      | 0.3    | 0.3    | 0.5    | 2.6    | 7.7    | 17.9   | 20.7   |
| Latin America                      |        | -      | 0.2    | 0.2    | 1.6    | 1.9    | 2.7    | 4.6    |
| Others                             |        |        |        | 1.2    | 1.7    | 2.7    | 2.4    | 2.6    | 2.4    |
| Total                              | 100    | 100    | 100    | 100    | 100    | 100    | 100    | 100    |

(Source: Bloomfield, 1978: 146; based on MVMA data)
This success in developing a major automotive industry in the space of ten years established an influential prototype for state-led automotive industrialisation. Of more enduring impact, however, was the prominence of these firms on the international stage. The Ministry for International Trade and Investment (MITI) had encouraged the concentration of business activity around Nissan and Toyota, and by the early 1970s these two firms accounted for 70 per cent and 90 per cent of domestic and export sales respectively (Bennett and Sharpe, 1985a: 198-199). Declining world market growth rates in the late 1960s, coupled with intense domestic competition, led the smaller Japanese firms to aggressively seek export markets in order to maintain production levels. Firms such as Isuzu, Mitsubishi, Toyo Kogyo (Mazda), Fuji (Subaru) and Honda thus won important overseas contracts in the 1970s. Toyota and Nissan responded to this challenge, and the number of units exported increased by an extraordinary 426 per cent between 1970 and 1980; by the end of the decade Japanese-produced vehicles accounted for over 30 per cent of total vehicle exports worldwide (Hood and Young, 1985: 97).

The industry entered a period of reorganisation in the mid-1970s, as the dramatic increase in OPEC oil prices altered consumption patterns, increased the demand for smaller and more fuel-efficient vehicles, and made technical changes more pressing. More significantly, the postwar automobile boom came to an end, with even major auto-TNCs suffering losses. A shakeout in the industry resulted in many smaller firms either collapsing or merging with rivals. The number of marketing and production agreements between firms increased, especially between the smaller Japanese and major US firms such as Mitsubishi and Chrysler, Isuzu and GM, Toyo Kogyo and Ford, and Suzuki and GM (UNCTC, 1983: 54).

Different interpretations have been made of what these new arrangements foreshadowed. Until quite recently, it was widely predicted that world production would soon be dominated by a tight oligopoly, a handful of 'mega-firms'. This view has been revised, however, and it seems more likely that existing producers will survive as distinct entities, although the pattern of competition and cooperation has become far more complex (Alschuler, 1984, presents this case succinctly).

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1 Bhaskar (1980: 361) for example, predicted that by 1990 production would be shared between GM/Isuzu, Ford/Toyo Kogyo, the Toyota group, Nissan/Fuji, the French group (Renault, Peugeot/Citroen, Chrysler-Europe, AMC) and the Lada group (GAZ, Moskvitch, and other Eastern European firms).
The important external dimension to the emergence of a third geographic centre for the industry, however, was a change in the nature of international competition. As auto-TNCs from different centres began to poach their rivals' traditional markets, international trading patterns became less predictable: Japanese exports penetrated new markets in Europe, North America, Asia and Australasia; European firms made continued inroads into North and South America; US-based auto-TNCs expanded their operations both within Europe and in the traditional overseas markets of European firms. The important factor about the reorganisation of the 1970s for this study was that the process of internationalisation that had begun two decades earlier outlived the end to the automobile boom. The first two phases in the spread of auto-TNC operations, of competition for export markets followed by the spread of assembly facilities, had been premised on continued market expansion. But when this expansion came to a halt, the process of internationalisation did not cease. Rivalry between auto-TNCs itself became the mechanism for a third phase, the internationalisation of production.

Firms sought new methods to retain their share of a market that had ceased expanding so rapidly. One method already mentioned, was to forge links with established firms in order to penetrate new markets. Another was to coordinate corporate plans with government policy in different countries in order to take advantage of state protection. More important than both of these, however, was the reorganisation of manufacturing operations on a global scale. In a process begun by Ford and GM, auto-TNCs began to allocate production activities to different countries according to local comparative advantage, with research and development largely remaining in the centres and more labour-intensive activities in the periphery. Japanese firms had been reluctant to invest in overseas manufacturing operations prior to 1970, but they too began to invest overseas in order to gain access to new markets. The logical conclusion to this process of internationalisation was the so-called 'world car' concept - the coordinated production of different components in the far-flung branches of each auto-TNC. The implications for the industry in Third World countries are examined below (section 3.1.4).

3.1.3 - Conventional Approaches to Development of the Automotive Industry

Prior to World War Two, a pattern of distinct market spheres had been established, whereby certain geographical regions of the Third World were dominated by auto-TNCs from particular centre countries. Most exports to
current and former European possessions in Africa and Asia were by European firms; it was mainly US firms that exported to Latin America. This 'colonial' division of the globe gradually dissolved, however, with the postwar internationalisation of the industry. The process of relocation to Third World countries began with Volkswagen's successful foray into Latin America in the early 1950s (Bennett and Sharpe, 1985: 63-64). When other European firms followed suit during the first phase of trade competition, rivalry for Third World export markets grew. During the second phase of internationalisation, auto-TNCs became more willing to consider localisation to preserve market access. Excluding Spain and Portugal, in 1965 only 24 developing countries had assembly operations, but by 1972 nearly 50 countries were assembling automobiles (Baranson, 1969: 92; UNIDO, 1972: 8).

Automobile production in the Third World gradually rose in the following years. In 1970 developing countries were manufacturing 3.5 per cent of the world's automobiles, 5.2 per cent by 1981 (UNCTC, 1983: 14). Although this figure is tiny when compared to that for the major producing countries, and is largely accounted for by Argentina, Brazil, Mexico, Korea and India, the increase in assembly is worthy of note. An estimated 20 per cent of the world's output in 1967 was assembled in developing countries (Lall, 1980: 793). By 1980 this figure had risen to 45 per cent, with assembly fairly evenly distributed amongst developing countries (UNCTC, 1983: 17).

Rivalry was apparently the major factor inducing auto-TNCs to enter manufacturing programmes. Auto-TNCs were averse to shifting production to less industrialised countries, and in the early 1950s only India and Mexico in the Third World had begun automobile ISI programmes, together accounting for an insignificant 0.3 per cent of global production, chiefly assembly (UNCTC, 1983: Table 5). In 1954 Ford and GM both closed down assembly operations in India and Spain, choosing to withdraw from the market altogether rather than accept state localisation programmes. As international competition increased in the following years, however, there was a gradual increase in manufacturing operations in Third World countries. As recalled by the Chairman of General Motors at the time, the US firm's decision in the late 1950s to participate in Argentina's manufacturing scheme reflected a desire to retain a market position - which would have been lost if GM had failed to respond (Donner, 1967: 66).

The evidence suggests that many underdeveloped countries could be supplied at a lower cost from the point of view of the companies by exports, but the choice is usually not one between export and
investment, but one between investment and losing the market to competitors.

(Jenkins, 1977: 42)

The conventional wisdom on the spread of the industry to the Third World, held by analysts of many political persuasions, is that changing economic conditions cause automobile production to migrate naturally to developing countries. It is often argued that auto-TNCs invest in developing countries in order to depress labour costs. According to this view, based on the faith in dynamically shifting comparative advantage, the experience of the automotive industry in semi-industrialised countries (Brazil, India, Argentina, Korea, Mexico, Yugoslavia and Spain) will eventually be followed by other developing countries. A second key argument is that auto-TNCs seek new market openings as the markets of the advanced OECD countries mature, usually involving investment in production facilities in order to overcome difficulties associated with local protection.

The conventional approach to the relocation of production generally posits a number of stages of automotive ISI. Jack Baranson (1969: 14-15) suggests a three-phase schema, beginning when auto-TNCs accept local content programmes. Bloomfield (1978: 142-157) identifies four stages in the geographical diffusion of production, and predicts that the development of the industry in developing countries will gradually break down the distinction between its core and periphery. Rhys Jenkins (1977: 89-92) also describes a similar sequence, starting with the production of replacement parts for CBU imports then passing through SKD assembly, CKD assembly, the incorporation of simple local manufactures such as tyres and batteries, and culminating in local assembly of engines and transmissions, when local content reaches some 60 per cent. During the early stages of this process, the capital investment and technical skills required is still within the reach of local business. But auto-TNC involvement becomes critical, he argues, as the industry develops, particularly for local stamping of major body parts, when auto-TNC supervision is necessary to oversee machining and pressing.

Still within the conventional framework, Raymond Vernon's (1977: 89-98) 'product-life cycle' theory suggests an explanation for the diffusion of manufacturing technology that is more sophisticated than these somewhat mechanical stages of ISI. According to Vernon, competition drives the leading firms in industrial countries to establish operations in developing countries in
order to reduce production costs. The technological advantage initially enjoyed by a TNC manufacturing in a host country cannot last, however, and local firms eventually produce similar products more efficiently, adapting the new technology and eventually challenging the position of the TNCs. He accepts that the process of indigenising new technologies in the automotive industry will not be smooth, and that the advent of capital-intensive production techniques makes entry for local firms more difficult. It is nevertheless his general thesis that even for technically sophisticated industries, long-term trends favour national capital (Vernon, 1977: 90-91). Offshore production by manufacturing TNCs thus sets in train a process of 'entropic creep'. The implication for the automotive industry is that the reorganisation of the 1970s and the standardisation of production techniques makes it easier for new entrants to break in.

There is nothing necessarily misleading in conceptualising the development of national industries in terms of a series of technical stages. Such an approach has been used to great effect, for example, by Douglas Bennett and Kenneth Sharpe (1985a: 205-212) to describe the transformation of the industry in Latin America between the late 1950s and early 1970s. One must be wary, however, of accepting these stages as a path along which all developing countries are expected to pass. The relevance of such a heuristic device must be continually reassessed.

Korea's success in promoting its automobile industry would seem to provide strong empirical support for the conventional approach to the relocation of automobile production. Hyundai Motor Company was established in 1967 to assemble CKD kits exported by Ford-UK. Following the Japanese model for automotive ISI, Hyundai began to 'break up' the TNC investment package in the 1970s. A Leyland management team and Italian designers were employed, main components were produced under license from Mitsubishi, and within a decade this 100 per cent Korean company was able to produce an internationally competitive model (Maxcy, 1981: 208-209). This tangible success goes some way towards explaining the widespread expectation amongst planners in developing countries, that automotive ISI should eventually lead to complete automobile production under national control.

The relevance of a model of development premised on general stages has become more dubious in recent years, however. In the first place, technical
barriers to replication of the Korean experience have grown considerably. Increasing technological sophistication and increased research and development has made integration into international networks more important. It is correspondingly less feasible for developing countries to 'go it alone' in promoting automotive development, and there are few signs that the distance between the industry's core and periphery will be greatly reduced. Indeed, Hyundai itself sought a merger with Mitsubishi after it ran into financial difficulties in the early 1980s (UNCTC, 1983: 135-137). The Japanese auto-TNC recently took a 10 per cent share in the Korean firm (Dankbaar, 1984: 236).

Secondly, technical developments have reduced the incentive for auto-TNCs to transfer production of major components to developing countries. The introduction of technology-intensive mass production techniques in Japan, Europe and the US have largely removed the labour cost differentials with developing countries, and the number of components on which costs can be saved is likely to decline as factories in OECD countries become more automated (Dankbaar, 1984). In addition, the spread of the Japanese 'just-in-time' (Kanban) system for supplying components necessitates a higher degree of vertical integration within auto-TNC networks, increasing the subsidiary's dependence on the centre.² "The completely new standards of organisational efficiency established by the Japanese have pulled the rug out from under the feet of the developing countries" (Jones and Womack, 1985: 400). With the exception of a number of their largest subsidiaries, auto-TNCs have become more reluctant to engage in the manufacture of complete automobiles in the Third World, although as described below, production of particular components has increased.

The development of the industry in Third World countries is therefore no longer entirely explicable in terms that may have been appropriate for the boom period from 1950 to the mid-1970s. The conventional approach assumes that as production is relocated from major to minor producers, developing countries will reproduce the experience of their industrialising predecessors. Automobile production in the Third World is, however, qualitatively different.

² The Kanban system is best understood as a 'pull' system in contrast to the 'push' system used in the US. In the latter case the assemblers complete a detailed schedule of components needed and then 'push' producers to supply the stipulated parts; in the Kanban system each station in the production chain 'pulls' parts from the preceding station as they are needed. Hence the greater need for rigorous quality supervision as well as tighter geographical and technical linkages between suppliers and assemblers. I am indebted to R. Doner (personal communication) for this explanation.
from that in the advanced capitalist states. The industry in the major producer
countries after the war came to be dominated by three or four domestically-
owned firms; the restructuring of the 1970s saw the rationalisation of
production operations, mergers between major auto-TNCs and a more
oligopolistic market structure. In capitalist Third World countries, by contrast,
it is still quite common to find up to a dozen auto-TNC subsidiaries struggling
to maintain a presence in markets far smaller than those of OECD countries.
The 1970s were characterised by a preparedness on the part of auto-TNCs to
invest in order to oust rival firms. The image presented by the industry today
involves the proliferation of makes and models, overinvestment by foreign-
owned firms, underutilised production capacity, and inefficient levels of
production. Production is also more uncertain, dependent on demand from a
small and privileged urban elite.

Relocation according to technical stages of development was not the
dynamic that underlay the expansion of the industry into the Third World in
the 1970s. Some have sought more sophisticated explanations, describing the
policy environment created by auto-TNC competition and state intervention.
The approaches discussed below attempt to describe the development of the
industry chiefly in terms of the interaction between state and auto-TNC.

3.1.4 - Alternative Approaches to Auto-TNC Penetration of the Third World

If economic considerations made auto-TNCs reluctant to relocate
complete manufacture to developing countries, components were a different
matter. A major element in the rationalisation of the 1970s was the advent of
the so-called 'world car' concept. In a certain sense there had long been world
cars: the Model T Ford and the VW Beetle were sold all over the globe. But in
the 1970s plans were made not only to sell but to manufacture automobile
components all over the world. Each part would be produced at one low-cost
location, making scale economies easier to achieve. The different parts would
then be shipped to one site for assembly. In order to retain a presence in
developing country markets but avoid problems associated with the
production of complete automobiles in small markets, first US, then European,
and eventually Japanese auto-TNCs began to disaggregate their international
operations to concentrate on the production of particular components.

In the Third World, this reorganisation is today most advanced in Latin
America where Ford, GM and Chrysler each produce a substantial number of
engines, engine blocks, and chassis, as well as specialised toolings and dies.
VW's Mexican subsidiary has become the source for rear axles and radiators, and its Brazilian operation the major source of engines and CKD kits destined for other developing countries (including Indonesia). The famous Beetle is now produced only in Brazil and Mexico. Fiat and Daimler-Benz have also undertaken production of major components in Latin America. International sourcing has also taken place on a lesser scale in Asia, with Ford producing bodies in the Philippines and engines in Taiwan, while GM produces transmissions in the Philippines and engines in Korea.\(^3\)

This international disaggregation of the production process ran at cross purposes to the cherished hopes of many Third World politicians and planners, who had expected that automotive ISI would lead eventually to full manufacture. Due to this determination to push for relocation, the future of the industry in developing countries came to depend, to a greater extent, on the outcome of negotiations between host states and auto-TNCs. Since the early 1970s, however, these negotiations have been less concerned with the relocation of complete manufacturing facilities than with the development of particular component industries. The theoretical response to this development went in opposite directions, one moving towards a high level of abstraction while the other became highly specific.

The more abstract response considers that the spread of component production to Third World countries typifies the emergence of a New International Division of Labour in manufacturing. In a seminal work first published in French in 1972, Gyorgy Adam argues that an "irreversible process" towards the NIDL was most advanced in the metal and transport industries, because it was in these industries that wage differentials were greatest. Manufacturing TNCs originally set up in developing countries to avoid restrictive tariff barriers, but competitive pressures had forced TNCs to rationalise their international operations. In this view, these subsidiaries were integrated into a global system in which they served only to perform the low-paid and low-cost jobs. "The whole concept of worldwide sourcing is based on wage rates low enough to offset almost any other considerations" (Adam, 1973: 101). This view thus shares the economistic assumption of the conventional approach.

\(^3\) Kronish (1984: 83-85) summarises the factors prompting auto-TNCs to relocate component production to developing countries. Maxcy (1981: 144-164) discusses international sourcing and the integration of Latin American and Asian regions into auto-TNC production networks in some detail.
In the case of the automotive industry at least, the image of a single malevolent system linking together production facilities on the basis of cheap labour needs to be heavily qualified. Auto-TNC investment decisions are not greatly influenced by labour costs, because low labour productivity and the growing capital-intensity of manufacturing operations means that low labour costs do not translate into low per-unit costs. Moreover, auto-TNC investment in overseas component production facilities is overwhelmingly in industrialised countries. Ford, for example, is the company for which international sourcing is most widespread, but three-quarters of its overseas investment between 1976 and 1983 was in Europe and the United Kingdom (Hood and Young, 1985: 102).

One explanation for the internationalisation of production that does begin to explain the logic of auto-TNC investment in Third World countries is the theory of oligopolistic competition. It may be economically logical for, say, two firms already exporting CBU units to a developing country to continue to do so. According to this model, the situation changes if one of these companies is tempted to make a 'preemptive investment' in order to gain state tariff protection and an unassailable hold on a potentially large market. If one of our two hypothetical firms does invest, the other will also be pressured to make a similar investment in order to preserve its existing investments. Thus, while it may be economically irrational in terms of market size, such an investment may be logical for individual firms in a competitive market environment (Knickerbocker, 1973, esp. 125-138; Jenkins, 1977: 19-44, esp. 40-42).

Furthermore, auto-TNCs that do not yet have an established export presence but that seek footholds in new markets may do so by championing state manufacturing policy. We have already remarked the penetration of new markets by the smaller Japanese auto-TNCs seeking to increase production levels. Other international latecomers, such as Chrysler, have also been more willing to accept onerous ownership and localisation conditions in order to gain a market share (Baranson, 1969: 21).

The more specific response to the internationalisation of production draws on this theory of oligopolistic competition, describing relocation as the outcome of bargaining between states and auto-TNCs. In the past, bargaining studies have often assumed an underlying conflict of interest between two discrete actors, using policy decisions to test their respective bargaining strengths. Recent studies have avoided this drawback. An analysis of localisation policy in Mexico by Bennett and Sharpe (1979) thus describes policy
in terms of a convergence of particular TNC and state interests. Other useful studies using this approach include studies of the industry in Latin America by Kronish and Mericle (1984) and the Venezuelan industry by Coronil and Skurski (1982).

A bargaining framework is, however, not entirely suitable as a description of the process of relocation. Such analyses concentrate on issues of technology transfer, management capabilities and capital flow. They are therefore most concerned with terms for the relocation of production and the economic consequences flowing from particular policy choices, rather than the political and ideological aspect of public policy. Although negotiation between international capital and host Third World states does underpin the phenomenon of dependent industrialisation, an exclusive focus on state-TNC relations is not sufficient to account for policy environments in different countries. In particular, a focus on external constraints diminishes the importance of internal dynamics and inevitably means that less attention is given to the domestic forces behind state policy.

A more fundamental shortcoming of these approaches is that both bargaining studies and radical critics of the NIDL share the economistic assumptions of the conventional view, that internationalisation is primarily driven by exogenous economic forces. What we need is a framework which can adequately account for the gamut of situations within the Third World. In order to describe the social forces shaping state policy, it is therefore useful to return to the theoretical models of economic nationalism outlined in Chapter Two.

3.2 Automotive ISI and the Third World State

In his study of the process which turned national automotive firms into TNCs, George Maxcy (1981: 270) concludes that overseas investment was above all motivated by defensive concerns; it was made necessary to preserve existing export markets. "Throughout its entire history, almost all foreign direct investment decisions have been prompted by tariff barriers to exports." Admittedly, this is only a partial explanation of the forces behind the spread of automobile production. Protectionist measures may have triggered the relocation of automobile manufacture to developed economies such as Canada, Australia and the countries of Europe, but these investment decisions were
chiefly guide by economic calculations. Maxcy's observation nevertheless does indicate a need to examine state policy in its own right. This is particularly the case in the Third World, where the priority assigned the industry by the state was a significant factor in the postwar expansion.

The nature of state automotive development policy can be differentiated according to three criteria. Firstly, policy is strongly influenced by the investment climate in which it is formulated. In situations where there is significant competition between auto-TNCs striving to break into the market, the state has more opportunities to pursue its own development objectives. On the other hand, where there is little auto-TNC interest in establishing a market presence, the state is less able to translate these objectives into formulated policies. Forced to rely upon domestic sources of capital, planners have fewer development options.

Secondly, the definition of development objectives is strongly informed by the nature of economic nationalism in different states. The interest of the state in overseeing ISI is not simply the maximisation of growth, and the subjective considerations of key political actors are highly relevant to the choice of development strategy. Two specialists on the political economy of the automotive industry in Latin America suggest that policy choices made during the birth of ISI programmes reflect state interests, "'imbedded orientations' that have been acquired and institutionalised in the course of its history as the state has responded to problems and opportunities facing it" (Bennett and Sharpe, 1985: 11). There are a number of ways in which the industry can be promoted, the most important variable being the emphasis attached to assisting the development of a strong national bourgeoisie. Although nationalist rhetoric tends to blur the distinction, it is possible to separate the industrialisation objective from the desire to promote economic sovereignty, the drive to construct a resilient industrial sector from the commitment to protect national capital. For automobile development policy specifically, the political influence of the business class during the genesis of ISI policy largely determines whether priority is given, on the one hand, to increasing local content (localisation of production) or, on the other, to promoting a national bourgeoisie (indigenisation of ownership).

The third and most important criterion by which ISI schemes can be distinguished concerns the relationship between state and capital during policy implementation. As the case studies below demonstrate, once a development
goal justifying promotion of the automotive industry is designated, the interaction between state and business tends to perpetuate this goal, a state-class dialectic, shaping and reshaping the concerns of individual political figures within the state apparatus and, in turn, state policy.

The precise role of the state in promoting automobile production is therefore highly contingent, and a subject for historical investigation. ISI schemes vary from state to state depending on the investment climate created by auto-TNC competition, on the ideological definition of national development objectives, and on the state-class relationship during their implementation. This point is perhaps most clearly demonstrated by reference to particular schemes, so the following case studies of three Third World countries that pioneered automotive ISI - Brazil, India and Mexico - are used to illustrate how the relationship between state and business affected localisation policy.

3.2.1 - Localisation of Production and International Integration in Brazil

Brazil was the first Latin American country to target the automotive industry specifically as a leading industrial sector. State pressure on auto-TNCs to localise production and train a capable managerial class laid the foundations for a period of spectacular growth that, by the 1980s, had given Brazil the eighth largest automotive industry in the world (UNCTC, 1983: 13). Although this expansion seems to have reached a plateau in recent years, the prominent role of the state in promoting the industry has justifiably earned the industry in Brazil a reputation of "the epitome of successful import substitution industrialisation" (Mericle, 1984: 1).

State intervention in the industrial sector dates from the world depression of the 1930s when, after a long period of laissez-faire policies, a large-scale industrialisation drive was launched. Government planners were particularly determined to develop a resilient metal industrial sector, so when they failed to persuade either foreign or national private firms to invest, state corporations undertook construction of a giant integrated steel mill in 1941. A similar perception of the country's industrial vulnerability also led to direct state involvement in the automotive industry. The state-owned truck assembler, Fabrica Nacional de Motores (FNM), was established to ensure the supply of vital transportation equipment after World War Two disrupted imports (Baer et. al., 1973: 24-25).
Postwar automotive ISI legislation originated in the desire to protect a nascent national industry. The assembly plants established by Ford, General Motors and International Harvester in the 1920s depended almost entirely on imports. When supplies were cut off during the war, a domestic industry began to flourish. The number of firms engaged in parts manufacture rose from five in 1941, to 100 in 1950, until by the mid-1950s, 700 locally-owned component firms were supplying 30 to 50 per cent by weight of the content of locally-assembled CVs (Bergsman, 1970: 122). Protectionist measures were taken when these producers were threatened with extinction by the flood of imports after the war. The import of a number of components was prohibited in 1952; in the following years prohibitive tariffs were imposed on others.

It has been suggested that national component producers considered themselves the chief beneficiaries of these local content requirements (Mericle, 1984: 6). It is therefore possible that they were a political force behind the initial localisation legislation. Yet even if this was the case, the cause of automobile production was soon appropriated by senior state officials, perhaps because of the state's previous association with metal industries. President Vargas took a personal interest in the industry, and decrees to mandate the localisation of manufacture began to be drafted in 1954. The two new major development projects announced during the presidential election campaign of Vargas' successor, Kubitschek, were to construct the new capital, Brasilia, and to promote the automotive industry (Bergsman, 1970: 127). A number of special bureaucratic agencies were created in 1956 to spur the development of targeted industrial sectors, and the Automotive Industry Executive Group (GELA) was assigned the task of formulating a basic development plan for the industry. National capitalists were effectively excluded from the process of policy formation undertaken by this high-powered bureaucratic body.

The general direction of Brazilian automotive development policy was thus established by the mid-1950s. The lack of business influence during the genesis of the programme meant that the industrialisation objective was the foremost concern of state officials: state development strategy focussed almost solely on increasing local content (Bergsman, 1970: 127). Four decrees drafted by the GELA in late 1956 and early 1957 set ambitious targets of over 90 per cent domestic content, goals to be achieved in less than four years. Economic nationalism was thus widely understood, within parts of the state involved with the automotive industry, as the attempt to win auto-TNC compliance with predetermined industrialisation targets.
The international economic environment created by auto-TNC rivalry meant that in 1957 state planners were remarkably successful in attracting auto-TNCs into the programme, reinforcing the focus on local content. Until then, only five firms had commenced assembly operations (Ford, GM, Daimler-Benz, Willys, FNM). A number of European firms entered the market during the year, however, notably VW, which began assembling 'Kombi' vans in late 1957 (Bergsman, 1970: 122). No US firms has previously invested in manufacturing facilities, while Ford only began to purchase from local suppliers when forced by the prohibition on imports in the early 1950s. But in the face of this European competition, all US Big Three acceded to state manufacturing conditions, the experiences in India and Spain having driven home the likely costs of failure to participate. By the end of the year, the investment proposals of 17 firms had been approved (Mericle, 1984: 6). This graphically substantiates the observation by Knickerbocker that the power of the state vis-à-vis international manufacturers in a competitive market situation is greatest when determining the conditions of market access.

The state was also notably successful in ensuring that these investment proposals were implemented. Ford, the world's first and largest auto-TNC, began construction of an engine plant, foundry, stamping plant and product testing facility in 1958, and by 1960 boasted 90 per cent local content (Wilkins and Hill, 1964: 415). Eleven other auto-TNCs invested in manufacturing facilities, while numerous local component manufacturers made production agreements with foreign-owned terminal assemblers. The local content goals of the Kubitschek government were achieved by 1962, effectively compressing the development of a full automotive industry into a period of five years (Jenkins, 1977: 53).

The concerted implementation of an ISI scheme founded on the goal of localising production drove the state into a closer alliance with those auto-TNCs that had invested in automobile manufacture. The very success in drawing firms into the programme, coupled with the rivalry between auto-TNCs, caused severe market fragmentation, leading to a period of stagnation in the industry in the mid-1960s. Most studies of the stagnating tendency of localisation have focussed on its economic dimensions: the proliferation of

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4 Brazil was the first Latin American producer to experience structural problems resulting from the failure to restrict auto-TNC entrants. Mericle (1984: 8-10) summarises these problems in the Brazilian context. Baranson's (1969) is the standard analysis of the dangers of automotive ISI in a competitive market context.
makes, the underutilisation of production capacity, and high production costs in a limited domestic market. More pertinent to this study is the impact on the ownership structure of the industry, for it was overwhelmingly those assemblers and component suppliers who had forged strong links with auto-TNCs that were better placed to survive this period of uncertainty. The state therefore relied heavily on this internationalised sector for the continuation of the programme.

It was also the internationalised firms that benefited most from the boom period that began in the late 1960s and continued through the 1970s. The redistribution of income to the upper and upper-middle classes following the 1964 military coup stimulated demand for expensive consumer goods, providing the broad social conditions that underpinned a period of unprecedented growth for the industry. More specifically, the military regime promoted automobile production as a symbol of its development programme. In the absence of policies to indigenise ownership and control, the superior access of auto-TNCs to new technologies and capital meant that it was their subsidiaries that were best placed to take advantage of the state-sponsored 'Brazilian miracle'.

As the localisation drive continued in the following years, the locus of policy formation and implementation shifted further to state-TNC negotiations. An early instance of an evolving modus vivendi came in 1972 when, in order to overcome a balance of payments problem, the government eased local content requirements for firms that could increase exports, allowing for greater flexibility in intra-firm trading (Jenkins, 1977: 53). A more tangible example of the state-TNC marriage was the government joint venture with Fiat in the mid-1970s, when the European TNC invested $650 million in a manufacturing plant in return for taxation and investment incentives, (Maxcy, 1981: 140). Automotive ISI in an open economy thus gave both state and international capital an interest in promoting the industry, with conflict between the two remaining within structured bounds. Despite tensions and strains between state and auto-TNCs, these conflicts remained "limited in scope and secondary in importance" (Mericle, 1984: 2).

While in one sense specific to Brazil's political economy, the success of the state in implementing the scheme has general implications for automotive ISI in the Third World. The entry of foreign capital into the industry did not bring about the retreat of national capital in the face of more technically
competent foreign firms. As Evans (1979: 111) notes when referring specifically to the automotive industry, "the rise of foreign industrial capital was a reflection of the rise of new industries in which local capital was not prepared to compete, and was not caused by the displacement of local groups from industries in which they had previously been active." The important domestic aspect to implementation of a scheme based on the localisation of production was that local firms came to depend on the outcome of state-TNC negotiations. The state did not simply oversee the terms of integration between foreign and national capital. As in Model 1, it played an active part in restructuring national business to accord with the requirements of foreign investors, although the state had greater autonomy from foreign capital than this model postulates, suggesting elements of Model 3.

3.2.2 - Indigenisation in India and the Political Strength of National Capital

India was the second Asian country after Japan to develop an indigenous automotive industry through import substitution. Indian planners launched a large-scale industrialisation programme along Soviet lines in the mid-1950s, a development strategy based on the promotion of heavy industry. Mindful of the backward linkages to metallurgical and other basic industries that an automotive manufacturing capacity would create, under the Second Plan (1956-1961) the government provided incentives to national automobile firms to encourage them to move into manufacture.

Providing an instructive contrast with the Brazilian case, the move to localise production had been pioneered by national capitalists well before the state industrialisation drive had commenced. Automobile assembly dates from 1928, when General Motors began producing trucks and cars in Bombay; by 1931 Ford had also established three assembly plants (Chaudhuri, 1970: 95-96). The first significant import substitution took place during World War Two, when numerous component manufacturers sprang up after supplies to the US-owned assemblers were disrupted. The major step towards automobile production came in 1944, when two national firms drew up plans for complete manufacture under license from their principals. Hindustan Motors was owned by the large Birla group, while Premier Motors was part of the smaller Walchand group (Hazari, 1966: 203). The former began assembling Morris cars in 1946, and in 1947 Premier Motors established a factory near Bombay for the manufacture of Fiat cars and Dodge trucks (Bloomfield, 1978: 271-272).
This pioneering role of national capitalists invoked a theme intimately related to the birth of Indian nationalism. In his classic study of the social roots of Indian economic nationalism, Chandra (1966: 736-759) concludes that the intellectuals who were the driving force of the nationalist movement in the early years of this century were 'obsessed' with industrialising the economy. Nevertheless, they also held it as an article of faith that the national bourgeoisie was the proper agent of modernisation. This aspect of economic nationalism persisted into the 1950s, by which time national capitalists in certain industries were capable of giving body to this aspiration. Thus, the guiding principle of state automotive development policy was to reserve the industry for national capital. In contrast to the extensive state intervention in other metal industries during the first two five-year plans (1951-1961), the automotive industry remained within the orbit of the private sector. State intervention was limited to providing taxation incentives for local manufacturers, for the 'imbedded orientation' of the state was for automobile production to be carried out under the aegis of national capital.

A competitive investment climate after the war encouraged planners to draft legislation to protect local assemblers and generalise the earlier manufacturing initiatives. Ford and General Motors had recommenced assembly operations, while a number of local firms had established production agreements with British and European auto-TNCs. Twelve assembly plants were operating by 1951 (Chaudhuri, 1970: 96). Imports of CBU vehicles was stopped and the Tariff Commission began a study of the component industry. In 1954 the government accepted its recommendations, setting a target of 50 per cent local content for CVs to be met by 1956. Firms without a definite localisation timetable were warned that their operations would be closed down.

The level of competition within the industry also allowed planners to circumvent auto-TNC opposition to the programme. The combination of mandatory localisation and protection for national capital tested the commitment of foreign firms to the market, and in 1954 Ford and GM decided to withdraw from the market. In the case of Ford-India at least, the major consideration was the government's insistence on majority Indian equity. "This stipulation was repellant to the Ford management in Dearborn, which felt that even a majority interest in its foreign companies was unsatisfactory and wanted 100 per cent ownership in all of them" (Wilkins and Hill, 1964: 402). The number of firms striving to establish a position in the market, however, meant that implementation of the manufacturing programme was
not greatly impaired by the departure of the two US auto-TNCs. By 1956 the manufacturing proposals of five national assemblers had been approved; by 1964 these companies had achieved over 76 per cent local content by weight (Krueger, 1975: 38, 48). Baranson (1967: 54) records that the US automotive manufacturer, Cummins, was willing to accept state industrialisation guidelines and agreed to manufacture diesel engines in 1962; it "was faced with the alternative of establishing a manufacturing facility in India or eventually losing its market to another competitor."

The commitment to fostering industrialisation by protecting national automotive capitalists lasted into the following decade. While restrictions on foreign ownership grew more stringent, local firms were allowed easier access to foreign exchange for importing machinery needed to increase local content (Chaudhuri, 1970: 98). Although auto-TNCs had been progressively excluded from the scheme, by 1968 the local content of three national assemblers exceeded 95 per cent (Maxcy, 1981: 128). Foreign investment in manufacturing during the 1970s was only permitted in joint ventures and, until recently, the only foreign equity in the automotive industry was British Leyland's 52 per cent interest in its joint venture with Ashok, as well as a minor stake by Mercedes-Benz in Tata Engineering and Locomotives [TELCO]. Thus, even though the range of production activities had broadened considerably, the structure of ownership in the industry remained virtually unchanged until the early 1980s. The only additions to the six firms assembling automobiles in 1955 were Bajaj, a producer of small CVs, and a minor car manufacturer (Chaudhuri, 1970: 97; UNCTC, 1983: 132).

This almost obsessively inward-looking automotive ISI strategy has been frequently criticised for fostering widespread inefficiency, for keeping prices high, and for perpetuating obsolete technologies (Baranson, 1967; Krueger, 1975; Maxcy, 1981: 264-268). Tentative moves to ease local content requirements were made towards the end of the 1960s, but little was changed (Baranson, 1967: 28). One consequence of the effective insulation of the industry from international technical developments is that the most common cars today are still a Fiat model of the 1950s and the 'Ambassador', a derivative of the 1954 Morris Oxford.

The component of economic nationalism excluding auto-TNCs from the automotive industry has begun to give way in recent years. The problems caused by almost absolute protection for national firms came to a head in the
mid-1970s, when the Maruti car manufacturing scandal erupted. Large sums of public money had been sunk in a project sponsored by the President's son, Sanjay Ghandi. After these could not be accounted for, press exposes and continued uproar in parliament finally lead to a state takeover of the company in the late 1970s.\(^5\) A state-TNC joint venture with Suzuki was established in 1980, and the Japanese auto-TNC constructed a turnkey operation for the complete manufacture of both CVs and PVs. Competition from this state-TNC joint venture is reportedly intended to increase the efficiency of rival national firms (UNCTC, 1983: 133-134). This marked a turning point in the industry's development, for in the following years restrictions on foreign entrants were considerably relaxed. Four other Japanese auto-TNCs have now established plants to manufacture CVs (Business India, 11 Feb 1985: 49-50).

Despite these signs that the strand of official economic nationalism excluding foreign capital is growing weaker as the localisation effort gathers strength, the commitment to national capital is likely to endure. Past protectionist policies have fostered the development of a class of powerful domestic industrialists, for the exclusion of foreign capital coupled with the mandatory localisation of production within a limited time frame meant that new industries were generally undertaken by national assemblers. These national capitalists still dominate the industry today, reinforcing the original orientation of official economic nationalism. The House of Kirloskar, for example, Cummin's joint venture partner and the subject of a highly critical 1967 study by Baranson, has won a significant share of the market for CVs. As noted by the Marxist scholar, Bagchi (1982: 192-193), close state regulation of foreign capital permitted Kirloskar to integrate with international capital on favourable terms. A number of national capitalist groups, including Kirloskar, are using their vertically-integrated domestic operations as a base for the export of technology and know-how. The second largest corporate group in India, Tata, now dominates over two-thirds of the domestic CV market and it has recently established six assembly plants in other Third world countries.\(^6\)

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\(^5\) Selbourne (1977: 112-114) provides a blow-by-blow account of the subsequent parliamentary debates and court proceedings of the trials of senior officials involved. Henderson (1977: 13-15) describes how the promised vehicle never materialised in the years after the project was launched in 1970, and suggests that it was one factor leading to Indira Gandhi's declaration of the Emergency in 1975.

\(^6\) Its plant in Malaysia is in fact competing with the assembly operations of its erstwhile parent company, Daimler-Benz (Lall, 1982: 137-8). Another company has established a CV assembly plant and component manufacturing facilities in Greece.
Far from being the sole creation of nationalist-minded officials, India's automotive ISI policy was thus pioneered by national business. Official economic nationalism for the industry was most concerned to protect an industrial bourgeoisie. Business competition allowed the state a degree of independence from international capital in implementing this policy, which came to reflect more closely the interests of national capitalist fractions. A number of national automotive firms developed into large corporations that, backed by the power of the state, are now able to compete internationally. The coincidence of state policy with the interests of national capital therefore suggests that the state-class relationship behind policy is best described by Model 2, that of the nationalist state.

3.2.3 - A Dual Orientation: the Enhanced Autonomy of the Mexican State

At the same time that the Brazilian state was bargaining with auto-TNCs over terms of market entry and the Indian state was erecting a protective shield around national automobile producers, Mexico was also embarking on an automotive ISI programme. From the outset, the orientation of the state emphasised both localisation of production and the indigenisation of ownership in the industry, placing it somewhere in between the Indian and Brazilian examples. Consequently, while one key objective of state policy was to hasten automotive industrialisation, legislation was also enacted that reserved a significant share of the industry for national capital.

The origins of this particular mix are to be found in Mexico's nationalist past, with both ingredients possessing reputable political genealogies. Compared to policy in many other Third World states, official economic nationalism in Mexico is relatively 'open' in character, having been associated with both attempts to direct foreign investment towards national economic development and to promote the development of a national bourgeoisie. Controls on foreign capital have long been the hallmark of economic policy: during the 1920s and 1930s foreign investment was totally excluded from major economic sectors such as natural resources, banking and transportation. The need for foreign technical and management skills after World War Two made it impractical, however, to exclude TNCs from manufacturing. Seeking simultaneously to attract foreign capital while striving for the indigenisation of ownership, the state resolved the tension between these two objectives by attempting to harness foreign investment to the logic of national development. After some initial exuberant attempts to expel foreign capital, nationalist policy in the manufacturing sector was aimed at protecting a small
capitalist class. Thus, the first proposals for the Mexicanisation of ownership arose from within the state apparatus rather than as a result of pressure from bourgeois forces (Bennett et. al., 1978).

Lacking a national bourgeoisie that could undertake the necessary entrepreneurial activities, the state deliberately created such a class (one which, as it grew, became increasingly capable of influencing governmental policy). (Bennett and Sharpe, 1979: 63)

Postwar policy for the automotive industry expresses both policy orientations. On the one hand, officials were clearly concerned to promote automobile manufacture. Ford had commenced assembly operations in the 1920s, GM in the 1930s and International Harvester in the 1940s, but the failure of these three US firms to move beyond simple assembly frustrated aspirations for industrial development. Technocrats had become concerned, however, about an influx of foreign investment into manufacturing after the war. An early flush of nationalist sentiment resulted in the imposition of quotas on automobile imports in 1947, and at one stage the importation of vehicles was banned altogether (Wilkins and Hill, 1964: 357). A compromise between these policy orientations entailed both promoting local manufacture and assisting local automotive firms.

The Mexican economy reached the end of the 'easy' ISI stage in the mid-1950s, when the surge of import substitution that began during the depression began to subside. Policy-makers were faced with the familiar options of expanding the domestic market for consumer goods through income redistribution, or of moving into upstream industries. The regime of Lopez Mateos chose the latter, structural alternative, making the automotive industry the centrepiece of a strategy to promote capital goods manufacture. Initially, the government took advantage of the entry of European auto-TNCs into Latin America to consciously create a competitive environment. Import quotas had previously prohibited the importation of fully assembled vehicles, but in the late 1950s a number of European auto-TNCs were allowed to import CBU vehicles and thus establish a market position. Secondly, an interdepartmental committee was sent to Brazil and Argentina to examine their localisation programmes; in 1958 it recommended a target of 60 per cent local content, to be achieved within two years. Legislation in 1962 promulgated this recommendation.
At the same time, policy was drafted to counter the tendency to
denationalisation inherent in the industrialisation drive. The
interdepartmental committee recommended that legislation be enacted
requiring assembly firms to be least 50 per cent Mexican-owned; that vertical
integration into component manufacture by foreign assemblers be restricted to
engine machining and assembly; and that terminal assembly be distinguished
from component production, the last proposal intended to reserve the
component industry for national firms. The 1962 decree on automobile
production retained all these recommendations, with the important exception
that no restrictions were placed on foreign ownership in the assembly industry
(Bennett and Sharpe, 1985).

Policy implementation during the industry's subsequent rapid growth
had a varied impact. 55,000 automobiles had been assembled in 1960, a figure
which trebled by 1969. Production of components also increased rapidly,
trebling in value between 1962 and 1966, while numbers employed in their
manufacture increased from 38,000 to 71,000 (Bennett and Sharpe, 1985: 115). In
the assembly industry, auto-TNC subsidiaries benefited most from this
expansion, for their competitive advantages overwhelmed state assistance
extended to national firms. Of the ten assemblers participating in the
localisation programme in 1962, seven had total or majority Mexican
ownership; by 1971 only two were in the hands of nationals, both of them state-
owned (Bennett and Sharpe, 1979: 73). The disappearance of private national
capital from the assembly industry has led one authority on the Latin
American automotive industry to conclude that state declarations on
Mexicanisation "seem to have remained largely a dead letter" (Jenkins, 1977:
128). By contrast, restrictions on auto-TNCs and absolute protection for
national producers in the component industry ensured that, here, benefits of
this expansion were enjoyed by local firms.

Forced to achieve 60 percent domestic content but prevented from
integrating vertically beyond the machining of motors and
assembly, [auto-TNCs] were compelled to provide the nascent

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7 One illustration of the advantage of support from a foreign manufacturer is provided by a failed
attempt to relocate complete manufacture to Mexico. After the German automobile manufacturer,
Borgward, collapsed in 1961, the plant was bought by a well-connected national businessman and
shipped from Bremen to Monterrey. The lack of a firm international link meant his company,
FANASA, produced outdated models using inefficient techniques in the following years. Despite
technical assistance from a Spanish firm and generous state aid, the company collapsed in 1970,
having produced no more than a few hundred vehicles (Bennett and Sharpe, 1985: 122-124;
Maxcy, 1981: 121-122). An Indonesian businessman who was a noted pioneer of automotive
localisation during the Old Order, Koerwert Kartaadiredja, claimed to have almost outbid
FANASA for the Borgward plant (see section 4.2.2).
majority Mexican-owned parts industry with markets, technological assistance, and "matchmaking" services [for sales]. (Bennett and Sharpe, 1985: 116)

Consequently, neither foreign interests nor national business heavily influenced automotive industry policy. The state's continued relative autonomy from capitalist forces has meant that the direction of policy has come to be determined primarily by struggles within the apparatus. Planners turned to the promotion of exports in the 1970s, requiring firms to replace a rising percentage of imports with the export of components. Amongst other commentators, Vernon (1977: 212, 215) cites this shift as evidence of the continued vitality of Mexico's economic nationalism. A proposal to legislate to increase local content was defeated within the state apparatus in 1976-77. But its proponents were successful in 1983, and the industrialisation target was reinstated (Bennett and Sharpe, 1985: 274).

Within this official economic nationalism, both development orientations have persisted. The commitment to national ownership, for example, has led to direct state participation in production ventures. Rather than allow national firms to collapse and see their operations absorbed by foreign firms, in the 1970s state corporations took over the operations of the two remaining private assemblers and numerous component manufacturers. One of these state-owned assemblers also formed a manufacturing joint venture with Renault in 1973, in which the auto-TNC took a minority 40 per cent share.

It therefore seems that both localisation and indigenisation elements of automotive ISI policy had become self-generating. Bennett and Sharpe (1985) argue convincingly that the anti-foreign element deriving from the nationalist revolution, the inability of the national bourgeoisie to subject the state to its own ends, combined with a state commitment to bourgeois norms, all serve to thrust the state into prominence as the agent for capitalist industrialisation. Coordinating the integration of foreign and national capital, the state resolves the tension between these two ideological goals by increasing its ownership of production, a resolution best described in terms of Model 3, that of the internationalising state.
3.2.4 - Automotive ISI and the Third World State: Some Policy Implications

The evolution of automobile policy within these three countries was undoubtedly far more complex than presented here. These thumbnail sketches cannot account, for example, for the impact of the reorganisation of international production networks in the 1970s, since the changing pattern of international investment affected localisation schemes in different ways. To describe these developments would require a detailed study of the class and bureaucratic forces behind policy, as well as an analysis of the emphasis on the two elements of economic nationalism in different segments of each state. It is nevertheless a common trait of these cases that the essentially ideological goal of achieving full automobile manufacture was the driving force behind state policy. Whether launched by technocrats intent on promoting a new industry or under pressure from a nascent industrial class, nationalist economic considerations were the guiding principles in the formulation of industrialisation policy.

That nationalist policies were a major factor in stimulating auto-TNC relocation has some important implications for the earlier discussion of theoretical approaches to the industry's development. It strongly suggests, firstly, that the increasingly 'global reach' of the transnational automotive firms is not the only, or even the most important, factor behind its expansion in the Third World. Moreover, if the industry is not moulded solely by exogenous forces, this implies further that internationalisation is not carrying different countries towards a common destiny.

In each of these three cases, the state became more 'powerful' vis-a-vis the industry, in the sense that the state capacity to intervene increased significantly. The state became involved more directly in coordinating the integration of local and international capital, while state ownership of production ventures also increased. The homogenising effect of internationalisation was strongly qualified, however, by the different relationship between state and business in these countries. Beyond a common desire to promote local production, policy implementation varied according to the nature of the state-class relationship behind particular economic nationalisms.

Some have sought to explain such differences in terms of external forces. Gereffi and Newfarmer (1985: 430) note that where auto-TNCs began manufacturing in Latin America before state localisation programmes were launched, a local managerial class had already been brought into existence.
Economic nationalism in the industry, so goes the argument, consequently concentrated on changing auto-TNC investment behaviour, with less attention given to fostering indigenous capital. Policy to increase local content consequently pushed the industry in these countries towards international integration.

This begs the question, of course, as to why states put different emphases on the two elements of economic nationalism. The success of Brazil and Argentina in attracting auto-TNC investment had a strong demonstration effect throughout the Latin American region: the initial impulse of Mexico's technocrats was to legislate for a compulsory increase in local content. Yet the Mexican example also shows that an explanation of Third World economic nationalism that relies on external factors alone is incomplete, for here the freedom of the technocrats was constrained by a prior state commitment to promoting national private capital. The above studies in fact suggest the opposite case to that put by Newfarmer and Gereffi, for Brazil concentrated on changing auto-TNC investment behaviour despite the lack of a significant capitalist class, while policy in India strongly emphasised the indigenisation of ownership, although a capable business class already existed.

A more promising framework is one that seeks to explain such differences in domestic terms, examining the local class and governmental forces involved in the formulation of policy and seeking to determine the class nature of the state in policy implementation. Seen in this light, the initial policy goals of the Brazilian state thus required auto-TNC investment for their success; close integration into international networks followed naturally. As state and international capital grew more interdependent, so did national firms grow more dependent on state support. In India, policy was premised on the promotion of national capital, so auto-TNCs were allowed in only under strict controls. Powerful state-business alliances were formed, institutionalising the influence of national capitalists in state policy. The intermediate position of the Mexican state - caught between the industrialisation objective and the desire to promote the domestic bourgeoisie - had a varied effect. Restrictions were placed on auto-TNC operations in the component industry, thus creating an environment conducive to the growth of a national bourgeoisie in an important sector of the industry. Support for national capital was more qualified than in India, however; the assembly industry was left relatively unregulated and came to be dominated by international capital.
These case studies suggest that the environment initially created by nationalist ISI policy tends to build its own momentum, as the interaction with business reinforces the original policy direction. Where policy concentrates on the localisation of production, realisation of policy goals is dependent on foreign investment and implementation will tend to increase state controls on national capital (Model 1). Where national capitalists first localise production, economic nationalism is defined around protecting the national bourgeoisie; implementation takes the form of national capital-state alliances (Model 2). Finally, where the state enjoys a degree of autonomy, the ideological concerns of state personnel play a more significant role in defining the direction of policy (Models 3 and 4).

In this framework, policy analysis aims firstly to identify the initial state orientation; secondly, it seeks to establish the extent to which the momentum behind the drive to full manufacture is maintained by state-business interaction or is driven by a process within the state itself, the key issue being to establish the degree of state autonomy in policy implementation. Research of this nature requires detailed investigation of the social forces behind economic nationalism, and the remainder of the thesis will describe relations between state and business in the formation of automotive development policy in Indonesia. Prior to this, it is necessary to identify the initial state orientation to promotion of the industry. The following chapter will attempt to situate industry policy within its own historical context, seeking the social roots of the automotive industrialisation drive.
Chapter Four

ECONOMIC NATIONALISM IN INDONESIA: AN HISTORICAL PERSPECTIVE

The authors of what is still the major academic study of economic nationalism in Southeast Asia contend that the principal determinant of economic policy in the region has been the drive to increase the share of nationals in the ownership of those economies (Golay et. al., 1969: ix). This ideological commitment, they argue, has generated policy priorities "independent of, and frequently in substantial conflict with, the priority assigned to material expansion" (p. 11). This observation is particularly relevant to Indonesia, where demands to bring productive assets under national control in the recent past have frequently clashed with the aspiration for rapid economic development.

A major objective of economic policy-makers in Indonesia after 1949 was to overcome what had become known as the ekonomi kolonial, to wean the economy away from its overwhelming dependence on agriculture and the export of primary products. From the time Dutch merchants began to dominate trade in the archipelago in the late seventeenth century until colonial control ended abruptly when World War Two entered the Pacific, the economy of the Indies had consisted of a small, European-dominated modern sector tenuously linked to a vast, indigenous agricultural economy. Economic development was thus one key element in the struggle for national sovereignty. However, three centuries of colonial rule also brought alien control of virtually all important economic resources, a social environment which provided fertile soil for the growth of anti-foreign sentiment. A second important outgrowth of this colonial past was that policy was also heavily influenced by business and political pressure for the indigenisation of ownership.

By reference chiefly to industrial development policy, the first part of this chapter describes how these two concerns were sustained in the decade and a half after full independence was achieved in 1949. The second section focuses specifically on the automotive industry, attempting to draw some conclusions about how the interaction between state and national capital shaped nationalist development policy for the industry during these years.
4.1 Industrialism and Indigenism in Development Policy, 1950-1965

The 1940s was a decade of unprecedented political uncertainty in the Indies. Communication with Holland was severed by the Nazi invasion of 1940; the colonial administration was overthrown by the Japanese in 1942; national independence was declared in 1945; and four years of physical and diplomatic warfare culminated in full political sovereignty in 1949. During this period of economic and political strife, nationalist politicians were nevertheless able to formulate a definition of the *ekonomi nasional* that they envisaged would replace the inherited *ekonomi kolonial*.¹

This definition essentially comprised two elements. Apart from desire to increase general prosperity, political leaders during the revolution understood 'Indonesianisation' to mean both economic diversification and the transfer of ownership into indigenous hands (Feith, 1962: 373-374). These twin objectives were perhaps most evident in policy to promote manufacturing, for developments during the colonial period had given these concerns considerable ideological force by 1950.

4.1.1 - The Dual Orientation in the Concept of the 'Ekonomi Nasional'

Although some minor industrial development had taken place prior to 1930, foreign investment had flowed mainly into the more lucrative plantation and mining sectors. The demand for secondary goods was generally satisfied by imports from Holland and Britain, and local industrial activity was limited to activities to support these two primary economic sectors.² A fairly significant manufacturing boom took place during the depression, when falling prices for primary exports reduced manufactured imports and encouraged import substitution. The entry of a handful of foreign manufacturers in the late 1920s

¹ The concept of the *ekonomi nasional* was articulated by Hatta and Sukarno during the Japanese occupation (Sutter, 1959: 125-128; 260-262); by chairman of the PNI, Sujono Hadinoto, in his 1949 publication *Dari Ekonomi Kolonial ke Ekonomi Nasional* (Sutter, 1959: 638-646); and by the major political parties in the late 1940s (Kahin, 1952: chapter 10).
² Good summaries of the development of the manufacturing sector prior to 1930 are provided by De Neuman (1954; 1955), (Furnivall, 1939: 233-236) and Mangkusuwondo (1967: 88-89; 122-125).
foreshadowed an influx of foreign investors in the following decade. By the end of the 1930s, mechanised factories produced almost half the industrial output (NI, 1947: 58-61); nearly three million workers were employed in secondary industry (Sitsen, 1943: 22-23).

The colonial administration took various measures that had the effect of aiding this growth. Restrictions were placed on Japanese manufactured imports in 1933; the Department of Economic Affairs began to formulate a long-term industrial development strategy in 1937; an Industrie-plan published in 1941 proposed that state corporations construct nine large-scale plants to produce industrial inputs. Policy to promote industrialisation was never a priority for the colonial administration, however, but largely a response to ad hoc pressures. The 1933 legislation, for example, was largely due to pressure from Dutch textile exporters threatened by cheap imports from Japan (Palmer, 1972: 31-32). As the administration later conceded, the 1941 plan was also "stimulated by the threat of war at the time" (NI, 1947: 61).

Industry was assigned a secondary role; traditionally, it was viewed always as a 'child of necessity' rather than as a form of economic development in and of itself to be developed.

(Van der Kroef, 1956: 16)

The important legacy for future policy was that most nationalist politicians equated colonialism with imperialism and a distorted economy. By the 1940s, virtually all political parties had adopted anti-imperialist doctrines strongly tinged with the determination that, after independence, state authority would be used to promote a more diversified sectoral balance (Sutter, 1959: 112-120).

A second legacy of the colonial experience was the concern to use state power to protect the indigenous business class. The first mass movement in Indonesia began as a move to counter competition with Chinese merchants in the textile industry, a sector traditionally dominated by indigenous, pribumi, business. In the Outer Islands and especially in Sumatra, pribumi capitalists were generally able to match such competition; in Java resistance took a more

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3 These investments included a General Motors assembly plant, two British and American Tobacco factories, a large Dutch textile mill and a German cotton wool factory. In the 1930s Unilever opened a soap and margarine factory, Goodyear a tyre manufacturing plant, the Dutch giant Lindateves began paint production, and numerous Western companies invested in the manufacture of paint, ink, bicycles, light bulbs, radios, cosmetics and batteries (Soehoed, 1967; Sitsen, 1943; Allen and Donnithorne, 1957: 258-259).

4 Only two of these, both spinning mills in Java, were operating before the Japanese invasion. The others, a caustic soda factory, a paper mill, a plywood factory, a glass factory in Tuban, a fertiliser factory in Cepu, an iron and steel rolling mill in Cilegon, and a huge hydroelectric scheme in South Sumatra were begun in the decades after independence.
political form. The *Sarekat Dagang Islam* (Moslem Trading Association) was established on the initiative of a Central Javanese *batik* cloth producer between 1911 and 1912, after Chinese traders had attempted to secure control of the local supply of raw materials (Van Niel, 1960: 88-92; The, 1966-67). The association expanded at a rate that astonished both the Dutch authorities and its own founders. Renamed *Sarekat Islam*, the Islamic Association, membership had swollen to two and a half million by the time of its fourth congress in 1919. This phenomenal growth had various localised causes, largely unrelated to the original charter. The significance for future economic policy was that the specifically economic grievances voiced by pribumi entrepreneurs had become an important cause for nationalist politicians. As a 1920 government report observed,

> the core of the nationalist movement is, therefore, the revolt of the increasing productive powers of an early-capitalist native society against the economic and political domination of 'foreign capital'.
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> (cited in Van der Kroef, 1950: 180)

In terms of Furnivall's (1939) analysis of plural society in Indonesia, the boom of the 1930s was important because it signalled a change in the ethnic composition of business. The manufacturing sector had previously been highly ethnically stratified, with all large-scale enterprise owned by Europeans, medium-scale reprocessing dominated by Chinese entrepreneurs, and most cottage industry in indigenous hands. Pribumi firms benefited from the increased demand for locally manufactured goods, however, with significant expansion in certain areas. The textile industry of West Java, for example, began to move out of domestic production and use power looms (Sutter, 1959: 40-44; Palmer, 1972: 41-47). A number of prominent Outer Islands traders also diversified into manufacturing. The Minangkabau cloth merchant, Agus Dasaad, a close associate of Ir. Sukarno, moved into textile production and on this basis became the largest pribumi entrepreneur before the war. Also deserving of mention is the Palembang trader, Haji Abdul Ghany Aziz, who established the Malaya Import Company with Dasaad in 1936, PT Kiagoos in 1940, and PT Masayu for the importation of machinery in 1943. Both Dasaad and Aziz became prominent automobile importers after the war.\(^5\)

By the time independence was achieved, the developments of the preceding decades meant that two primary considerations were therefore

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\(^5\) Sutter (1959: 101-106) summarises the position of pribumi traders in the 1930s generally, and Dasaad in particular (pp. 289; 503; 634). Information on Aziz is taken from *Eksekutif*, April 1980.
brought to bear on the formation of development policy. The growth of the 1930s raised expectations of rapid industrial development once colonial constraints were removed. Meanwhile, the tangible success of a few prabumi business groups led to hopes that their successes could be generalised, a commitment reinforced by attempts by business leaders to increase their political influence.\(^6\) These two elements are not necessarily contradictory, and both were promoted with some success in the following years, especially during periods of economic expansion. There was nevertheless a tension between the two, since the logic of the struggle to overcome foreign domination of the economy militated against large-scale foreign investment, necessary to develop new industries.

The widespread resolution to this tension was to advocate a leading role for the state, since only state corporations had both the necessary economic resources and political legitimacy to bring the economy under national control. By 1950 all political leaders were avowedly 'socialist' in some sense of that term, and virtually all favoured state ownership of vital sectors of the economy. Higgins (1957: 102) reminds us of the dictum of Haji Agus Salim, a founder of Sarekat Islam, who proclaimed that the struggle for political independence would be followed by the struggle for economic sovereignty. Salim was a political moderate who intended to promote a modern indigenous bourgeoisie. His famous dictum was widely reinterpreted as endorsing state intervention, however, for even parties that favoured private business interests preferred a regulated economy to the foreign domination of 'free-fight capitalism'.

Significant differences existed within this apparent consensus on state economic intervention, however. It is possible to locate policy-makers along two axes relating to the two historical concerns of Indonesian economic nationalism: controlling foreign investment to bring about structural economic change, and promoting indigenous entrepreneurship.

The first axis concerns the issue with which economic nationalism is most often associated. Leftists and radical nationalists argued that only the seizure of foreign property would free the economy from imperialist constraints, and considered state corporations the appropriate means to

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\(^6\) Both Dasaad and Aziz, for instance, were prominent leaders of business organisations that actively advocated prabumi business interests in the 1940s (Sutter, 1959: 161, 260-264, 673-674). Dasaad was also an executive member of the PNI's Jakarta branch (Sutter, 1959: 283 fn. 11).
develop an integrated national economy.\(^7\) There were no influential advocates of economic liberalism, with the possible exception of the Masjumi political leader, Sjafruddin Prawiranegara - although even he was in principle opposed to capitalism and favoured a form of 'religious socialism' (Kahin, 1952: 309-311). In the Indonesian context, the other pole of this axis was represented by economic pragmatists who limited their attacks to 'sinful capitalism', imperialists who exploited Indonesia's natural wealth. They argued that foreign investment was, temporarily, necessary to stimulate economic growth. In the first definitive statement on foreign economic policy in February 1950, President Sukarno declared that nationalisation was a question for the distant future, arguing that the creation of a strong national economy demanded the mobilisation of all sources of capital, both domestic and foreign (Sutter, 1959: 1107-1108). Although politicians of all ideological shades believed that business should preferably be owned by nationals, this remained the dominant foreign economic policy orientation in the first half of the 1950s.

The formulation of economic policy was, however, complicated by political alignments along a second moderate-radical axis relating to the domestic component of Indonesian economic nationalism, the concern to promote pribumi business. It has been estimated that in 1939 Dutch interests owned 52 per cent of non-agricultural capital, whereas only 19 per cent was in the hands of indigenous Indonesians.\(^8\) The climate of intense nationalism that prevailed after 1949 presented policy-makers with a dilemma, since maintaining economic stability whilst promoting economic growth was tantamount to reinforcing alien domination. All political forces supported the indigenisation of ownership, but differences emerged concerning the appropriate policy instruments to achieve this. According to a distinction first employed by Anspach (1969: 123-124), moderates preferred 'credit indigenism,' advocating limited state intervention and subsidisation of indigenous business. Those who stood towards the radical end of this axis were more prepared to use 'decree indigenism,' to intervene directly to reserve certain economic activities for pribumi business or even license aliens out of certain sectors altogether.

\(^7\) The most famous proponent of such a stance was Tan Malaka, whose supporters at one time included a future Vice-President, Adam Malik, and a future Minister of Industry, Chairul Saleh. Malaka's views and the events surrounding the attempted coup d'état of 1946 by the mass movement he led are summarised by Kahin (1952: 172-178).

These 'external' and 'domestic' axes of Indonesian economic nationalism did not often coincide. Dr Sumitro Djojohadikusumo, a Dutch-educated member of the moderate Socialist Party (PSI) who dominated economic policy debates in the early 1950s, encouraged foreign investment, but also displayed a readiness to intervene to protect pribumi business. Communist Party (PKI) politicians, on the other hand, pressed for the nationalisation of foreign property, but advocated state protection for all national capital - including Chinese-owned business.

Policy was formulated in the interaction between advocates of both aspects of economic nationalism: far from these axes coinciding, it can be shown that in the 15 years between 1950 and 1965 economic policy moved in opposite directions, for the political current which carried policy towards the moderate end of the second, ethnic axis brought with it the radicalisation of foreign economic policy.

4.1.2 - Radical Indigenism, Moderate Industrialism

Political leaders made no more than passing reference to development issues in the years following the 1945 declaration of independence; their attention was absorbed in the struggle against the Dutch and, if the economic future was discussed at all, the focus was on rehabilitation and economic reconstruction. Political successes spilled over into the economic arena, however, and pressure gradually built up for the formulation of a comprehensive development strategy. The component of economic nationalism which first appeared in formulated policy was the drive to create a resilient pribumi business class.

In 1950 banks began providing easier credit to pribumi entrepreneurs, while the Department of Industry used its authority to favour pribumi-owned enterprises (Tan, 1976: 35). The best-known example of decree indigenism in independent Indonesia, however, is the Benteng, 'fortress', policy, introduced in 1950 by the non-party Minister for Prosperity, Ir. Djuanda. By reserving the importation of certain goods for registered pribumi business groups, the Benteng policy was intended to allow pribumi merchants to build a capital base behind protective walls. Using the euphemism still common today, Djuanda hoped that these 'economically weak groups' would follow the example of the

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pribumi traders in the 1930s, utilising the capital base thus established to branch into manufacturing (Anschach, 1969: 131).

Plans for economic reconstruction had also kindled aspirations for industrial development. Although protection for pribumi business remained a more immediate policy concern, a commitment to a technocratic version of industrialism took hold within important parts of the state apparatus during the first half of the 1950s. The most important feature of this essentially Keynesian model was the need to accelerate capital formation, thereby providing the 'big push' needed to build up a developmental momentum. According to advocates of this model, only close state involvement to overcome market imperfections would demolish the colonial economic structure; detailed planning and close supervision would ensure the optimum yield from new investment; and state corporations would serve as developmental catalysts where private sector interest was lacking (Higgins and Higgins, 1963: Chapter 6). The history of industrial planning in the 1950s - and in subsequent decades - largely consists of efforts to guide industrial development according to the rational criteria of this model (Kuntjoro-Jakti, 1981: Chapter 2).

In one of the earliest indications of future industrial policy, the Director of Trade and Industry, Dr Saroso, had argued that rehabilitation required priority to be given to industrial development. He proposed an ISI strategy of tariff protection and government quotas to overcome the colonial legacy of "a one-sided agricultural economy... sensitive to the fluctuations of business cycle[s]" (Wirodhhardjo, 1949: 12). Beginning with textile production and reprocessing of agricultural goods, this programme would eventually lead to the establishment of heavy metal industries. Dr Sumitro was appointed Minister for Trade and Industry in the Natsir cabinet in 1950 and immediately began drafting a programme for economic reconstruction centred on industrial development. Sumitro played an important part in popularising this technocratic model during the early 1950s; his pivotal role in economic policy formulation at that time and his influence in later decades make his policy concerns worthy of closer examination.

The first important development initiative of the new government was a programme launched in April 1951, the Economic Urgency Programme (EUP),
also known as the 'Sumitro Plan.' The State Planning Bureau, BPN (Biro Perancang Negara) was established under Sumitro's co-ordination in 1952 to oversee its implementation, with assistance provided by the United Nations. The first foreign economist, Ben Higgins, arrived in July that year (Higgins, 1957: 41). The most ambitious objective of the 1951 plan, and that which has drawn most comment, was to sponsor large-scale industrial projects. Most of these were derived from the 1941 Industrie-plan, but the plan also included a number of new schemes in the Outer Islands for reprocessing raw materials into intermediate industrial inputs. A special state bank, BIN, Bank Industri Negara, was established at Sumitro's urging, with the portfolio of managing and financing these projects, either by itself or jointly with private capital. The 1951 plan projected BIN into a pioneering economic role, for it soon became obvious that this state agency would be responsible for both management and capitalisation of these industrial ventures.

Sumitro's preparedness during these years to use state resources to finance economic ventures earned him a reputation for nationalist and statist policy preferences. He is generally recognised to have been more interventionist than many of his colleagues of the period, and the ideas he promoted at the time were later taken up by other planners. Arguing that Sumitro has "probably had more influence on present Indonesian government thinking about foreign trade than any other person," Rice (1982: 150) maintains that the industrialisation proposals he made during these years laid the ideological base for state intervention in later decades.

One should not exaggerate Sumitro's faith in statist solutions, however, for his advocacy of state intervention was qualified by a second policy objective, that of assisting indigenous entrepreneurs. This proclivity for favouring pribumi capital can be explained partly in terms of business pressure. Sumitro was appointed Minister for Finance in the Wilopo cabinet (1952-1953), a position more subject to business lobbying for financial assistance. In this portfolio, Sumitro was responsible for a considerable increase in the number of imports covered by Benteng, from 10 to 25 per cent of total import items (Anspach, 1969: 171).

\footnote{Paauw (1963: 214-231) provides a useful and concise summary of the political circumstances behind Indonesia's first three plans, namely those of 1951, 1956 and 1961. Thomas and Panglaykimen (1973: Chapter 2) are concerned mostly with the 1951 plan and the Benteng programme. Higgin (1957: 40-53) describes the political and administrative obstacles to policy implementation in the early 1950s.}
Business pressure could only be part of the answer, however, for his policy initiatives bear his own personal stamp: Sumitro's guiding principle was to overcome economic dualism, and the cornerstone of the 1951 plan was the attempt to increase the capacity of small-scale 'people's industries,' industri rakyat. Cottage industries from leather workshops to bronze smelters were to be modernised using the same methods as the colonial administration, via central production and processing units known as induks. Capital assistance was provided and certain markets were restricted to indigenous producers (Glassburner, 1962: 123). Sumitro thus displayed a readiness to use both credit and decree indigenism.

Finally, the most important consideration was the political mood of the time. The 1951 plan encouraged foreign investors to establish joint ventures with national capital and, although 'national' was not specifically defined, it was widely interpreted as 'indigenous'. The large-scale industrial projects were designed to provide inputs for the small-scale industries; they "were planned as supporting elements... providing external economies or as strategic determinants for growth in other sectors." They were thus only one element in a broad development programme, "an integral part of a general policy to increase the economic strength of the Indonesian people as the basis for developing a sound national economy" (Djojohadikusumo, 1954: 704). We can thus conclude that Sumitro proposed that BIN administer the large-scale industrial projects, not as a step towards state ownership, but because national entrepreneurs were not capable of undertaking this task, so vital in promoting the predominantly indigenous small-scale sector.

Nor should one exaggerate the differences between Sumitro and his cabinet colleagues of the early 1950s. The six cabinets that formed and dissolved in as many years, from 1949 to 1955, were dominated by members of the Socialist Party (PSI), Masjumi, and the National Party (PNI). The PSI was a small, elite, centrist party led by western-educated intellectuals such as Sjahir and Sumitro, generally oriented towards a highly pragmatic form of social democracy. Leaders of the moderate Muslim party, Masjumi, men like Sjafruddin, were closer to business interests and favoured foreign investment. Finally, the PNI, the party which emerged with the largest vote in the first general election in 1955, did strongly espouse Sukarno's anti-imperialist ideology. It was riven with ideological differences, however, and the PNI-led governments of the early 1950s, those of Natsir and Wilopo and the first Ali cabinet, were dominated by its moderate wing. Despite the rapid turnover in
cabinets, these years were thus marked by a surprising degree of consistency in economic policy, by an attempt "to live with the system" ... to operate within the confines of an economy dominated by foreign interests" (Thomas and Panglaykim, 1973: 51).

The political parties in power prior to 1955 were therefore committed to moderate industrialism, to advancing indigenous control of industry by chipping away at the wall of foreign control. While the political mood after independence made protection for priyumi business virtually obligatory, industrialisation plans were modest, representing the attempt to overcome economic dualism gradually, by upgrading the less advanced sector.

4.1.3 - Creeping Economic Nationalism

Any economic policy differences that existed amongst political moderates in the early 1950s later diminished in the face of attacks by radical critics. Nationalist economic demands gained political potency chiefly because of the continued Dutch economic presence. The Round Table Agreement signed by Republican leaders in The Hague in 1949 had guaranteed that licenses and rights already granted to foreign capital would be respected, and Dutch firms thus retained control of major sectors of the economy. It is perhaps something of an exaggeration to claim that, without control of important economic levers, "the Indonesian political leadership was virtually restricted to performing administrative and police functions" (Schmitt, 1963: 181). Schmitt (1963: 180) is certainly correct, however, when he argues that this foreign presence polarised policy-makers; it "divided those who would risk financial stability to rid the economy of Dutch control from those who preferred foreign dominance to monetary chaos." In more negative terms, two economic historians have similarly contended that it was this foreign presence that caused the eclipse of the political moderates who had dominated economic planning. "They were defeated largely because they failed to realise that, so long as Dutch foreign capital remained, efforts at development could be upset by a power-seeking opposition" (Thomas and Panglaykim, 1973: 52).

The fluid political situation at the time makes it difficult to ascertain with any degree of certainty the major factors behind the tide of economic nationalism which culminated in state control of major sectors of the economy. But it is likely that state intervention flowed as much from the failure to bring the economy under national control by promoting indigenous entrepreneurship, as from antagonism towards foreign capital per se.
The fate of the 1951 EUP illustrates a lack of administrative capacity at this time. Despite general political support, implementation suffered from the frequent cabinet changes during the period of parliamentary democracy. The Natsir government resigned just one day after the Programme was published in April 1951, and the succeeding Sukiman cabinet was incapacitated by internal revolts. The Wilopo cabinet (1952-1953) paid more attention to industrialisation, but the implementing agency, the State Planning Board (BPN), was distracted by personnel changes (Higgins, 1957: 40-44). A survey directed by Sumitro and carried out at the University of Indonesia, in conjunction with both the Department of Industry and the BPN, expressed disenchantment with the progress of both the large-scale projects and the attempt to upgrade cottage industries. The review blamed incompetent management and the "sad state of public administration" for failure to achieve industrial targets (Djojohadikusumo, 1954: 709).

The tardy implementation of the programme demonstrated a more significant problem, the critical absence of an indigenous entrepreneurial class able to manage the economy in the context of Dutch and Chinese competition. Official disenchantment with national capitalists during the mid-1950s was especially associated with the business group that won greatest state protection, the Benteng importers. The number of Dutch expatriates residing in Indonesia had fallen dramatically, from one-third of a million before the war to about only 23,000 in 1957 (Anspach, 1969: 179). The loss of skilled personnel caused considerable economic dislocation, but did not satisfy pribumi sentiment, for the vacuum thus created was largely filled by more capable ethnic Chinese entrepreneurs. Pribumi business groups successfully pressed for state protection to compensate: in 1951 Benteng covered 10 per cent of imports; in 1952 Sumitro widened its scope to 25 per cent; 85 per cent of import items were included by 1954. At one time, over 4,000 importers were registered (Feith, 1962: 375).

The most extreme political movement advocating policies of economic indigenism during this period was an overtly racist movement founded in the mid-1950s by Assaat, a prominent PSI politician who had briefly served as

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11 The latter came in for particular criticism. Of the eight induks begun in 1951, only one, producing umbrellas in Solo, was operating near capacity, and it made a substantial loss (Djojohadikusumo, 1954: 711-713). The one large-scale project to operate with a degree of success was a cement plant at Gresik, established with a loan from the US Export-Import Bank (Mackie, 1971: 46).
President of Indonesia in 1949-1950. He argued that a firm line should be
drawn between ethnic Chinese and indigenous citizens, calling for legislation
stipulating that all national enterprise be managed and predominately owned
by indigenes (Tan, 1976: 34-35). Despite its initial popularity and some
spectacular organisational success in 1956, the movement was not supported by
any major party and soon disappeared as a political phenomenon.

With it too went the attempt to use state authority to foster an indigenous
bourgeoisie. The Benteng scheme is considered to have been unsuccessful,
partly because the shifting locus of political power during the cabinet changes
of the early 1950s split the business community along political lines, as
importers allied with different political parties.12 A more serious problem with
the scheme was that inadequate provision had been made for the provision of
credit to registered importers who consequently found it difficult to obtain the
necessary finance, a difficulty which became particularly acute after a severe
credit squeeze in 1953-54 (Mackie, 1971: 48). State protection was instead often
extended to importir aktentas, 'briefcase importers,' brokers who had won the
license but who lacked finance and therefore had to rely on skilled capitalists,
usually ethnic Chinese, who possessed financial and managerial resources but
were politically unable to obtain the licenses.13 A series of scandals resulted in
the scheme being opened to Chinese merchants in 1955 and, after a brief
attempt by a new PNI-led cabinet to revive it in 1956, Benteng was formally
abandoned in 1957.

The poor results of the Economic Urgency Programme and the
discrediting of the Benteng scheme illustrate the difficulties faced by
Indonesian policy-makers at this time in implementing programmes of
economic change. Reliance on the foreign and Chinese capitalists who
dominated the economy was politically unacceptable, while pribumi capitalists
were generally still economically feeble. Meanwhile, the state apparatus was
penetrated by competing political parties and associated business interests, so
the government failed to provide consistent policy guidelines.

12 Feith (1962: 373-384) gives perhaps the best description of the impact on business of the PNI's
rise to power. Sutter (1959: 1052-1055) describes the shift from PSI patronage to a 'spoils system'
run by the PNI. A good summary of writing on the umbilical relationship between business and
the political parties during this period is provided by Robison (1977: 56-67). See also Robison
13 A senior bureaucrat estimated in the mid-1950s that 90 per cent of registered national
importers were not bona fide. In 1954 the Minister of Economic Affairs, Iskaq, admitted that
licenses were being marketed unofficially at more than double their nominal value (Anspach,
Paradoxically perhaps, a corrective began to be sought in closer state supervision. The status within the apparatus of the planners involved in drafting the EUP had been increased considerably, with the BPN made directly responsible to the office of the Prime Minister. The product of several years of extensive research by the BPN technocrats, the Five Year Plan was presented to cabinet in 1956 by the non-party technocrat, Ir. Djuanda.14 This second attempt at a comprehensive development scheme put an end to the free-spending years of Benteng, while its goals were more modest and its programme more detailed than the 1951 plan. The policy of subsidising private national business was reversed. The effort to mechanise cottage industries was also intensified, with a considerable increase in the number of state-financed induks (Mangkusuwondo, 1967: 237-238). The guiding objective, however, was to increase capital formation as a share of national income, from six to eight per cent by 1961, eventually leading to a 'stage of self-generating expansion' in the 1970s. The most ambitious element of the plan was a number of large industrial projects, to be undertaken by state enterprises and financed from the state budget, with little reliance on foreign aid (Higgins, 1957: 51-52; 178-179).

While the BPN technocrats relied primarily on the market mechanism, they were thus prepared to advocate a leading role for the state in undertaking industrial initiatives. As early as 1956, therefore, we can detect signs of a trend which accelerated in the following years, for discontent with economic progress to focus attention on state corporations as the instrument for industrialisation. The parties went into political decline after 1957, eclipsed by the rising authority of the state, and the nationalist concerns of political figures became an increasingly important determinant of economic policy.

4.1.4 - State-Led Industrialisation

1958 was a political watershed ushering in the period of Guided Democracy and the dismantling of liberal democratic political structures. Tensions between the regions and Jakarta had worsened in 1957, leading to open revolts in Sumatra and Sulawesi, the PRRI and Permesta rebellions (Feith, 1962: 520-555; Harvey, 1977). Largely due to these revolts, parliamentary authority was replaced by presidential rule in 1959. The Armed Forces emerged as a second focus of political power as the military centre consolidated its

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control over rebellious regional commands. This concentration of political power critically affected economic policy. A number of PSI and Masjumi political leaders had supported the rebel PRRI government, notably Sumatro, Sjafruddin and Natsir, removing these leaders from the political centre and providing cause for the eventual banning of these parties in 1961. The disappearance of their moderating influence on policy paved the way for deeper state intervention in the economy.

Conflict with the former colonial power had meanwhile grown more sharp, resulting in the unilateral abrogation of the Round Table Agreement in 1956, the confiscation of Dutch-owned enterprises and plantations in 1957, and the formal nationalisation without compensation of all Dutch property in 1958. These three events were not part of a co-ordinated programme of nationalisation, much less three steps on the march to socialism. They were associated, in the first case, with the continued Dutch refusal to negotiate according to the terms of the 1949 agreement; secondly, with parts of the military seeking to take advantage of a syndicalist movement amongst workers to increase their control of economic resources; and thirdly, with the tide of opinion militating against handing the confiscated property over to national entrepreneurs, whether Chinese or pribumi (Thomas and Glassburner, 1965). These unco-ordinated events nevertheless do mark the state's entry into the economy on a massive scale, for the final expulsion of Dutch capital created an economic vacuum which only state corporations could fill.

As the political influence of bourgeois elements declined and the arena for economic policy formulation moved further into the state apparatus, policy shifted correspondingly, from a concern to protect business towards promoting structural economic change. A degree of official opposition to ethnic Chinese business persisted into the Guided Economy period, the most notable example being a government regulation introduced in 1959 by the conservative Muslim Minister for Trade, Rachmat Mulyomiseno. This decree (PP. 10/59) banned 'alien traders' from the countryside, resulting in an influx into the cities and the expatriation of tens of thousands of Chinese (Mackie, 1976: 82-97). In its economic aspects, Sukarno’s version of socialism, his ‘Socialisme-a-la-Indonesia, meant that a considerable volume of nationalist rhetoric was directed towards promoting the modern sector.15

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15 It should be noted that most economic activity remained in private hands throughout the period of the Guided Economy. The huge agricultural sector was totally private apart from the nationalised plantations, while exports were also handled by private business. Only the manufacturing, service and import sectors were predominately state-owned.
Although the technocrats who designed the 1951 and 1956 plans showed considerable capacity to adapt to prevailing political moods and they retained a degree of influence within the bureaucracy, they were increasingly shut out of the planning process (Glassburner, 1978: 29-31). Little attention was given to economic matters, preventing any effective implementation of the Five Year Plan. The BPN was replaced in 1959 by a new National Planning Board, *Dewan Perantjjang Nasional*, 'Depernas'. Chaired by Mohammad Yamin, a political figure close to Sukarno, Depernas was subject to continued political interference.

The manufacturing sector had become predominantly state-owned after the 1958 nationalisations, and it was here, in the ideology of a commanding and leading role for the state that a distinct state goal found expression. Nationalist politicians had evidently absorbed the industrialisation objectives espoused by the BPN technocrats, but what had been previously been planning objectives were now translated into political slogans. In his 1959 Presidential Address, Sukarno stressed that only full industrialisation could make Indonesia self-reliant, a theme elaborated in his address the following year, when he declared that self-reliance would remain an empty slogan without the development of heavy industry.

The Five Year Plan was replaced in 1960 by the ambitious 'Eight Year Overall Development Plan,' Indonesia's third attempt to design a comprehensive development programme. The populist industrialisation strategy proposed by Depernas stressed the production of everyday goods to supply basic needs, *sandang pangan*. But heavy industrialisation was also a core element of this strategy. Consisting of 335 projects to promote public welfare, the plan was to be funded by revenue-generating export schemes for petroleum and plantation exploitation. It included a large number of basic industry projects in an import substitution programme leading to eventual industrial autarchy.

Strident affirmations of the commanding role of the state in the following years scarcely served to obscure an increasingly erratic process of policy formulation (Tan, 1967: 34-40). The Eight-Year Plan was essentially a long desiderata of development projects, with little thought given to sources of funding. Neither national capitalists nor state corporations were capable of implementing even a small number of the projects, so the scheme relied on an
influx of foreign capital. Soon after the plan was inaugurated, Dr Sadli warned that the investment estimates were over-ambitious (FEER, 19 Oct 1961: 154-161). While allowing that the proposed projects "were not intrinsically absurd," Castles (1965: 19-20) also noted that the optimistic provisions for capital formation were inconsistent with Indonesia's new self-reliant foreign policy. The declining political influence of the technocrats and a wave of economic nationalism after 1962 made large-scale foreign investment increasingly unlikely. In 1964 Sukarno finally announced a complete reversal of economic policy. Under the banner of Berdikari, 'standing on our own two feet,' the Eight Year Plan was shelved, foreign capital completely excluded, and a heavier emphasis placed on import substitution, to be undertaken by state corporations.

The increasing ideological stress on the sovereignty of the Indonesian state under the new 'Guided Economy' served to mask an ambiguous relationship with national capital. On the one hand, state leverage over business increased as control of imports and raw material supplies passed to state corporations. The nationalised Dutch trading houses were reorganised into eight trading corporations, and in 1959 were granted monopoly rights over the importation of essential commodities, thereby taking control of 70 percent of the total import trade (Thomas and Panglaykim, 1973: 57). A government regulation in 1960 (PP. 19/60) decreed that all private enterprise would be regulated by state agencies; in the following years corporatist organisations were established to co-ordinate the supply of raw materials and allocation of government contracts, the OPS (Organisations of Homogeneous Enterprises) and GPS (Federations of Homogeneous Enterprises). This apparent imperviousness to external influence was accompanied, however, by a greater dependence on private capital for policy implementation. A forerunner of today's Chamber of Commerce and Industry Kadin, Bamunas, the 'Consultative Body of National Entrepreneurs', was established in 1963, ostensibly as a representative business organisation, but presumably intended to raise private investment for state development programmes.

In the final years of the Guided Economy, the state-business relationship underpinning industrial policy was marked by increasingly patrimonial ties. On the one hand, foreign exchange and budgetary reserves were largely depleted (Mackie, 1967). In the absence of significant foreign investment or aid, the financing of state development plans thus relied on private national capital. At the same time, state corporations and state-controlled corporatist
organisations controlled the modern sector, with business dependent on these agencies for licenses and imports. The logic of Indonesian economic nationalism meant that state assistance to private business was highly personalised. Reflecting the disorderliness of state-business relations at this time, personalised ties of patronage consequently became more important than development programmes, with funds raised for development siphoned off by bureaucrats and politicians. "In practice, Bamunas has been useful for raising extraordinary financial contributions rather than for integrating the private sector into the government's development plans" (Castles, 1965: 34).

In terms of the relationship between state and capital, it is therefore evident that the course of economic policy formation during these 15 years was marked by a steady increase in state autonomy from business influence, a development which entailed a significant reorientation in industrial policy. The failure to energise indigenous entrepreneurship and foster a capable industrial bourgeoisie in the early 1950s left the task of industrialisation to state corporations. The original focus on small-scale indigenous industries, which had been the dominant policy theme, receded correspondingly. As demonstrated for the automotive industry in later chapters, promotion of labour-intensive, small-scale industry remained an important concern for policy-makers, and resurfaced as a controversial policy issue in the late 1970s (see Chapter Nine below). Yet in the early 1960s policy came to reflect more closely the interests of the state, with the dominant themes of self-reliance, populist development, and autonomous industrialisation.

4.2 Business Influence in Automotive Industry Policy, 1950-1965

Changes in automotive industry policy paralleled shifts in economic policy more generally. As one of the first industries in which the independent Indonesian state took a direct financial interest, intervention was originally directed towards the indigenisation of ownership. A group of priyumi entrepreneurs soon assumed control of automobile importation. As the mood of economic nationalism took hold in the late 1950s, with greater emphasis was placed on industrial development, the capacity of individual firms to implement policy became an increasingly important consideration for the individual entrepreneur. It will be shown, however, that nationalist development policies were both cause and effect of the changing pattern of ownership in the industry. Business competition increased as established and
aspiring national capitalists struggled for a share of this lucrative importing trade. The available evidence suggests that, in this industry, it was this competition that was primarily responsible for the radicalisation of foreign economic policy, the redefinition of economic nationalism around the industrialisation objective and, ultimately, for state intervention to promote a self-reliant development strategy.

4.2.1 - The Ning Business Group

One of the largest factories in Indonesia before independence was the automobile assembly plant established at Tanjung Priok in 1927, NV General Motors Java Handel Mij. It commenced operations just before the minor manufacturing boom of the 1930s and in its first ten years of production assembled 47,000 knocked-down vehicles, mostly Chevrolet cars and GM trucks. It also manufactured vehicle bodies.\(^\text{16}\) This manifestation of industrial modernity set a powerful example for republicans with industrial ambitions, and the first major enterprise established after independence was a second assembly plant. Construction of the plant owned by the fully state-owned company, NV Indonesia Service Company (ISC), commenced in 1950.\(^\text{17}\)

This pioneering state role would in the following years make ISC a popular symbol of economic nationalism. Its second President-Director, still a prominent business leader in the 1980s, considers ISC an important ingredient in the struggle for economic sovereignty.

The state corporation ISC was established based on the nationalist aspirations of the Indonesian people, on the desire to become masters in our own homeland. The Indonesian people did not struggle and sacrifice their lives for political freedom alone, but also for economic freedom. Independence had to strengthen the national economy, so that the Indonesian people wouldn't always be simple shopkeepers, accepting goods from foreign traders and salesmen, parasites who have for centuries sucked the blood of the Indonesian nation.

(Ning, 1986: 337)

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\(^{16}\) Witoelar (1983: 18) states that the plant had nothing to do with automotive industrialisation, noting that the vehicles were imported in two-unit packs and simply screwed together. An account of a visit to the site in 1940, however, describes in some detail the process of complete assembly of CKD automobiles on a line employing 600 workers (Harahap, 1952: 7-10).

\(^{17}\) The following account of the early years of ISC is compiled from Harahap (1952: 11-12), Sutter (1959: 982-983; 786), the magazine EKLI (13: 1&2, 1960: 102-105), ISC (1961: 21) and Ning (1986: 337-338; 353-363).
concern was to attract new investment; its establishment in fact symbolised PSI's moderate development orientation, of modernisation through integration with foreign capital. Figures associated with the PSI conducted negotiations in early 1950 with Matthew Fox, a US businessman previously involved in an attempt to break the Dutch blockade. ISC was incorporated in October that year as a joint venture with equal US and Indonesian shares, with Fox a director. Its first President-Director was the PSI politician, Tan Goan Po, and the Indonesian shareholders were two financial institutions closely linked to the PSI, Zoro Corporation and NV Putera (Panglaykim, 1968: 48; Sutter, 1959: 981-989).

Hasjim Ning replaced Tan as President-Director in 1951. Born into a Palembang trading family and closely related to the future Vice-President, Hatta, Ning had worked in South Sumatra before the family moved to Bogor, where his father became a supplier to the Japanese army during the occupation. He became a Lieutenant-Colonel in the Indonesian army during the revolution, but was also active in business, smuggling arms and equipment to the Republican forces. Ning's first involvement with the automotive industry dates from the 1930s when he became a dealer for the Dutch-owned Chrysler agent, NV Velodrome Motors. Together with a Dutch supporter of the Republic, Johan Dijker, after the war he established an automobile workshop, the Jakarta Motor Company. He had built up valuable political contacts before and during the revolution, amongst them Sukarno and a future PSI Prime Minister, Sjahrir. Whether it was because of his numerous political contacts or his prior association with the industry, Ning's appointment to ISC transformed his into the dominant figure in the automotive industry, earning him the undisputed title of the Indonesian 'car king.'

Under Ning's direction, ISC became a symbol of policy indigenism in the modern sector, of the attempt to create an indigenous bourgeoisie via the allocation of import agencies. His proximity to political leaders and his

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18 The 1948 Fox contract was an attempt to establish an 'American-Indonesian Corporation' to function as a conduit for Indonesian exports and imports from the USA (Sutter, 1959: 524-526). It is probable that Sumitro, who represented the Bank of Indonesia in Washington DC in 1949-1950, was involved in the negotiations that led to ISC's establishment.

19 He established the Sativa trading company in 1948 and took shares in Bank Perniagaan Indonesia with Siddik, Dasaad and Kusmulyono. Useful sources on Ning's career include Sutter (1959) and Roeder (1971). His autobiography (Ning, 1986) emphasises a lifelong concern to erode what he sees as the dominant business position of ethnic Chinese, containing some frank admissions of how his success was built on political support. This laudatory account of the career of a major business figure is a good illustration of the highly personalised nature of state-business relations in the 1950s - and beyond.
directorship of the state-owned assembly plant made Ning a logical point of entry for General Motors' rivals; a group of pribumi importers coalesced around Ning as he took up licenses himself and parcelled out others to business associates. PT Jakarta Motor Company became a licensed importer, jointly owned by Ning and the Arab-Indonesian businessman, Toto Bachrie, and it took up both Chrysler (Dodge) and American Motor Company, (Jeep) agencies. ISC also held the Ford UK license for a short time in 1952. But following objections from Chrysler and AMC, a separate company, PT Indonesia Republic Motor Company (IRMC), was established to import Ford vehicles. Management and ownership of IRMC was shared between Ning, Bachrie and R.S. Hoepoedio (Ning, 1986: 356-357). The Renault license was also secured by a former colleague of Ning's during the revolution, the Sumatran businessman, Bachtiar Lubis. Lubis' company, PT National Motors, is said to have later obtained Mazda and Hino licenses on Ning's recommendation. Another company within the Ning group was the Leyland and Landrover agent, PT Java Motors, also owned by the Lubis family. A final business associate who later entered the automotive industry was Dasaad, who shared the Fiat agency with Ning.

A characteristic of this 'Ning Group' of entrepreneurs, as with all importers during the Benteng period, was their close association with political figures. Party affiliation could mean the life or death of a business, so the successful entrepreneur was careful to cultivate political associations. Economic policy in the early 1950s was strongly associated with concepts of economic indigenism, so manufacturing was promoted by supporting individual pribumi entrepreneurs. The distinction between private importers and state corporation was, even when most clear, decidedly hazy, with at least three prominent businessmen (Ning, Bachrie, Hoepoedio) simultaneously employees of the state-owned assembler, ISC. Most orders for assembled vehicles were placed by government departments or by the military, and these importers thus benefited from Ning's political contacts.

The state-industrial bank, BIN, soon bought out the American share in the joint venture, and in 1952 a new charter was drawn up for what was now a fully state-owned industrial enterprise (Appendix 5, note 1). ISC was nevertheless still associated with political moderates. Sumitro remained a close company adviser throughout the 1950s, as did his (non-party) father, Margono Djohadikusumo, President of the state bank BNI. Ning actively sought foreign technical assistance to increase ISC's manufacturing capacity.
Negotiations with the Chrysler Corporation began in 1953 and culminated in a $2.6 million loan from the US Development Loan Fund in 1954, subsequently used for the importation of automotive manufacturing equipment (Ning, 1986: 355). Ning's political associations meant that government contracts were used to favour local assembly, but no attempts were made to restrict imports of CBU vehicles. Measures taken to promote manufacturing operations at ISC thus also typified the moderate foreign economic policy of the Benteng period.

4.2.2 - Business Competition and Industrial Aspirations

The wave of economic nationalism of the 1950s was also felt in the automotive industry. Widely regarded as a pointer to this new mood was GM's decision to liquidate its Indonesian operations in 1954, the first foreign manufacturer to do so voluntarily (Sutter, 1959: 800-801). Also said to indicate rising economic nationalism was the rejection in the mid-1950s of an offer by Ford to construct a road network in Indonesia in return for a guarantee of state purchases - a refusal that reportedly embittered Sumitro, who had long promoted the idea of a trans-Sumatran highway. In the case of the departure of General Motors, however, others note that it left because it was unable to import parts due to a shortage of foreign exchange at the time (Swaminathan, 1982: 12). It is also plausible that GM decided to withdraw because the allocation of government contracts was favouring its state-owned rival, ISC. Similarly, the tale about Ford has entered Indonesian folklore about the drive for economic self-reliance during the Sukarno period, about a prevailing 'go to hell with your aid' mood of anti-imperialism. These moves came much later, however, and claims that these were early signs of a shift towards a self-reliant development strategy for the industry appear to be a gloss created by subsequent events.20

More concrete signs of growing assertiveness towards foreign capital began to appear towards the end of the decade. The former GM plant, renamed Gaya Motors, had been bought by the state industrial bank BIN, which thus had a majority share in Indonesia's two assembly plants. Although state contracts had been used to favour local assembly since 1950, the first use of state authority to redirect foreign investment in the industry came in 1957, when the government began to curb imports of CBU and SKD vehicles (FEER, 3 Mar 1960). As economic nationalism came to be directed at external targets, auto-

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20 It was claimed in the early 1950s that Ford had also made such an offer in 1947 (Sutter, 1959: 490 fn 59). Nevertheless, the number of reliable informants who recalled the refusal having taken place in the mid-1950s leads me to give it some credence.
TNCs reviewed their local operations. Despite a significant market presence, Fiat decided to sell its local import agency, which was taken up by Ning and Dasaad in 1958.

In the course of fieldwork, some of those interviewed found a direct link between the increased influence of nationalist politicians in cabinet and the growth of economic nationalism within the industry. Alternatively, others suggested that economic nationalism originated within the business community and that state support came later. This second, indirect mechanism seems more plausible, particularly in view of the sharp business competition that soon developed around the industrialisation objective.

The precondition for subsequent events had been established in the mid-1950s, when political changes injected a greater degree of competition into the industry. Political patronage seems to have become more important for access to both licenses and foreign exchange. As political rivalries intruded into the industry, the dominance of the Ning group came under challenge. Specifically, as the PNI's political position improved, associated business figures won import licenses.

An interesting example of the politicisation of licensing was the attempt to link the Manadonese businessman, Frits Eman, with the German manufacturer of small sedans, Borgward. Eman had established PT Udatin (Usaha Dagang Technik Indonesia) in 1951 and its expansion was initially based on trade in cloves between Manado and Surabaya. His first move into the transport industry took place when Udatin began to import German and English motorbikes in 1952. Negotiations were opened with the German auto-TNC the following year and agreement was reached to construct Indonesia's third assembly plant in Surabaya. These negotiations were reportedly conducted at a political level; when the joint venture 'Borguin' (NV Pabrik Borgward Udatin Indonesia) was established in 1954, its three directors were Eman, Ibnutadjji, and a member of the Central Council of the PNI, Dr Ambio - who was also appointed Chairman of the Board.

Another entrepreneur who entered the automotive industry via PNI channels was Koerwet Kartaadiredja. A financial scandal rocked the Bourguin

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21 The following account is drawn chiefly from interviews, although the Bourguin proposal is briefly mentioned in Sutter (1959: 786). Details of Eman's early business activities are taken from an internal company report (Udatin, 1982: 23-32).
venture in 1956, causing Dr Ambio and Ibnutadji to abandon the company before the Surabaya plant could be completed. A journalist for the nationalist newspaper, Merdeka, Koerwet was appointed by PNI Chairman, Siddik, to try to rescue the Borgward link. With the personal backing of the head of the State Planning Bureau, Djuanda, and the Minister of Industry, Saleh, in 1957 the Borgward agency went to a new firm, PT Umermotor (Indonesia Merdeka Motor), jointly owned by Koerwet, Ibnu Taji and Dr Ambio. Koerwet was appointed President-Director (Interview, Koerwet, 11 Jul 1984). Meanwhile, Udatin was left with an incomplete assembly plant and no foreign agency. After being rejected by Nissan and the Belgian firm, Minerva, in 1958 Eman eventually linked up with General Motors Holden, who agreed to supply vehicles and complete construction of the assembly plant (Udatin, 1982: 30).

The examples of Eman and Koerwet are not intended to suggest that these new entrants were more dependent on political support than their established rivals, or that they were necessarily less bona fide businessmen. Their cases do serve to demonstrate, however, that the changing fortunes of the political parties were reflected in the makeup of the business class, illustrating how the industry’s ownership structure became more fluid in the mid-1950s.22

The political changes and uncertain political situation during that period exposed the vulnerability of these importers, none of whom had significant capital resources. As the business climate became more competitive and the parties were eclipsed, they faced the danger that their licenses could be revoked should their political patron fall from grace. In the climate of Sukarno’s Socialisme-a-la-Indonesia, it seems that the capacity to advance automotive industrialisation was increasingly used to broaden political support and maintain the political lifeline to business success. Not long after the dispute over the Borgward license had been resolved, the German auto-TNC collapsed and its Bremen plant was auctioned. In 1958 the new Indonesian partner, PT Umermotor, made a bid for the plant, which it planned to have shipped to Indonesia (Interview, Koerwet, 11 Jul 1984). Meanwhile, Ning publicised ISC’s full manufacturing scheme and instituted technical training courses for operating the equipment.

22 Another business entrant was the Sumatran businessman, J.K. Panggabean, whose PT Piola secured the VW license during the Benteng period, that is before 1957 (Robison, 1986: 90). He had been associated with the minor Protestant political party, Parkindo (Arief, 1975: 415). I was unable, however, to ascertain Panggabean’s political connections, although he later became a prominent ‘Palace Millionaire’ who benefited from Sukarno’s personal patronage.
It is highly doubtful that these pribumi capitalists had the managerial capacity or financial resources to bring these manufacturing aspirations to fruition, while the political vagaries and the depletion of financial reserves in the following years also made state subsidisation of their efforts unlikely. Indeed, the manufacturing equipment at ISC was only used for minor work, and Intermotor's offer was outbid by a Brazilian firm, as mentioned in Chapter Three (3.2.1). These examples nevertheless do indicate that it was in the interaction between state and national capital that the full manufacturing objective was born. As national capitalists struggled to win political backing by appealing to official economic nationalism, business competition came to be expressed in terms of a capacity to localise production.

4.2.3 - The Guided Economy: Industrialism and Patrimonialism

Business competition increased into the Guided Economy period, when business figures not previously involved in the industry but close to political centres won import agencies. Aziz secured the International Harvester agency in 1959 (Interview, Nurluddin, 24 Jul 1984); Suwarma had taken up the Mercedes and Mitsubishi agencies by 1960; and Yasrin won the Toyota agency (Appendix 4). Increased competition made it more important for established entrepreneurs to shore up their business interests. One effective method to do this was by diversifying political connections. Ning, for example, is said to have fostered links to new political centres throughout his long career.23 The prominent PNI politician, Yusuf Muda Dalam, himself an earlier defector from the PKI (Sutter, 1959: 1086), had by 1960 been appointed Chairman of the Board at ISC (ISC, 1961: 8).

These capitalists also made more concerted efforts to win state backing by developing a manufacturing capacity, and developments seemed to favour these efforts in the early years of the Guided Economy. A number of those who had pioneered automotive industrialisation - Ning, Koerwet and Eman - expanded rapidly. After the Borgward fiasco had been resolved, the Udatin plant was completed, commencing production in 1960. In the following years, thousands of CKD Holden station wagons and sedans were imported (Udatin, 1982: 31-32). Ning also negotiated a new loan via the US Development Loan Fund and in 1961 equipment arrived for the manufacture of springs, mufflers and tailpipes, as well as a complete body stamping facility (FEER, 28 Jun 1962).

23 Commenting on Ning's expansion in the 1950s, Robison (1986: 55) also notes Ning was "more clearly a product of political patronage" than other pribumi businessmen such as Dasaad and Aziz.
By 1962 the value of this lavish machinery had reached US $4.5 million (Hansen, 1971: 51). The International Harvester licensee, Aziz, also produced a locally-designed truck during this period (Interview, Nurluddin, 25 Oct 1984).

Sectors of the state apparatus evidently took up the industrialisation aspirations of these pribumi entrepreneurs. In the Sukarnoist terminology current at the time, it was decided in 1959 to 'retool' the industry towards the industrialisation goal (FEER, 3 Mar 1960). According to former Department of Industry officials, an attempted rationalisation of the industry in that year failed because of the political influence of vociferous business interests (#20, 22). A special automotive committee was later established within the Industrialisation Bureau of the Department of Basic Industry and Mining, with the promotion of full manufacturing the core objective in its planned reorganisation of the industry (SL, 17 Jan 1961).

The attempt to realise this objective illustrates the ambiguous relationship between state and national capital under the Guided Economy, with forceful statements asserting the dominant role of the state in regulating capitalism counterposed against the country's de facto dependence on national capital to finance development. One of the more ambitious manufacturing projects of this period was the manufacture Indonesian vehicles under state auspices, a scheme clearly governed more by political considerations than economic calculations. The automotive industry was selected since its development would improve national integration and enhance national sovereignty; production of a local brand name would symbolise economic independence, so production had to begin with the engine, this being the vital part of the vehicle; finally, close state co-ordination was required to prevent local entrepreneurs favouring their foreign partners rather than the national interest. After VW and a number of US firms rejected overtures of the Department of Industry, agreement was reached in 1961 with the 'Zastava' company of Yugoslavia, to produce Fiats locally.

Given the limitations upon state resources at the time and the extent of private ownership of the industry, the feasibility of the project depended on the

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24 The following description is based chiefly on an interviews with the Deputy Minister for New Industries at the time (Interview, Raib, 15 Jun 1984) and another man then in the Department of Basic Industry and Mining (Interview, Bratanata, 21 Jul 1984. This account also draws on interviews with businessmen involved in the project. Written sources include a report in FEER (9 May 1963), the official registration of the company, PT Imindo (TBN 304/64), and a decree detailing its directorship (No 642/N/Perdatam/64).
involvement of national importers and assemblers. Although registration of
the venture was delayed several years because business leaders initially refused
to participate, state leverage over national firms subsequently increased. The
West Irian dispute of 1961 and the subsequent confrontation with Malaysia
disrupted normal shipping services, while purchases were increasingly
arranged in government-to-government negotiations. Closer proximity to the
Eastern Bloc resulted in the appearance of previously unknown vehicles such
as Skoda, Trekka, and Praga. Japanese vehicles also made their first appearance
for the 1962 Asian Games held in Jakarta, imports which were largely the
outcome of war reparations negotiations conducted by Minister of Industry,
Chairul Saleh. In 1963 alone, these negotiations involved the importation of
almost 3,000 vehicles worth an estimated $13.3 million (Nishihara, 1973: 176).
(Imports included Toyota, Mitsubishi, Mazda and Nissan automobiles - as well
as Daihatsu three-wheelers for the small public utility vehicle, the 'Bemo').

As the government assumed greater control over the industry's external
contacts, firms were either cajoled or forced to become involved in the scheme.
My interviewees agreed that the manufacturing project began to proceed after
Ning was eventually prevailed upon to participate and was appointed
President Director. A state-owned plant for engine production would be
constructed at Tanjung Priok, the state assemblers ISC and Gaya Motor would
produce vehicle bodies, and in 1964, 17 private companies became shareholders
in PT Imindo-uneswa (PT Industri Mobil Indonesia - Usaha Negara-Swasta).

During the last, corporatist years of the Guided Economy, ties of patronage
apparently overshadowed the industrialisation objective, with favours
allocated regardless of the capacity of national business to promote local
manufacture. By 1964 all vehicle importation was conducted on the basis of
government-to-government negotiations, and business had become totally
dependent on connections to influential state officials. The so-called 'Palace
Millionaire' reputedly closest to Sukarno, Dasaad, expanded rapidly on the
basis of this potent koneksi. Eman by contrast, lost political favour and went
overseas in 1964, only returning in 1966 (Udatin, 1982: 37). Finally, mention
should be made of Markam, an obscure army lieutenant who emerged during
the Malaysian confrontation and built his PT Karkam into a major business
empire. He enjoyed Sukarno's personal protection, importing a large number
of Nissan jeeps in 1965 on the basis of this connection (Castles, 1965: 38;
4.2.4 - Concluding Comments

The indeterminate nature of the state-capital relationship in the industry during the decade and a half from 1950 to 1965 makes it a somewhat fruitless exercise to attempt to apply models of economic nationalism, with policy fluctuating according to the fluctuating fortunes of major business and political figures. One significant effect of the interaction between state and business during these years, however, was that the localisation of production had been established as a primary aspiration for the industry's development. The original targeting by leaders of the young Republic of a prestige industry with little relevance for the mass of the population was initially based on the twin ideological goals of Indonesian economic nationalism: to diversify the economy and to promote an indigenous bourgeoisie. Thereafter, interaction between state and business continued to draw attention to the industry and to win protection for manufacturing initiatives. Despite its implausibility, the Imindo full manufacturing project illustrates that the dream of producing an Indonesian vehicle had become an important component of economic nationalism within at least one part of the bureaucracy.

One consequence of the patrimonialism in state-business relations in the final years of the Old Order was disarray within the industry. The number of new business groups moving into the industry resulted in a proliferation of makes, speculative business activity, and a sharp decline in local assembly. By 1965 the public transport system had almost ground to a halt, largely due to the scarcity of functioning vehicles and a chronic shortage of spare parts. The feasibility of the goal of local manufacture in subsequent decades would in large part depend on the nature of the relationship between state and national business, in particular the degree to which development plans were obscured by patrimonial ties. During the Guided Economy the main importers were Ning (Chrysler, Fiat, Ford), Dasaad (Fiat), Eman (Holden), Panggabean (VW), Lubis (Mazda), Suwarma (Mitsubishi, Mercedes), Yasrin (Toyota), Markam (Nissan), Koerwet (Trekka), as well as the Indonesian government (GM). The question for the immediate future was whether they would survive the policy reversal of 1966-1968 and the fall of political patrons.
Chapter Five

ECONOMIC NATIONALISM UNDER THE NEW ORDER AND THE DEVELOPMENT OF THE AUTOMOTIVE INDUSTRY: AN OVERVIEW

The financial difficulties and half-hearted development efforts that characterised the last years of Guided Democracy were pushed into the background by the attempted coup d'etat by junior military officers on 1 October 1965.¹ In the confusion that ensued, the Commander of the Army's Strategic Reserve (KOSTRAD), Major-General Suharto, was soon able to secure control of the Jakarta region and command of the Armed Forces as a whole. After Sukarno surrendered effective presidential authority to Suharto in March 1966, the precarious 'Old Order' coalition held together by the personal rule of the president crumbled, to be replaced in 1966 and 1967 by the army-led coalition of the 'New Order'. During these years of political uncertainty, the ideological emphasis on self-reliance and etatisme in Sukarno's version of Indonesian socialism gave way to a focus on stabilisation and reconstruction, on rehabilitation through integration with international capital.

This 'open door' policy did not last, however, and in the following years there was a gradual revival of economic nationalism, a reactivation of policy themes of indigenism and industrialism in which the automotive industry featured prominently. The manufacturing sector as a whole expanded rapidly in the 1970s and 1980s, due in part to a dramatic increase in revenues from oil exploitation along with a high level of foreign investment. The growth of the automotive industry can be ascribed largely to the preparedness of auto-TNCs to relocate production and tap into the new prosperity created by these increased national revenues. Yet state protection underpinned this growth, creating an investment climate conducive to manufacturing initiatives. Since the late 1960s, the government has held the belief, shared by most other ASEAN states, that automobile production is an important industry able to stimulate growth in all basic industries. The industry's expansion is frequently touted by state officials as evidence of a successful development strategy, so it is important to examine the social forces behind the revival of economic

¹ There is a considerable literature, but no definitive study, on the attempt by disgruntled middle-ranking officers to seize power and its tumultuous aftermath. See Crouch (1978: Chapter 4) for a discussion of some different perspectives on these events.
nationalism in the industry as well as the political process that has sustained the commitment to automotive industrialisation.

As pointed out in the introductory chapter, previous writings on economic nationalism in Indonesia have generally explained the phenomenon in highly personalised terms. Similarly, many of those interviewed in the course of this study argued that state intervention in the industry was chiefly the outcome of a process within the government apparatus itself, as interventionist officials won out against their more liberal-minded colleagues. Others attributed this intervention to business pressure, pointing to state backing for politically-influential capitalists said to have been gained through the manipulation of konexsi, personal political contacts. It is a difficult exercise, however, to seek the origins of nationalist economic policy simply in individualised terms in a country where nationalism is such a highly valued commodity. It is all the more hazardous to try to so describe the fitful re-emergence of economic nationalism in an industry which is notable for political horse-trading between business and state.

It is argued in the following chapters that neither 'state' nor 'capital' alone, but a complex interaction between the two, provided the impetus for automotive industrialisation during the years from 1969 to 1984. The heuristic models of Third World economic nationalism presented in Chapter Two will be used to help explain the changing nature of this interaction, with particular attention being given to the issue of state autonomy in an attempt to ascertain the extent to which the ideological inclinations of key state personnel influenced policy formation. This chapter serves as an introduction to these empirical chapters, providing an overview of the industry's growth during these fifteen years. The first section identifies the 'imbedded orientation' of the state towards the industry's development at the beginning of this period. After describing the revival of economic nationalism from the late 1960s and the reemergence of the two traditional themes of Indonesian economic nationalism, it is then argued that it was industrialism which became the more salient, at the expense of indigenism. The second half of the chapter describes industrialisation of the automotive industry specifically, concluding with a summary of the themes developed more fully in Chapters Six to Ten.
5.1 Indigenism and Industrialism in Economic Nationalism

The dominant strand of economic policy in the years following 1966 was represented by the economists of a new planning agency, Bappenas, the 'National Development Planning Board'. These technocrats, many of whom had previously studied in the United States under a Ford Foundation programme, shared a general faith in market mechanisms and a strong distrust of state intervention such as had occurred under the Guided Economy. ² As we shall see, significant differences existed within their ranks on the appropriate form and extent of state economic intervention. But their personal views were less important than the economic constraints imposed by the chaotic, debt-ridden economy they had inherited. In 1966 production was stagnant, with inflation running at a rate approaching 600 per cent. ³ It was more than a year before the IMF and donor countries (later organised into the IGGI) were willing to negotiated new loans seriously, while there was a still longer delay of several years before foreign capital began to re-enter Indonesia on a large scale. Aid donors and foreign investors wanted tangible evidence of a new direction in economic policy: signs that inflation was being curbed; reassurances that market forces would be able to operate unhindered; and guarantees that foreign property did not face nationalisation in the near future. Not until 1969 was evidence to this effect entirely convincing. These overseers of a bankrupt economy thus had little option but to relax state controls and open up the economy as full as was possible in the circumstances.

There is some evidence to suggest that the preparedness to restrict foreign investment that had prevailed under the Guided Economy may have been kept in check, but was not entirely suppressed, by these economic constraints. As early as 1966, Suharto declared that while "foreign capital investment is indeed necessary for the development of our country, ... our identity and


³ The desperate state of the economy in 1965-1967 has been well documented by, amongst others, Mackie (1967) and Thomas and Pangløykim (1973: Chapter 4).
national interest should in future continue to be safeguarded against the presence of said foreign capital" (Department of Information, 1966: 31, cited in Okada, 1981: 181-182). In 1967 the Law on Foreign Investment was promulgated, which let it be known that the 'open door' might eventually be shut once more.

Enterprises... of which the capital is entirely foreign are required to give opportunity for national capital to effectively participate, following a specified period and in proportions to be specified by the Government. (Republic of Indonesia, 1967: Article 27)

Such pronouncements seem to have been chiefly rhetorical in purpose, however, at least at the time they were made, when the overriding concern was to convince foreign investors that Indonesia provided secure long-term investment prospects. Indeed, the primary goal of the 1967 law was to attract rather than direct foreign capital, by signalling a move away from economic etatisme. Until 1968 at least, the uppermost concern of the Bappenas technocrats was with penghematan, economising, to show potential investors that inflation had been brought under control.

That it was necessary to make such statements nevertheless indicates that there were influential forces, both within and outside the administration, which opposed this economic stringency. In particular, there was a growing rift between the free-marketeers and the 'structuralists', those planners who favoured selective state intervention in the economy to promote the development of certain key sectors, rather than rely on market forces. The New Order regime had staked its legitimacy on economic recovery, promising to reduce inflation, restore stability, and rehabilitate the economy. In 1967-68 a number of intellectuals, notably the former PSI figure, Dr Sarbini, began to attack the priority given to the anti-inflationary drive and foreign investment, arguing that rehabilitation required increased state expenditure to improve the economic infrastructure (Thomas and Panglaykim, 1973: Chapter 6). By the end of 1968 a degree of economic stability had been achieved, with the extreme inflation of the previous years brought under control. The government began to pay more attention to promoting pembangunan, 'economic development', making significant concessions to such critics. In 1968 a new Five Year Development Plan (Repelita, 'Rencana Pembangunan Lima Tahun', hereafter 'Repelita') was issued in which agricultural development was the focal point,
but which also began a mild ISI programme (the Repelita is summarised in BIES 5(2), 1969: 70-79).

Amongst the senior state policy-makers there were a number of technocrats who supported direct state intervention to stimulate economic development. Professor Sumitro, perhaps the best-known of the New Order technocrats, returned to Indonesia in 1968 from exile in Malaysia and Singapore, having supported the 1958-61 PRRI rebellion in Sumatra. He resumed his post as head of the prestigious Faculty of Economics at the University of Indonesia, was appointed Minister for Trade in 1968, and soon became the intellectual godfather to the cabinet technocrats involved in formulating Indonesia's new development policy, the so-called 'Berkeley Mafia'. Despite a reputation for economic liberalism, Sumitro's support for leading sector strategies distinguishes him from his more laissez-faire colleagues, Wijoyo and Sumarlin. "I don't belong to any Mafia," he later declared in a rare interview with the economic historian. Thee Kian Wie, "I am the buffalo who operates outside the herd" (Djojohadikusumo, 1986: 33). Since the early 1950s, Sumitro has consistently advocated state intervention in order to smash economic dualism.

Development entails a continuous effort to cope with and to rectify structural disparities and imbalances, especially with regard to resource endowments, allocation of productive resources, the distribution of wealth and income, and the prevailing institutional framework... Public policies have to be aimed at changing the set of conditions imposed by the structural disparities.

(Djojohadikusumo, 1986: 32)

Introducing Repelita I to foreign businessmen, Sumitro stressed that it was not simply an 'input-output programme' to increase GNP, but a 'plan of action' intended to maximise Indonesia's bargaining power internationally (BN, 17 Jan 1969: 3).

Another technocrat prepared to advocate direct state intervention was Professor Mohammad Sadli, director of the 'Technical Committee on Investment' established in 1967-1968. Sadli was closely identified with more laissez-faire policies of the early years of the New Order, holding that the entry of foreign firms would catalyse economic activity throughout the economy (Robison, 1986: 133-136). But like Sumitro, he was by no means a doctrinaire advocate of liberal economic policies, and was very conscious of the need to promote the development of a stronger indigenous business class. Some of his later statements indicate a sense of frustration with Indonesia's
dependence on foreign capital. Regretting that the Foreign Investment Law of 1967 had been drawn up too hurriedly, he promised that the government would assist national business in implementing the Repelita - in order to 'balance' the power of foreign capital (Sadli, 1969: 65). He told a trade and development conference in Sydney in 1970 that a major objective of states such as Indonesia which had emerged from anti-colonial struggles was to create a national economy, one "free from control or domination by foreigners." Consequently, he warned foreign investors they would "have to live with the forces of economic nationalism in the host country, which can display various forms and intensity and will not remain static for very long" (Sadli, 1972: 202-203).

Such statements by the more nationalistic technocrats, made when Indonesia's planners were beginning to give attention to issues beyond that of immediate economic rehabilitation, apparently expressed a sincere aspiration to increase Indonesia's external bargaining position. As the policies put into effect by Sadli, Sumitro and some of their more interventionist colleagues later showed, these statements were not simply rhetorical or made only to satisfy domestic critics, but reflected personal long-term development goals. Yet despite these intentions, Indonesia's weak economic condition favoured the position of the more liberal technocrats. Until about 1971, the policy focus remained on agriculture, with industrial promotion being limited to industries that would complement agricultural development. And because domestic capital was in such short supply, development of the modern sector was generally left to foreign investors, with few restrictions on equity or investment behaviour.

Interaction with non-governmental social forces, however, resulted in a gradual shift away from this purely facilitative state role in the early 1970s. The first issue to surface in this faltering revival of economic nationalism arose out of the protectionist demands of pribumi business.

5.1.1 - The Revival of Economic Indigenism

A presidential statement of 22 January 1974 issued in the wake of the anti-Tanaka riots in Jakarta in that month is the benchmark often cited as marking a revival of economic nationalism in Indonesia. The Malari affair (Malapetaka Januari Limabelas, 'January 15 Calamity'), culminating six months of increasingly strident criticism of economic policy, severely shook the confidence of the Suharto regime in economic growth alone as a sufficient
guarantee for continued political stability. What had begun as nationalist attacks on the alleged domination of foreign capital came to be redirected towards domestic targets, particularly local Chinese partners of Japanese investors - and their political associates. The view is commonly expressed by Indonesians that these anti-government demonstrations triggered a redefinition of policy goals and the pursuit of a more egalitarian development strategy. Foreign investors and their advisers also note that indigenisation and industrialisation campaigns began to be pursued more vigorously in 1974 (e.g. World Bank, 1980: 3-11). A US embassy (1975: 3) report advising American firms seeking to invest in Indonesia describes the riots as the principle catalyst for subsequent policy changes; they marked the end to "the pragmatic 'lets work it out' philosophy... and the emergence of economic nationalism as perhaps the dominant force shaping government investment policies."

The 22 January statement indicates a significant shift in state investment priorities, signalling broad new development goals such as eventual Indonesian ownership of all joint ventures and the progressive closure of areas of investment to foreign capital. Significantly, the statement foreshadowed eventual majority pribumi ownership of all forms of enterprise, proposing that easier credit facilities be made available to indigenous firms (BN, 23 Jan 1974: 3).

These regulations signalled an important change to the existing free-market, open-door approach and a fundamental shift in the balance between domestic and international capital... Foreign capital was now much more closely harnessed to the process of domestic capital accumulation. (Robison, 1986:167)

The Malari affair was not, however, the first sign of social pressure for nationally-defined development policies, even if it did constitute something of a turning point in the sense that the regime was forced to make substantial concessions to indigenism. As Robison (1986: 146) points out, increasing unrest had already forced the government to legislate to protect downstream industries. In late 1970, the prohibition of foreign firms from retailing and distribution was scheduled for 1977, while the first 'negative list' closing a number of light industries to foreign capital was announced in early 1971 (Carr, 1978). These measures were taken prior to any significant increase in foreign investment, and certainly before the influx of oil revenues. The significance of

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4 An article by Crouch (1974) provides a balanced account of these events and their implications. A book that appeared only three months after the Malari riots presents the CSIS-OPSUS view, that they were the results of a PSI-Masjumi conspiracy, and should be treated sceptically. It nevertheless provides the most detailed published description of the events (Arifin, 1974).
the external pressure for nationalist policies that culminated in public protest in January was to buttress the influence of economic nationalists within the bureaucracy, giving impetus to the momentum that had been building.

The predilection to favour pribumi firms and restrict Chinese business had persisted within important military and political sectors of the state from the very outset of the New Order, although generally subordinate to the need to mobilise resources for economic rehabilitation. Acting independently of Jakarta, in early 1967 the regional military commander of East Java, Major-General Soemitro, prohibited Chinese retailers from operating outside Surabaya. A number of officially sanctioned anti-Chinese outbreaks in other regions, coupled with unmistakable signs of political agitation amongst the normally placid Chinese community, raised concern in Jakarta about the impact on the development effort. Attempts were made in 1968 to reassure the Chinese of the government's even-handedness; Soemitro was removed from the East Java command (Mackie, 1976: 120-122; Coppel; 1983: 69-71, 99-100).

One resolution to the tension between the need to encourage investment, while restricting the prominence of non-pribumi business, was to provide Chinese capitalists with political protection while directing their resources into state-coordinated activities. An early indication of this solution was a cabinet instruction issued by Suharto in June 1967, the 'Basic Policy for the Solution of the Chinese Problem'. 'Domestic foreign capital' was defined as "capital which has been accumulated and expanded within Indonesia." Since it was "basically national wealth in the hands of aliens," so it was "to be mobilised, fostered and used in the interest of rehabilitation and development" (cited by Coppel, 1983: 131). An attempt was even made in 1968 to establish an organisation to mobilise 'hot money' from the Chinese community with business links to Taiwan, the 'Indonesian Business Center'. A military company directed by Brigadier-General Suhardiman, PT PP Berdikari, played a central role in this short-lived venture (Coppel, 1983: 138-139, 166-167).

This policy resolution, of utilising Chinese business as a source of finance, had been formalised with the promulgation of the Domestic Investment Law in July 1968. The general elucidation of this law gives the state a "leading and commanding role" in the economy, necessary to prevent a recurrence of the

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5 A good account by a political economist of the expansion of foreign and Chinese capital in the early years of the New Order, as well as the resolution to the political difficulties caused by the pribumi response, is that of Kuntjoro-Jakti (1981: Chapter 6, 'The Search for a Policy Format to the 'Chinese Problem'). See also Coppel (1983: Chapter 5).
'free-fight capitalism' of the 1950s seen to have resulted in alien domination and thereby undermined economic democracy. The law itself affirms that in accordance with the spirit of Pancasila, utmost priority will always be given to improving the people's welfare. Therefore, ending alien domination in the economy should be implemented by way of utilising the aliens and their capital, without neglecting current realities. (Republic of Indonesia, 1968; cited by Kuntjoro-Jakti, 1981: 214-216)

This last qualification is significant, for in the following years political realities began to pull doggedly in opposite directions. The legitimacy of the new regime was still fragile, depending on continued investment by foreign and Chinese capital. At the same time, the revival of pribumi sentiment became politically impossible to ignore, as the success of Chinese capitalists with patrons in the New Order sharpened the ethnic divide between pribumi and non-pribumi capital. The well-known 'Ali-Baba' system of the 1950s, whereby experienced Chinese businessmen (Baba) collaborating with less well-endowed pribumi licensees (Ali), had developed into a system of 'cukongism'.

Growing pribumi unrest politicised the relationships between senior military officers and their 'cukongs', or Chinese financier-middlemen. Only one example of many from this time, in early 1971 a prominent Jakarta newspaper close to pribumi business circles, Nusantara, published the names of generals who assisted 20 ethnic Chinese capitalists obtain tourism, shipping, flour and timber contracts, a service which earned the editor a two-year jail sentence (Suryadinata, 1978: 141). The Indonesian Chamber of Commerce and Industry, Kadin, was established in 1972, and soon became an effective forum for pribumi business groups to air their views and appeal to nationalist sentiment. State planners were caught in a tussle between the need to attract investment and the protectionist demands of pribumi business.

While most economic planners gave priority to mobilising Chinese capital, important state actors and government departments intervened directly in support of indigenous capital. In the early 1970s, various technical

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6 The term cukong derives from the Hokkien term for 'master'. Its usage in Indonesia has pejorative implications approximating that of 'milch-cow', and is usually restricted to relations between senior military leaders and their Chinese financiers. See Tan (1976: 38) and Coppel (1983: 153-154) for a discussion of the phenomenon.

7 Its first chairman, General Sofar, told a seminar of economics students that the government should protect small business from the harmful effects of the open door policy (Abadi, 7 Aug 1972, USET). The VW automobile agency he directed, PT Garuda Mataram, would later initiate an ambitious manufacturing programme to assist small component manufacturers (see section 7.1.3).
assistance and credit schemes were instigated by state banks and the departments of Trade and Industry (Kuntojo--Jakti, 1981: 225-230). Sumitro in particular, demonstrated that his predisposition for legislative indigenism had persisted. Throughout 1969 and 1970, he called for joint ventures to be brought under national control, progressively easing foreign capital out of the economy (e.g., Nusantara, 6 Jan 1970, USET). Using the collapse of the native textile industry as an example of what could happen if foreign capital was allowed to operate unhindered, he argued that the government should defend economic sovereignty by protecting national business (Kompas, 9 Feb 1971). From 1969 to 1972, the Department of Trade took various steps to assist 'economically-weak groups' in the coffee, sugar, flour and pepper trades. Although he moderated his support for state protection in later years, Sumitro has consistently advocated state assistance to indigenous, small-scale industries. "I am not a Friedmanite. You can leave the market to function freely, but you have to assist the small producers through education and better institutions" (Djokohadjikusumo, 1986: 39).\(^8\)

A number of domestic trends in the early 1970s combined to encourage a wave of economic nationalism: national business had become significantly more confident; policy-makers were emboldened by new oil revenues after 1972; increasing public concern about economic dependence occasioned a questioning of development goals. Above all, pribumi business groups began to lobby state planners with greater effect, drawing on the ideological force of economic nationalism. A more selective approach towards foreign investment began to dominate policy debates. As Sadli (1974: 18) noted after attending a Japan-Indonesia conference at the end of 1973, "in the mind of the political public in Jakarta, the honeymoon with foreign investment and foreign aid is apparently over."

5.1.2 - Industrial Nationalism in the mid-1970s

The establishment in June 1973 of a new investment board, the BKPM, gave institutional expression to this reviving economic nationalism. For years, foreign and local business groups had complained bitterly about

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\(^8\) According to a public relations officer of a Chinese-owned automobile company, Sumitro's parting gesture before being replaced as Minister of Trade in 1973 was to send radiogrammes to district administrations (kanwil) instructing them to favour pribumi companies (Interview, # 52, 14 Apr 1984). Some support for this claim is provided by a decree issued by Sumitro in December 1972 (330/Kp/XII/72), stipulating that all companies be classified as foreign, indigenous, or 'foreign domestic', and that they lodge deposits with the Department of Trade - which could be withheld if a company exceeded its license (BN, 13 Dec 1978: 9-11). Grenville (1973: 22-23) also notes Sumitro's advocacy of indigenism in a TV interview of January 1973.
cumbersome licensing procedures; after eliciting suggestions for planning and licensing reforms, the government agreed that greater interdepartmental coordination was necessary. Accordingly, in June 1973 the Technical Committee on Investment was replaced by the BKPM (Badan Koordinasi Penanaman Modal, the 'Investment Coordination Board'). Reportedly under the influence of the technocrat Sumarlin, the BKPM was to become a simplified 'one-stop service' for prospective investors (Arndt, 1973: 24). Although it was initially intended as a means to facilitate foreign investment, the BKPM soon became a major institutional actor in the formulation of policy, and a bulwark of official economic nationalism.

The industrialisation objective became a major concern for advocates of economic nationalism in the mid-1970s. The notion that a resilient industrial sector is a prerequisite for modernisation has been a thread woven into the many changes in economic policy in Indonesia since independence. I have already noted the widespread acceptance given during the Old Order period to the notion that large-scale industrialisation was necessary to counteract deteriorating terms of trade for agricultural produce. The policy reversal of 1967-1968 was also partly justified in terms of industrialism. The Repelita noted that restoring Indonesia "to its natural relationship with the global economy" would revive industry and eradicate 'distortions' associated with an agricultural colonial economy (Republic of Indonesia, 1969: 271). Industrialisation would also change the 'agrarian-centred worldview' of Indonesians into a "more dynamic worldview, oriented towards modern technology and progress" (p. 309, author's translation). During the policy debates and reviving economic nationalism of the early 1970s, there was growing disenchantment amongst state planners with the view that industrialisation seemed to depend on the willingness of foreign manufacturers to seek profits within Indonesia. Within the Department of Industry in particular, the mood of economic nationalism was characterised by the argument that Indonesia should promote industrial self-reliance.

The ideas expounded by Major-General Ali Murtopo in the early 1970s played an important part in encouraging this focus. His scheme for '25 years of accelerated modernisation and development' is one of the clearest formulations of the New Order's ideology of developmentalism. Arguing that the GDP must consistently expand at a rate of eight per cent annually if Indonesia is to free itself from dependency, Murtopo (1973: 49) advocated close state controls of development efforts in order to prevent economic potentials
being wasted. "Modernisation is a process whereby development is ordered, arranged, and carried out [by] using all available means ... to achieve one's goal as efficiently as possible." Only thus would Indonesia develop an integrated industrial economy by the turn of the century.

In terms of the bureaucratic alliance advocating sterner policies towards foreign investors, it is significant that the BKPM developed strong personnel links to the Department of Industry in the 1970s. Industrial development soon began to attract a disproportionate amount of attention, with state resources being increasingly directed towards the creation of a more industrial economy. Although the welfare of the overwhelming majority of Indonesia's population depends on the agricultural sector, with economic planners devoting much attention to maintaining stable rice prices, in the early years of the New Order it became a bureaucratic axiom that the Repelita would be simply the first in a series of five-year plans which would lead to eventual industrial self-reliance. According to Indonesia's chief policy-makers, the initial focus on agriculture would give way to light industries in Repelita II (1974-1979), engineering industries in Repelita III (1979-1984), extend to capital goods production during Repelita IV, and eventually lead to industrial 'take-off'. The sanctity of 'the Plans' extends beyond Bappenas, the Department of Industry and BKPM, their chief exponents, indicating the degree to which industrialism has infused economic planning in the upper reaches of the state apparatus.

While this consensus on industrial development was taking root, a sharp divergence of opinion developed on the part foreign capital should play in the industrialisation process. At the 1973 conference of state planners and business figures mentioned above, which Sadli described as marking the end to the 'open door' period, he distinguished participants who were pragmatic, outward-oriented and optimistic about the potential opened up by foreign investment, from those whose orientation was defensive, even isolationist. While disagreement on the desirability of international integration is common, perhaps inevitable, in dependent developing countries, the divergence in definitions on economic nationalism indicated by this observation deserves further comment.

9 Its first chairman, Barli Halim, had been Secretary-General of the Department of Industry. Other officials from the department subsequently became first echelon officials in planning and evaluation (BN, 28 Dec 1977: 3).
Both 'pessimistic' and 'optimistic' perspectives of economic nationalism had as an ultimate goal the creation of a modern, integrated economy, and both considered the influx of oil revenues an important means to this end. Yet the development policies prescribed as the means to this end differed. The exclusionist definition of economic nationalism, on the one hand, was intimately related to prabumi business interests. Highly critical of the open-door policy that had been pursued in the recent past, proponents of this view held that Indonesia should use its new-found oil wealth to launch an independent development strategy centred on protecting national business. The outward-looking formulation, on the other hand, drew on the industrialist element in Indonesian economic nationalism, but paid less attention to economic indigenism. During the oil boom of the mid-1970s, the proponents of this latter view considered that Indonesia's new economic strength should be used to bargain with foreign capital on more favourable terms.

The eventual predominance of the outward-looking form of industrial nationalism can be explained partly in terms of the process of international integration which began in 1967. As ties between national capitalists and TNCs grew stronger, so did an isolationist development strategy become less relevant. The increase in oil wealth also made integration more attractive, as increased competition between foreign firms seeking to break into the market reinforced the arguments of advocates of an outward-looking form of economic nationalism. Yet the primacy of the industrialisation objective in state policy in the following years largely derived from the interaction with an important political centre outside the government.

CSIS, the Centre for Strategic and International Studies, is a private research institute established with business funding in 1971. It initially had little direct input into policy formulation, although one of its directors, Ir. Abdul Rauf Suhud, was a member of the Technical Committee on Investment and later Vice-Chairman of the BKPM. Not until the late 1970s was its political influence formalised, when three CSIS directors were appointed to Cabinet (Murtopo, Suhud, D. Joesoef). CSIS nevertheless had close links with the government political organisation, Golkar, with the intelligence agency, BAKIN, and with the shadowy military organisation, OPSUS. Two CSIS directors, General Ali Murtopo and Major-General Soedjono Hoemardani, were also members of Suharto's inner circle of advisers, the Aspri. Finally, in its formative years CSIS was closely associated with a number of major
national capitalists, notably General Ibnu Sutowo and Chinese entrepreneurs such as Sofyan Wanandi (Liem Bian Koen), whose brother Yusuf Wanandi (Liem Bian Kie) was a CSIS director. The Centre was thus in a unique position in the Indonesian political and economic system, with considerable direct and indirect influence over economic policy-making in centres such as Bappenas.

These business and academic figures popularised an integrationist form of economic nationalism, presenting an alternative vision to that which prevailed in the climate of pribri activism of the early 1970s. Kuntjoro-Jakti (1981: 252) characterises these policy proposals as "an ingenious rhetorical manoeuvre to bypass the politically sensitive pribri/non-pribri issue and the revival of the socio-economic pluralism which had triggered it in the first place." As argued in the following section, the impact of these proposals was more than rhetorical, however, since oil revenues increased the state's capacity to determine the fate of particular business interests.

In the CSIS perspective, the oil boom of 1973-74 was a timely means to enhance Indonesia's bargaining power with international capital. Writing in the language of conventional modernisation theory, in mid-1972 a CSIS director, Yusuf Panglaykim (1973a), had emphasised Indonesia's economic frailty, proposing that TNCs be offered generous incentives in order to encourage them to become Indonesia's 'partners in development'. Only a few months after the Malari riots, the same man spoke instead of the need to forge strong state-capital alliances, to build an 'Indonesia Incorporated' capable of bargaining effectively with the Japanese politico-business complex.

What is now required is a thorough-going assessment of the prevailing situation as a basis for the formulation of a long-term policy which will enable us to meet these MNCs as a strong host, directing their activities along lines consistent with the achievement of predetermined goals of development.

(Panglaykim, 1974: 3)

In what we might term a 'Big-vs-Big' formula, CSIS figures assigned the state a key role in restructuring national capital to create this countervailing business force. In this view, international integration was now a reality, and Indonesia could no longer afford to close itself off and protect antequated business techniques.

This world economy is where the action is, and any nation that doesn't expend any effort to get a piece of that action or, in other
words, that isolates and contains itself in autarchy, is surely writing a prescription for its own economic decadence. (Joesoef, 1974: 41)

The only way to meet the challenge of foreign domination, continues Joesoef, is to foster close cooperation between large business groups, technocrats and the bureaucracy. Another CSIS founder, General Hoemardani (1974) proposes that the atomistic units of the Indonesian economy be merged into 'national integrated units' able to stand up to Japanese TNCs. Concentration is imperative, he argues, since small and medium-scale companies cannot maximise the potential benefits to be extracted from foreign investment.

We can thus identify three strands of economic thought that affected industrial policy in the mid-1970s. Of declining influence was the view originally held by the Bappenas technocrats, that foreign investment would hasten the realisation of industrial sovereignty by stimulating local industry. The decline of small and medium-scale indigenous industry associated with the entry of foreign capital led to a revival of economic indigenism, a second policy strand characterised by appeals to protect existing industry. Yet if the Malari episode marked the eclipse of the first perspective, it simultaneously highlighted the gap between economic indigenism and a third strand, the integrationist form of economic nationalism.

For over one year after the Malari affair, policy seemed to be subject to two standards of economic nationalism. Controls on foreign investment began to be implemented with greater vigour, while assistance to pribumi business was more forthcoming. Official statements on the new direction to state policy were a curious mixture of egalitarianism and privilege, of indigenism and an emphasis on industrial development. During the early years of Repelita II, industrial development goals were extended to the production of a wider range of consumer goods, but greater support for pribumi enterprise was also made available. There was a great deal of apprehension within the business community about future policy directions, with a sharp fall in foreign investment (Jenkins, 1976).

By the late 1970s it was clearly the integrationist definition of economic nationalism that was being implemented, indicating that the appeal of the assertive policy proposals originally promoted by CSIS had overshadowed that of economic indigenism. By 1975 the BKPM had won the ear of the President and was able to begin putting into effect its interpretation of his January 1974 statements. By 1976 it was finally able to effectively enforce a long-cherished
dream of Indonesianising the equity of manufacturing TNC operations. The implications for industrial policy was that state resources were increasingly harnessed to redirecting foreign investment and promoting local industry, to determining the terms on which manufacturing TNCs could invest locally.

5.1.3 - State-led Industrialisation

The rhetoric of Third World nationalism gained greater currency amongst Indonesia's economic policy-makers throughout the 1970s. The most unambiguous indicator of this development was the increasingly strident notes on foreign relations sounded at international forums. Calls for Indonesia to cooperate with other developing countries in the North-South dialogue had initially been restricted to more socialist-inclined intellectuals (e.g., Soedjatmoko, 1973). By the mid-1970s, interventionist technocrats such as Sadli and Sumitro were also arguing for a restructuring of external trade relations, calling for a halt to the extraction of monopoly rents from the Third World (e.g., Djiojohadikusumo, 1975). At the UN Seventh Special Session on the New International Economic Order in 1976, Vice-President Adam Malik pledged Indonesia's support for the struggle against neo-colonialism and imperialism. By the late 1970s, even the more economically liberal technocrats were being swept along by this prevailing mood. At a meeting at the University of Indonesia attended by most cabinet technocrats, the Director-General of Foreign Trade, Dr. Suhadi Mangkusuwondo, recounted his bitter experiences as head of the Indonesian delegation to the 1976-77 Paris Committee on International Economic Cooperation (CIEC). He called for a complete overhaul of the international trading system to reverse the flow of profits from the South, noting that the developed states only made concessions if coerced (Tempo, 11 Mar 1978: 53-54). The Vice-Chairman of Bappenas subsequently declared that Indonesia would support a restructuring of international economic relations along these lines (Sumarlin, 1981).

The industrialisation objective became a prominent element of official economic nationalism in the late 1970s. It is in policy for the manufacturing sector that a distinct state interest can be discerned, emerging from the conflicting pulls of prabum and Chinese capitalist interests.

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10 This point is well made by Dickie and Sumantoro (1979: 8; Chap 4), who describe the bureaucratic tussles over policy implementation. Jenkins (1976a) provides a useful account of the increasingly detailed interpretations of the Presidential statements throughout 1974 and 1975.
The increase in manufacturing activity was a significant feature of the Indonesian economy during these years. At the end of the 1960s, the manufacturing sector was miniscule, mostly limited to production of simple consumer goods. Between 1969 and 1973 manufacturing grew at an average annual rate of 13.0 per cent, considerably faster than the 8.8 per cent growth in GDP (Table 5.1). The share of manufacturing in GDP rose slightly, from 8.3 to 9.6 per cent over the same period. Manufacturing expanded rapidly thereafter, however, averaging 14.2 per cent between 1973 and 1981, almost double the rate of growth in GDP. Although the share of manufacturing in the Indonesian economy is still smaller proportionally than in its ASEAN neighbours and although this growth slowed after 1981, a significant structural shift began to take place. The primary sector declined in importance, while growth in the manufacturing and infrastructural sectors have been consistently more dynamic. By 1984 the manufacturing sector accounted for over 15 per cent of GDP (current 1973 prices).

Within the manufacturing sector itself, the focus shifted away from production of simple consumer goods and towards the production of intermediate inputs (plywood, concrete, steel) and capital goods (metal products, including automobiles) (Hill, 1984). The share of metal and engineering industries in manufacturing value-added has doubled, rising from 7.1 per cent in 1972 to 13.9 per cent in 1985 (calculated from BPS data, Statistik Industri). The growth of the metal industries in recent years has been particularly marked, averaging 21 per cent annually between 1979 and 1982 (Directorate-General, 1984: 3).

This industrial expansion was underpinned by an enormous increase in state revenues, largely the result of the two sharp increases in crude oil prices levied by OPEC in 1973/74 and 1978/79. The value of oil and gas exports trebled between 1969/70 and 1973/74; by 1974/75 it had trebled once more.11

### Table 5.1

**STRUCTURAL CHANGE IN THE INDONESIAN ECONOMY, 1969-1984**

#### SECTORAL COMPOSITION OF GROSS DOMESTIC PRODUCT

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<td>4.0</td>
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<td>4.9</td>
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<td>7. Trade, finance and other services</td>
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<td>29.8</td>
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<td>31.9</td>
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<td>33.4</td>
<td>34.4</td>
<td>34.5</td>
<td>33.6</td>
<td>33.1</td>
</tr>
</tbody>
</table>

| TOTAL GDP:                     | 100  | 100  | 100  | 100  | 100 | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  | 100  |

#### AVERAGE GROWTH RATES

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<td>2. Mining</td>
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<td>5. Construction</td>
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</tr>
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<td>6. Transport and Communications</td>
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<td>12.9</td>
</tr>
<tr>
<td>7. Trade, finance and other services</td>
<td>9.2</td>
<td>9.1</td>
</tr>
</tbody>
</table>

**NOTE:** *excludes oil and gas reprocessing

(Sources: 1969-84, Nota Keuangan 88/89, average growth rate derived from Table V.85; 1981-1986 growth rate, H. Hill, BIES, 1988, 23(3): 3)
Income from oil extraction as a proportion of total government revenue rose from 10.6 per cent in 1967 to 48.4 per cent in 1974/75 (Republic of Indonesia, Nota Keuangan). Oil receipts had trebled once more by 1980/81, when the state budget was awash with oil funds. This increase was translated into increased demand for manufactured goods both directly, through the development budget, and indirectly, through increased wages for civil servants and the easier credit facilities made available to state corporations.

One adverse effect on local manufacturing of these windfall oil revenues could have been the so-called 'Dutch disease', of a depressed exchange rate reducing the cost of imports. Increased national income could have thus simply flowed back out of the country, to pay for manufactured imports to satisfy this demand; a significant portion did. This tendency was partly counteracted, however, by orders placed with local producers by state corporations. The government also instructed state banks to offer preferential credit to national firms. More important than direct state assistance, however, was the private sector response to the investment climate created by prohibitive tariffs, shielding selected industries from external competition. The important nexus between what was known in Indonesia as the 'oil bonanza' and the growth in manufacturing was thus state protection, a tariff regime which served to recycle oil revenues into industry.12

This commitment to industrialisation had been thrown into considerable doubt in the mid-1970s by the controversy surrounding the Pertamina crisis. In the very midst of the revival of economic nationalism, exposure of the debts accumulated by the state oil monopoly's mismanagement and financial profligacy obliged the government to intervene to reorganise its finances. Investigations disclosed increasingly alarming debts. Initially put at US$ 1.5 billion in early 1975, the figure rose to $2.3 billion, then $6 billion, until in May 1976 the Minister of Mining, Sadli, announced a debt of $10 billion (SH, 21, 22, 24 May 1976). This massive level of indebtedness made it seem unlikely that the government could either afford to continue bankrolling industrialisation via the development budget, or maintain restrictions on foreign investment (Glassburner, 1976; McCawley, 1978). The crisis reinforced the arguments of technocrats opposed to state-sponsored development. One might have predicted a return to the facilitative state role originally advocated by the Bappenas economists.

12 McCawley (1980) describes the forces mitigating against devaluation of the Rupiah, which would benefit exporters, and the political factors encouraging protection for import substituting industries.
The increased influence of the more financially-minded technocrats following the Pertamina debacle now seems no more than a temporary lull in the resurgence of economic nationalism, in particular the state drive to promote industrialisation. The scandals and nepotism exposed by the investigations initially increased the influence of nationalist critics of Indonesia's integrationist development strategy.

Ibnu's mistakes have strengthened the hand of those who have argued for a long time that Indonesia had become too pro-West, too reliant on Western capitalist investment, indeed too capitalistic all around, and that this has led to such things as corruption, steambaths, and a flood of Japanese consumer goods into Indonesia. (McCawley, 1978: 20)

Yet in the following years, such nationalist impulses along lines of the second, exclusivist policy strand were redirected, as the political balance shifted further towards those arguing for structural economic change. The admiration for visible industrialisation schemes had lingered, despite the efforts of many economists and planners to discredit Sutowo's development schemes.

Arndt (1977: 13-15) notes that as early as 1977 the government was once more promoting the same capital-intensive, high-technology projects that had been pioneered "increasingly recklessly and with unfortunate results by Pertamina." Past successes in attracting foreign financial assistance hardened the government's resolve to develop steel smelters, fertiliser projects, aluminium reprocessing plants and oil refineries. The government had declared major projects would no longer obtain state financial guarantees, delaying for several years, for example, development of a Pertamina project for refining crude oil, the Dumai hydrocracker. Wijoyo and Suharto eventually decided to give the scheme full state backing, however, and most of the $1 billion required for the Dumai project was provided from the central budget (Tempo, 11 Oct 1980: 53). Requirements on foreign investors in other fields to promote local manufacture include stipulations that timber exporters invest in sawmills for reprocessing logs into plywood (Zach, 1978). Foreign mining companies were also required to invest in mineral reprocessing (Sacerdoti, 1980).

The state commitment to large-scale industrialisation had by the late 1970s thus become fairly general, blurring the distinction between 'technocrats' and 'state entrepeneurs'. What this suggests is that the ideology of industrialisation, born in the 1950s, formulated in fanciful decrees in the early
1960s, and constrained by the economic realities of the late 1960s, was finally revived by the injection of OPEC oil wealth in the 1970s. It is plausible to argue that the ideological commitment to industrialisation has taken on a life of its own within the apparatus, shaping the concerns of key policy-makers.

The forces behind industrialism in the manufacturing sector are more complex than is the case for large infrastructural projects, where the chief negotiations generally take place between state officials, TNC managers, and representatives of donor countries. The formulation of manufacturing policy also inevitably involves closer interaction with national capitalists. Yet we can discern here a similar ideological shift, away from a concern with indigenism and towards a more outward-looking form of industrial nationalism. The major feature in the reorganisation of the manufacturing sector has been the DSP ('Daftar Skala Prioritas, 'Priority List'), a classificatory system of state incentives, first issued by the BKPM in 1977, updated in 1980, and which has since been renewed annually. Originally, the DSF was explicitly designed to increase investment opportunities for national, and especially pribumi, firms (Rice and Hill, 1977). Implementation of the DSP has, however, given priority to the localisation of MVA, incrementally closing off sectors of manufacturing to foreign capital while encouraging TNCs to invest in areas considered structurally vital, but which are beyond the capacity of local firms.

The challenge then, is to explain the forces brought to bear on state manufacturing policy such that the industrialist interpretation of economic nationalism gathered momentum, while the definition centred on economic indigenism, on protecting pribumi capitalists and encouraging small-scale industrial operations, was allowed to pass into political obscurity. Chapters Six to Ten describe the process by which official industrialism in the automotive industry was reinforced by the interaction with national capitalists. Their main themes are summarised at the end of this chapter. Prior to this, it is necessary to provide an overview of the industry in the period 1969 to 1984. The following section describes the expansion of manufacturing during these years, pointing out some of its salient features and raising some important policy issues.
5.2 The Automotive Industry, 1969-1984

The major feature of the industry during these years was undoubtedly a rather remarkable increase in the number of locally assembled automobiles. The assembly industry had come to a virtual standstill after 1965, reflecting the parlous state of the economy during the period of regime change. Automobile imports fell by over 50 per cent between 1965 and 1967, when the industry reached its nadir, producing only 1,000 vehicles. Economic sluggishness and financial restraints meant that even in 1969 there were fewer than 1,500 vehicles produced, only 7.5 per cent of the total number of automobiles imported (Table 5.2). Production was largely limited to assembly of SKD units, carried out by four assemblers. In the years between 1969 and 1978, however, the face of the industry changed dramatically, from predominately CBU importation to the assembly of CKD kits. The value of automobile imports rose steadily, from US$ 33 million in 1969 to $302 million in 1974 and $654 million in 1978, accounting for almost ten per cent of Indonesia’s total imports (Table 5.2). Most of this increase was to supply components and CKD kits to the 20 assembly plants operating by the mid-1970s. Between 1969 and 1981, the output of these assemblers grew at an extraordinary average annual rate of 52 per cent. Although this figure is distorted by the low base from which it is measured, even after 1974, when output exceeded 59,000, local production continued to grow at an average rate of 19.9 per cent, before peaking at 212,000 in 1981.

This expanding market encouraged component manufacturing initiatives. In 1969 local production was negligible, and in 1974 local content was still only about 10 per cent, mostly tyres and paint. A number of firms established in-house facilities for original equipment manufacturing (OEM) around this time, including body presses and equipment for production of components (Appendix 5 lists manufacturing ventures established in the 1970s and early 1980s). One of the first to move into large-scale local production in the mid-1970s was the Mitsubishi agent, PT Krama Yuddha, which was soon able to claim 51 per cent local content for its ‘Colt’ mini-truck, the best-selling make in Indonesia (BPPT, 1979: 51). Other firms also established their own manufacturing operations or began to purchase components from independent producers, and by 1984 the Department of Industry put average local content for mini-trucks at 49 per cent and 45 per cent for utilities (ICN, 27 Feb 1984: 23).
## Table 5.2

### AUTOMOBILE IMPORTS AND LOCAL ASSEMBLY, 1950-1984

<table>
<thead>
<tr>
<th>Year</th>
<th>(CIF US$ mill)</th>
<th>Units Imported</th>
<th>Domestic Production</th>
</tr>
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<tr>
<td></td>
<td>Value share of total imports</td>
<td>PVs</td>
<td>CVs</td>
</tr>
<tr>
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<td>n.a.</td>
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<tr>
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<td>2,031</td>
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<td>1,761</td>
</tr>
<tr>
<td>1961</td>
<td>n.a.</td>
<td>n.a.</td>
<td>11,999</td>
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<tr>
<td>1962</td>
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<td>n.a.</td>
<td>8,577</td>
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<td>1963</td>
<td>n.a.</td>
<td>n.a.</td>
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<td>8,022</td>
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<td>1974</td>
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<td>1975</td>
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<td>1979</td>
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<td>6.6</td>
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<td>1980</td>
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<td>8.2</td>
<td>22,321</td>
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<tr>
<td>1981</td>
<td>1,101</td>
<td>8.3</td>
<td>27,383</td>
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<tr>
<td>1982</td>
<td>593</td>
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<tr>
<td>1983</td>
<td>653</td>
<td>3.9</td>
<td>24,176</td>
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<tr>
<td>1984</td>
<td>745</td>
<td>5.4</td>
<td>23,376</td>
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</table>

Note: - Jeeps were classified as 'Commercial Vehicles' before 1969
- Automobile imports here includes PVs, CVs, 'road motor vehicles' and 'parts'
  (SITC 781, 782, 783, 784), and therefore excludes motorcycles

(Sources: 1950-1965, FEER (various issues); units imported 1953-1969, Hansen (1971); value of imports, BPS, Statistik Perdagangan Luar Negeri, various years)
The localisation drive has continued, even though assembly has fallen from its 1981 peak. The most ambitious projects undertaken in recent years in the industry have been the licensing of seven plants for engine manufacture, four of which had begun assembling knocked-down engines by 1985.\textsuperscript{13} The Department of Industry plans that these firms will eventually undertake complete forging and machining of engines, using steel provided by the largely state-owned steel mill, Krakatau Steel.

One consequence of this promotion is that automobile production has become one of the more important activities in the small modern sector of the economy. Within the category of metal and engineering industries, automobile assembly and manufacture accounted for 7.0 per cent of its share of MVA in 1972; by 1980 this figure had increased to 22.0 per cent (calculated from BPS data, \textit{Statistik Industri}). Although its importance has declined somewhat in recent years, automobile assembly and manufacture is still the largest single industry within the category of metal and engineering industries (Table 5.3). Most of this activity is concentrated in Jakarta, where the production of motor vehicles is the largest manufacturing industry, accounting for 8.9 per cent of total value-added for the region (Hill, 1987: 88).

\begin{table}[h]
\centering
\caption{MAJOR INDUSTRIES IN THE METAL AND ENGINEERING SECTOR, 1985 (ISIC 38, per cent)}
\begin{tabular}{lrl}
\hline
Transport Equipment (384) & \multicolumn{2}{c}{34.2} \\
Automobile assembly/manufacture & \multicolumn{2}{c}{15.6} \\
Motorcycle assembly/manufacture (38440) & \multicolumn{2}{c}{8.6} \\
Ship building and repair (38411) & \multicolumn{2}{c}{7.5} \\
Other transport machinery (38490) & \multicolumn{2}{c}{2.0} \\
Others (mostly bicycles) & \multicolumn{2}{c}{0.7} \\
Fabricated Metal Products (not machinery) (381) & \multicolumn{2}{c}{29.3} \\
Manufacture of Electrical Machinery and Appliances (383) & \multicolumn{2}{c}{28.0} \\
Others (non-electrical machinery, photographic equipment etc.) & \multicolumn{2}{c}{8.4} \\
\hline
\multicolumn{3}{c}{100.0}
\end{tabular}
\end{table}

\textbf{Note:} - large and medium-sized firms, calculated from MVA at market prices  
- totals do not add due to rounding to first decimal place  
* includes both 38430 (automobile assembly and manufacture) and 38460 (automobile body and equipment manufacture)  
(Source: BPS, \textit{Sensus Ekonomi 1985})

\textsuperscript{13} Production of Toyota and Mitsubishi engines in 1984 was followed by Isuzu and Daihatsu in 1985. Engine manufacturing policy is described more fully in Chapter Ten (10.2.1).
The industry's growth is also reflected in a steady increase in employment. The number of workers engaged in both assembly and manufacture rose from 5,800 in 1974, the first year for which reliable figures are available, to over 25,000 in 1985 (Table 5.4). The importance of this increase should not be exaggerated, however, for it is small in terms of the workforce as a whole. Production is capital-intensive and value-added per worker is correspondingly high, with most working in a few large, modern factories.

### Table 5.4

EMPLOYMENT IN THE AUTOMOTIVE INDUSTRY, 1969-1985  
(Medium-scale and large enterprises)

<table>
<thead>
<tr>
<th></th>
<th>Assembly and Component Manufacture (ISIC 38430)</th>
<th>Body and Equipment Manufacture (ISIC 38460)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Establishments</td>
<td>Number of workers engaged</td>
</tr>
<tr>
<td>Before 1969</td>
<td>14 n.a.</td>
<td>5 n.a.</td>
</tr>
<tr>
<td>1969</td>
<td>16 n.a.</td>
<td>5 n.a.</td>
</tr>
<tr>
<td>1970</td>
<td>19 n.a.</td>
<td>5 n.a.</td>
</tr>
<tr>
<td>1971</td>
<td>22 n.a.</td>
<td>7 n.a.</td>
</tr>
<tr>
<td>1972</td>
<td>25 n.a.</td>
<td>12 n.a.</td>
</tr>
<tr>
<td>1973</td>
<td>27 n.a.</td>
<td>16 n.a.</td>
</tr>
<tr>
<td>1974</td>
<td>31 4,306</td>
<td>20 1,544</td>
</tr>
<tr>
<td>1975</td>
<td>25 8,725</td>
<td>29 2,012</td>
</tr>
<tr>
<td>1976</td>
<td>25 8,329</td>
<td>24 2,438</td>
</tr>
<tr>
<td>1977</td>
<td>20 7,407</td>
<td>37 2,988</td>
</tr>
<tr>
<td>1978</td>
<td>25 8,872</td>
<td>45 3,761</td>
</tr>
<tr>
<td>1979</td>
<td>31 9,706</td>
<td>48 3,800</td>
</tr>
<tr>
<td>1980</td>
<td>32 11,424</td>
<td>50 4,284</td>
</tr>
<tr>
<td>1981</td>
<td>38 14,250</td>
<td>55 5,740</td>
</tr>
<tr>
<td>1982</td>
<td>42 14,354</td>
<td>58 6,257</td>
</tr>
<tr>
<td>1983</td>
<td>43 15,569</td>
<td>60 6,442</td>
</tr>
<tr>
<td>1984</td>
<td>40 13,588</td>
<td>61 7,041</td>
</tr>
<tr>
<td>1985</td>
<td>69 15,192</td>
<td>103 9,872</td>
</tr>
</tbody>
</table>

**Note** - Census figures collected for 1974 and 1985 are generally recognised to be comprehensive and reliable. Data for other years should be treated with caution, particularly for the years prior to 1974. These figures are included to illustrate the industry's growth.

- 'Large and medium-sized firms' prior to 1974 comprised mechanised firms employing 5 or more workers and non-mechanised firms employing 10 or more. The classification was altered following the 1974 sensus, to cover firms employing 20 or more (medium-sized) and 100 or more (large).

(Sources: BPS data: Sensus Industri 1974/1975; Sensus Ekonomi 1986, Statistik Industri, various years)
In 1985, 15, 200 worked for 69 assemblers and component manufacturing companies, an average of 200 employees per firm. According to figures provided by the Department of Industry, in 1982 10,300 were employed in 22 assembly plants, an average of almost 500 per firm (Directorate-General, 1984: 9). Certainly, these high-profile terminal assembly plants are supported by a pyramid of service industries, repair shops, and dealerships. According to the Secretary-General of the automobile association, Gaikindo, in 1983 the industry employed a total workforce of 100,000 if workers in these ancillary industries were taken into account (Interview, Subyanto, 21 Mar 1984). Yet even if this generous figure is correct, it is nevertheless very minor in the context of the total industrial workforce.

Despite frequent protestations that policy for the industry was intended to both increase employment and save foreign exchange, it is evident that the government’s primary concern during these years has consistently been to localise production and to provide a protective investment climate that will encourage manufacturing initiatives.

5.2.1 - The Politics of Protection: the Official Players

Much of the industry’s growth during these years can be directly attributed to the growth in state purchases, especially in the early and mid-1970s, when corporations such as Pertamina and PN Timah placed massive orders for sedans and CVs. It is, however, notoriously difficult to obtain precise figures (or even reliable estimates) on the portion of total sales made up by contracts to government departments and state agencies. Official figures are not published, while most companies seek to maintain an image of rugged entrepreneurial independence, an image which would be tarnished if they were known to rely on state support. It is nevertheless likely that the share of sales to state agencies during the ‘boom’ years of 1976 to 1981 was somewhere between 60 and 70 per cent, a figure commonly mentioned by interviewees. This share has since declined, but estimates of the share of government orders in total sales in 1984 still ranged from 40 to 50 per cent.

Even more important than direct assistance in stimulating the growth of the industry was state industrialisation policy. From the outset of the New Order, automobile production was given a surprising degree of attention, with the industry targeted for promotion when Repelita I was being drafted in 1968.
Responsibility for industry policy at this time was shared between the
departments of Industry and Trade (and briefly also Communications); the
important official actors involved in policy formation were the Minister for
Trade, Professor Sumitro, and his counterpart in the Department of Industry,
Mohammad Yusuf. The first decrees under the New Order aimed at
promoting local production were issued in 1969.

The industry came under the full authority of the Department of Industry
in 1972. Yusuf took a keen interest in the industry, evidently sharing the
determination to deepen its production structure. He is reputed to have taken
a passive attitude to policy formation, however, and to have allowed his
Directors-General a relatively free hand.14 The small 'automotive team'
beneath the influential Director-General for Basic Industries, Ir. Suhartoyo,
became the driving force for automotive industry policy in the following years,
with policy initiatives constantly reinterpreted within the apparatus as moves
to encourage localisation. The 22 January 1974 ban on CBU car imports, for
instance, is one of the best remembered steps taken in the wake of the Malari
riots. This ban, a response to widespread criticism of the conspicuously
extravagant lifestyle of the Jakarta elite, has since entered the lexicon of official
nationalism as a move to force foreign capital to industrialise the economy.
Further constraints were placed on CBU car imports, with official attention
focusing on local CV production. Between 1972 and 1978 at least 21 decrees
promoting local manufacturing were issued under the influence of the
Directorate-General of Basic Industries, with the first timetable for full CV
manufacture being gazetted in 1976. (This section of the bureaucracy
underwent a number of name changes, becoming the Directorate-General of
Machinery and Metal Industries (ILM) in 1976, the Directorate-General of Basic
Metal Industries (ILD) in 1979, and the Directorate-General of Basic Metal,
Machinery and Metal Industries (ILMD) in 1984; to avoid confusion, it is
henceforth simply referred to as 'the Directorate').

Formal responsibility for the industry became more fragmented towards
the end of the decade, as two new ministers took a strong interest in promoting
automobile manufacture, striving to place their personal stamp on industry
policy. In 1978 the Vice-Chairman of BKPM, Ir. Suhud, replaced Yusuf as

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14 Yusuf had had almost no experience in economic policy-formation prior to his appointment. As
military commander of the South Sulawesi region in the late 1950s, he established valuable
military connections, and is said to have been close to Generals Sutowo and Nasution. He won
Sukarno's favour when he skillfully suppressed the Permesta rebellion, and was appointed
Minister of Light and Basic Industry in July 1965 (Jenkins, FEER, 2 Mar 1979: 18-2).
Minister for Industry; and Dr. B.J. Habibie was appointed Minister for Science and Research. This dispersion of authority did not, however, lessen the industrialisation drive. Such was the prestige that the industry had gathered, that both Suhud and Habibie competed to win auto-TNC acceptance of the full manufacturing objective. A further nine decrees relating to local production were issued between 1978 and 1984, with new localisation timetables gazetted in 1979 and 1983 (the most important decrees for the industry are listed in Appendix 3).

One important consequence of this persistent official attention has been a consistently high rate of protection for local production. Local assembly has been protected since the early 1970s, with a tariff rate on CBU imports generally double that for CKD imports. As components were deleted from imported CKD kits in the late 1970s, absolute bans were placed on the importation of some. There are also numerous non-tariff barriers to imports, including sales taxes, withholding taxes and complex licensing procedures. Finally, mention should also be made of the hurdles that new entrants have to face due to the dispersion of authority that is characteristic of the Indonesian administration. A common complaint amongst foreign business representatives is that the BKPM, far from providing the intended 'one-stop service', generally constitutes only the first in a long series of bureaucratic negotiations.15

In this environment, promotion of automotive industrialisation has created a policy climate that has allowed inefficient production practices to persist, making the cost of automobiles exorbitant for a developing country. One estimate puts the cost of local assembly at some 250 percent the price of the imported parts (Witoelar, 1983: 54). When shipping costs, import duties, profits margins and the imposition of extra costs euphemistically associated with the 'high-cost economy' are added, the eventual sale price of a vehicle exported for US$1,400 is around $9,000 (Witoelar, 1983: 54). A further consequence of high local prices is that the local content is overvalued, and in the late 1970s would probably not have exceeded 20 per cent (BPPT, 1979: 38).

15 The magnitude of barriers to imports is extremely difficult to measure with any accuracy. A recent study puts the effective rate of protection for the industry at 33 per cent (Pangestu and Boediono, 1986: 27). As the authors admit, this figure is conservative, and does not take into account non-quantitative barriers. Another study estimated that the effective duty on CBU automobiles in 1978 at 30 per cent for trucks, 50 per cent for other CVs, and 200 per cent for cars (BPPT, 1979: 24). A UNIDO report estimated that the effective rate of protection for assembly in the mid-1970s ranged from 530 to 682 per cent (Sharma, 1977: 37-39).
5.2.2 - Some Policy Issues

A number of issues relevant to this study of the political economy of industrialisation in Indonesia come together in automotive development policy. The first concerns the appropriateness of targeting the industry for promotion. In one of the first serious studies of the industry, Hansen (1971: 69) doubts the wisdom of this choice.

The conclusion seems inescapable that some years must elapse before Indonesia can hope to develop significant domestic content production for the motor vehicle assembly industry. It is an open question whether the scarce resources of capital, entrepreneurial and managerial talent and skilled labour would not be better employed in less demanding fields of industrialisation.

Nevertheless, planners felt that local assembly would enhance production and management skills generally, and also stimulate production in other industries, so there was general support for the move to localise assembly in the early 1970s. As discussed in the following chapter, Sumitro was aware that localisation might involve a net loss of foreign exchange, but was a key proponent of automotive industrialisation at this time.

Localisation becomes far more problematical as local manufactures are incorporated and prices increase. Some independent observers have assessed the industrialisation policy in positive terms. Thus, a senior US trade official lauds the skilful application of selective bans in the industry for leading to a rapid increase in the production of sophisticated metal products (Carr, 1978: 143). The expansion of the industry was premised on essentially ideological goals, however, and in this sense the automobile market was primarily a political one, with efficiency not a major concern for individual capitalists. The industry has therefore generally been the _bête noire_ of foreign economists.

In a study carried out for Bappenas technocrats, Donges, Stecher and Wolter (1974: 45) describe it as "a horror story of inefficiency;" it is also Glassburner's (1978: 39) "pet peeve" for wasteful industrialisation; Dapice (1980: 47-49) cites the increase in assembly as an example of the forced expansion of a high cost industry, with doubtful comparative advantage. A recent study finds that localisation efforts may have actually led to a net loss of value-added.

What is happening is that government protective measures are bringing into being component manufactures similarly featuring negative value added (NVA). A proliferation of NVA operations, while creating an aura of industrialisation and a few thousand highly visible factory jobs, does not constitute economic growth.

(Gray, 1982: 47)
Domestically too, automobile production is often seen as representing state support for prestigious but irrelevant industrialisation. Manufacturers in other industries characterise the automobile business as dimanjakon, 'spoilt'. This view touches on a second policy issue, the nature of the relationship between state and business. Beneath the official surface of the industry’s development there lies a kaleidoscope of personal government-business connections, characterised by personal favours, privileged access to state contracts and rumours of corruption. Critics blame the personalised nature of state-business relations for fragmentation of the market. Between 1972 and 1978 the number of active assemblers doubled, while the number of vehicles produced locally more than quadrupled, as new entrants were able to obtain licenses (Table 5.5). In the view of many, state patronage allows individual capitalists to survive, despite inefficient production techniques.

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<td>n.a.</td>
<td>n.a.</td>
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<td>25</td>
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<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>12</td>
<td>30</td>
<td>42</td>
<td>56</td>
<td>28</td>
<td>26</td>
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Sources: Hansen (1971: 50); Pawitra (1985: 290); ICN (various); Witoelar (1983: 19-20)

Ownership has become more concentrated in recent years, as larger firms absorbed smaller ones. By 1984 over 86 per cent of production was controlled by three capitalist groups: the Krama Yuddha group of Sjarnubi Said (Mitsubishi), the Astra group of William Soeryadjaya (Toyota, Daihatsu, Peugeot, Renault), and the Salim group of Liem Sioe Liong (Volvo, Suzuki, Hino, Mazda) (Table 5.6). This process of concentration has not, however, dulled criticism of state patrimonialism. Automobile manufacture is often mentioned privately and in seminars as indicating the government's
preparedness to sacrifice the general welfare to protect these capitalist interests, and issues of equity are never far below the surface.  

Finally, the third and most potent policy critique comes from the source of New Order economic nationalism, proponents of economic indigenism. A central target for critics of development policy during the revival of economic nationalism in the early 1970s were Chinese partners of Japanese manufacturers. The 1974 Malari riots resulted in the burning down of the central office of Astra, the Toyota import agency owned by the Chinese peranakan businessman, William Soeryadjaya. Ironically, the Astra group benefited substantially from the policies that followed the riots, for when CBU imports were banned, the link to a TNC keen to expand its stake in the Indonesian market resulted in a rapid increase in local Toyota production.

The expansion of Astra and other Chinese-owned firms focused the attention of advocates of pribumi nationalism on state policy. Illustrating how the development of small-scale, indigenous enterprise became the cause celebre of liberal-minded critics in the late 1970s, Ismid Hadad (1978) argues the automotive industry illustrates the effect of the government's "obsession" with rapid economic growth. In this view, the decline of indigenous, small-scale industry and the domination of the manufacturing sector by Chinese and foreign capitalists is structurally guaranteed, because the interests of 'alien' capital are imbedded in state policy.  

These three policy issues, the decision to favour the industry before others, the extent to which business success depends on state patronage, and the ethnic composition of ownership, have all combined to make the industry the object of much intrigue and sometimes intense public speculation. The businessman who was chairman of the automobile association during most of these boom years complained that this public glare greatly hampered efforts to  

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16 At a seminar on industrial policy held by the Jakarta branch of Kadin which I attended in 1984, discussion became most animated on the issue of whether priority should go to helping small-scale industry, through 'linkages' to larger firms, or to promoting the expansion of large firms that could become internationally competitive. A number of proponents of the former view cited the automotive industry as an example of how inequities had developed because of state protection for large national capitalists (Seminar Industri 1984', 27-28 March).

17 Hadad was associated with the critical student newspaper, Harian Kami, in the late 1960s. He subsequently became editor-in-chief of the popular social science magazine, Prisma, published by the non-government organisation, LF3ES, the Institute for Economic and Social Research, Education and Information'.

### Table 5.6

**PRODUCTION OF AUTOMOBILES BY MAKE, 1974-1984**  
*(per cent)*

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<td>Mitsubishi</td>
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<td>33.6</td>
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Note: - numbers due not add due to rounding to first decimal place;  
- includes only makes that have accounted for 1.0 per cent of production  
- ' indicates no production reported  
- ' indicates less than 0.1%, thus negligible;  
(a) Citroen (0.9), Bedford (0.5), Alfa Romeo (0.5), Opel (0.2), Fargo (0.2), International (0.2), Buceggi (0.1), and Hino (0.1).  
(b) Citroen (0.8), Alfa Romeo (0.7), Moskvich (0.4), Hino (0.2), International (0.1), Morris (0.2), Morina (0.1), Nissan UD (0.1) and Bedford (0.1), as well as Simca, Steyr, Subaru, Valiant, Aro, DAF, Deutz, Chrysler, Fargo, Opel and Seddon in negligible numbers  
(c) Hino (0.8), Citroen (0.4), Opel (0.3), Nissan UD (0.2), Berliet (0.1) and BMW (0.1), as well as Leyland and Semeru in negligible numbers.  
(d) Hino (0.9), Jeep (0.4), Citroen (0.4), BMW (0.1) and Nissan UD (0.1), as well as Berliet, Tata and Simca in negligible numbers.  
Sources: Pawitra (1985: 330); ICN (various issues): corporate data.
promote Gaakindo as an independent business body. "I don't know why it attracts so much attention. It's just not logical. Every little hiccup is blown up into something really big" (Interview, Sugianto, 27 Jun 1984).

While state policy to transform the industry's production structure has become the subject of much public comment, the changes in the state-business relationship underlying policy during these 15 years are, however, less well-known. It is my contention that, at different times, development policy for the industry expressed a different relationship between state and business. There is a degree of overlap between these periods, and designating the point where one ends and the next begins is necessarily somewhat arbitrary. Nevertheless, they are conceptually distinct. In the early 1970s state officials negotiated new production arrangements with auto-TNCs; in the mid-1970s the 'mission to manufacture' was taken up by a number of national capitalists with a certain recklessness; during the late 1970s, the Directorate began to force the pace of industrialisation. Figure 5.1 summarises these different periods.

These periods do not constitute stages, and do not imply a linear progression. Policy was strongly influenced by the personal intervention of key political figures and was therefore always subject to change. But the mechanisms at work which made the industry a symbol of economic nationalism strongly suggest changing structural relationships between state and national capital. Each of the following three chapters deals with a different period, using the models of economic nationalism outlined in Chapter Two to describe the state-class dialectic behind industrial policy.

Chapter Six focuses on the interaction between the Directorate-General and the automobile associations in formulating policy between 1968 and 1974. The state orientation was originally towards both forms of economic nationalism, indigenism and industrialism. During the resurgence of economic nationalism in the early 1970s, however, a process within the state culminated in the victory of bureaucratic forces promoting an integrationist version of ISI policies (compare the Brazilian example, section 3.2.1). As in Model 1, state intervention served to organise the national business class around this new definition of economic nationalism.

There followed a halcyon period for the industry, with the increase in production rekindling the nationalistic spirit of pribumi business. The 'recycling' of state petrodollars into the manufacturing sector had put full
automobile manufacture on the economic horizon and, for the first time since the late 1950's, sections of the business class took up the banner of localisation once more. **Chapter Seven** details the pioneering efforts of pribumi entrepreneurs in the mid-1970s to give body to that old dream of producing the all-Indonesian car, the manufacturing initiatives that gave impetus to formulation of the manufacturing programme. As for Model 2, it is argued that nationalist state policies at this time were representative of state-business alliances (compare the Indian example, section 3.2.2).

**Chapter Eight** describes how in the late 1970s the Directorate-General forced the pace of localisation. As in Model 3, it is argued that the attempt to use state legislation to generalise private sector initiatives drew the Directorate-General closer to those firms able to localise production, hastening both internationalisation of the industry and the process of concentration (compare the Mexican example, section 3.2.3).

**Chapter Nine** steps back from the analysis of state-business relations, to describe how policy debates within the state in the late 1970s and early 1980s affected the industry. The direction of industrial policy as a whole was uncertain, with the industrialist definition of economic nationalism now under attack from supporters of pribumi business. The automotive manufacturing scheme was postponed, as planners sought a way to satisfy both business supporters of the scheme and its opponents. A process within the state led to a reinstatement of the industrialisation objective, however, resulting in a return to outward-looking version of economic nationalism.

By the early 1980s, the internationalised sector of the industry had itself developed a stake in the industrialist objective, as only companies with firm international links were able to implement state policy. The pribumi pioneers of the mid-1970s without such backing went into decline. It is suggested in **Chapter Ten** that it was the national business conglomerates that came to set the pace of localisation, as those state agencies promoting localisation became more dependent on these conglomerates for realisation of manufacturing goals. The long-term consequences of industrialisation policy on the industry's ownership structure will be examined more fully in this chapter.
Figure 5.1

STATE-BUSINESS RELATIONS IN THE INDONESIAN AUTOMOTIVE INDUSTRY
1969-1984

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Chapter Six

AUTOMOBILE ASSEMBLY IN THE REVIVAL OF ECONOMIC NATIONALISM, 1968-1974

Statements on automotive development policy made by Suharto and senior ministers in the months following the Malari episode of January 1974 neatly capture the dual orientation in Indonesian economic nationalism: to protect national and especially indigenous business, while promoting rapid industrial growth. Frequent appeals were made during January and February for government officials to 'live simply', by limiting use of that potent symbol of wealth, the luxury sedan, thereby encouraging local commercial vehicle production (e.g., BY, 9 Feb 1974). These statements were, however, accompanied by promises that protection for national capitalists would be forthcoming. As described earlier, there was a great deal of uncertainty within the business community on how Suharto's 22 January statement would be interpreted. Yet there was little doubt within important parts of the apparatus about the implications for automotive development policy.

The nationalist concerns of key policy-makers was evidently a major factor behind the targeting of the industry in previous years. Policies specifically promoting the automotive industry predate the tentative moves made in early 1971 to protect a number of light industries. ISI legislation to localise assembly was promulgated in early 1969, a time otherwise dominated by a concern for monetary restraint. Some of the eight decrees issued between January and June of that year were intended to rationalise the industry by systematising the licensing system and ties with foreign firms. However, steps were also taken to resuscitate the local assembly industry, banning CBU commercial vehicle imports to Java and Sumatra. Some commentators even point to 1968 as the beginning of the localisation campaign. Apart from restrictions on CBU automobile imports, as late as 1973 only the importation of simple products such as lamps, bicycles, light bulbs and tyres was banned outright (Sharma, 1974: 5).

Foreign representatives interviewed in 1984 recalled that pressure for the January 1974 ban on CBU car imports had come from within the Department of Industry. In March that year, the department issued ordinances requiring auto-TNCs to prepare CKD albums for imported cars and CVs. After meeting the
Chairman of the BKPM, Barli Halim, and Minister of Industry Yusuf in May, the President indicated that restrictions on auto-TNCs would be further tightened. Using this opportunity, Halim also stated that priority would henceforth be given to national firms in producing a "completely Indonesian automobile," an announcement headlined by leading daily newspapers (e.g., Kompas, 2 May 1974).

By 1974 this outward-looking, industrialist face of economic nationalism had thus come to dominate policy formulation. In order to appreciate why it was that this industrialist definition had gained broader acceptance within the apparatus, it is necessary to return to the early years of the New Order. Although 20 years have passed since these events took place, reports written at the time and evidence gathered from a wide range of interviews suggests that this shift in policy orientation took place around 1970, and that pursuit of this policy imperative became the major determinant of the structure of ownership in the industry.

6.1 Indigenism and Industrialism in Automotive Development Policy

The business class had been shielded initially from the purges that affected other social groups following the events of October 1965. But as Sukarno's hold on the Presidency weakened during 1966 and 1967, business groups associated with political centres under the Old Order lost the protection this had afforded. A number of businessmen involved in automobile importation lost their import licenses, the first to fall from grace being those who had chiefly relied on their proximity to the Palace. Markam was imprisoned on charges of offering bribes; Suwarma was detained and interrogated; Dasaad was arrested (Nishihara: 1973: 310, fn 17). The Nissan and Mercedes agencies which had been held by Markam and Suwarma, were taken up by the army-owned venture, PT PP Berdikari. Yasrin also lost the Toyota agency, reportedly because he was considered too close to Chairul Saleh, the Minister for Industry who lost office in 1965.

As the new regime consolidated its position, political protection assumed increased importance for business, with those groups that continued to operate

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1 Dasaad was later active in business, reportedly attending a meeting with foreign business representatives (Gotong Rojong, 12 Aug 1967, USET). He later left the automotive industry, however, relinquishing his shareholding in the Fiat agency, PT Daha (Appendix 4, note 6).
doing so largely because of personal associations. Ning's family relationship with Hatta secured his business interests, while Aziz, said to have been personally close to Hatta, was also safe. According to a number of my interviewees, the 'Palace Millionaire' Panggabean was also protected, at least initially, by family links into military circles. Finally, Koerwet had been appointed to the ministry in the final years of the Sukarno era, one of the so-called '100 ministers'. It may have been for this reason that his business interests remained intact, although some said that it was due to the intervention of the Sultan of Jogja, Hamengkubuwono IX. These examples indicate how business figures came to rely on the political order during the initial years of the change of regime.

Military connections also became more important in determining the future pattern of ownership in the industry. After the political upheavals of 1965-1967, foreign firms were concerned that their local partners should be politically secure, and the capacity of the military officers to coordinate the integration of national business with international capital gave them considerable power over the allocation of import licenses. The 'financial generals' who had developed power bases within the financial and economic sections (FINEK) of the military commands, played a direct role in the economy after 1965 (Robison, 1986: 251-252). The most important of these generals (Hoemardani, Sofjar, Soeryo, Alamsjah, Suhardiman) also became personal advisers to the President (Crouch, 1978: 243). All would play a role in shaping ownership of the automotive industry.

The importers and assemblers whose business operations survived were not rendered totally defenceless, however, and there are a number of indications that the initial policy orientation was to promote industrialisation by protecting this 'Old Guard' of priibumi entrepreneurs.

6.1.1 - The Initial Policy Consensus

Various attempts were made in 1966 to create new governmental agencies that would rehabilitate the industry. In May, the 'Task Force for Land Transport' was empowered to draw up an inventory of automobile firms and make policy suggestions. A 'Central Agency for Guiding the Automobile Industry' was established later that year, and in November a 'Motor Vehicle Regulatory Team' was formed (Minister for Labour and Basic & Light Industries, decrees 17/M/66, 140/M/66 and 275/M/66). As their titles suggest, these agencies were essentially the continuation of the Old Order practice of
attempting to govern business by decree, rather vainglorious attempts that quickly passed into political obscurity.

A significant policy change took place in 1967. The major plank in the Bappenas rehabilitation strategy affecting the industry was the policy to increase the supply of transport goods. Importers were free to bring in automobiles CBU, SKD or CKD, so assembly firms derived few benefits from the increase in vehicle imports. The number of active assemblers fell to five (Table 5.5); at one stage in 1968 only four of the 21 licensed assembly plants were operating (BIES, Nov 1976: 43).

With the provision of IMF credit conditional upon moves to rein in inflation, a second policy concern was to find ways to save foreign exchange. In January 1968 the Minister of Trade banned the importation of luxury cars (BN, 2 Feb 1968: 10A). In July the new minister, Professor Sumitro, strengthened this ban, reaffirming that it would be enforced during Repelita I beginning in March 1969 (BN, 15 Jul 1968: 4A). Despite an oft-expressed desire for industrial development, until well planners were haunted by the spectre of inflation into the 1970s. The guiding principles for policy formulation remained fiscal sobriety and the conservation of scarce foreign exchange.

The emphasis on economic constraints on automotive development was gradually eroded, however. As the industry languished during the late 1960s, protectionist pressures from national assemblers grew steadily stronger. A new consensus developed within the bureaucracy in favour of promoting automotive industrialisation by protecting national assemblers.

The 1969 legislation was primarily intended to rationalise importation procedures. Before a company could be licensed as a sole agent, it now had to show that it had a stable contract with an auto-TNC, that it possessed skilled personnel, and that it would assemble vehicles at one of the firms designated by the Department of Industry. Auto-TNCs were required to deal with only one local agent for the first time, and in February Sumitro stipulated that auto-TNCs would eventually be permitted to invest in sole agencies only if Indonesian nationals held a majority of shares.

Most observers and bureaucrats also consider the 1969 legislation the first significant step in the planned industrialisation strategy which eventually came to fruition in the 1970s. According to a press release of the Departments
of Industry and Trade dated 1 April 1969, the underlying intent of the 1969 legislation was to promote the industry so that "local assembly will grow, step by step, towards a complete automotive industry." Assembly activities were separated from importing, with the stated goal of freeing assemblers from dependence on one external supplier, allowing them to produce more than one make. Yusuf and Sumitro also defined the terms for the importation of CKD vehicles, so that more assembling took place in Indonesia (Appendix 2). From July, CV imports into Java were only permitted in CKD condition, with the same restriction applying to Sumatra from August (BN, 4 Apr, 11 Apr 1969). Observers frequently pointed out that local assembly was unlikely to achieve the professed goal of saving foreign exchange, so it seems that the legislation was intended to hasten industrialisation.

More than simply expressing the state's ideological interest in industrialisation, the 1969 legislation also reflected pressure from both existing assemblers and their bureaucratic allies. Frits Eman had returned to Indonesia and began to reactivate Udatin's assembly activities (Udatin, 1982: 37-38). Seeking state support for his ailing assembly operations, Ning was still campaigning to utilise the machinery imported for his manufacturing programme at the state-owned assembler, ISC. This politically influential member of the Old Guard complained that the assemblers were suffering from the open-door policy and the unrestricted importation of CBU and SKD vehicles. Although commanding less political influence after 1966, he was nevertheless still able to mobilise considerable political backing.² According to a former director of ISC, the chief motive behind the 1969 legislation was to prevent new entrants from winning government contracts, an interpretation confirmed by other observers (Interview, Soegianto, 19 July 1984).

In this context, the most significant of the policy decisions made in 1969 was to channel more work to the larger assemblers, restricting the smaller firms to SKD assembly. Fifteen 'local assemblers' were distinguished from seven 'general assemblers', to which they became subcontractors, a distinction hotly protested by the smaller firms and the business organisation they controlled. The association representing the 21 licensed assemblers, OPS-INDAMOTRA, complained that the legislation would force the smaller companies out of an increasingly competitive market (Kompas, 10 March 1969;

² Ning reportedly grew close to both Yusuf and Sumitro after 1966. A number of those interviewed felt that Ning's business interests expanded in the late 1960s because of these political connections. A former business partner recalled that he had "had good luck then, but when he had to rely on business acumen he proved lacking" (#30).
SH, 9 April 1969). The first general assemblers designated by the Department of Industry were the state-owned PN Gaya Motor, Ning's PT ISC, Eman's PT Udatin and Koerwet's PT Imermotor (BN, 11 Apr 1969: 11A); NV National Motors of Medan, owned by Ning's associate, Lubis, followed in July. Despite predictable howls of protest from the new hopefuls wanting to break into the market, most of the smaller assemblers remained isolated from substantial orders over the next few years, were unable to obtain significant credit facilities at a time of capital shortage, and gradually faded away.3

The 1969 legislation thus aimed both to localise assembly and to protect prominent national capitalists, indicating that the initial state orientation was towards both forms of economic nationalism.

6.1.2 - State Protection and the Auto-TNC Response

Sumitro was certainly a key figure in formulating the 1969 legislation, and is regarded by many in the industry as the original force behind the drive to localise automobile production. According to some of those interviewed, the 1968 ban on CBU luxury car imports was intended to encourage local industry as much as to save foreign exchange. There is some circumstantial evidence that would support the view that Sumitro was the main proponent of the 'leading sector' argument for the industry. Crouch (1978: 281-282) notes that the Mercedes importer, PN Berdikari, was initially able to circumvent the 1968 ban. The influence of Berdikari's 'business general', Suhardiman, faded after 1968, however, and Sumitro's capacity to oversee automotive industrialisation policy increased correspondingly. The 1969 decrees placing restrictions on auto-TNC investments also certainly bear the stamp of his conviction that state licensing controls, properly employed, would encourage the development of an infant local industry.

The strategy represents the first use of import bans to attract foreign investment to assemble a product domestically and one of the few cases where the majority of the shares must be owned by Indonesian citizens. (Rice, 1969: 204)

The view of many, that Sumitro was a sort of political warrior behind automobile localisation, needs to be treated with some caution, however, for he was not in favour of 'industrialisation at any costs'. His policy proposals

3 PT Masayu, for example, virtually the sole remnant of the business empire of the Sumatran trader, Abdul Ghany Aziz, was unable to obtain credit facilities after it ran into financial difficulties, and went into a sharp decline in the early 1970s (Interview, Nooruuddin, 24 Jul 1984).
focused on simple technologies and commodity reprocessing, rather than prestige industries such as automobiles. He had been personally opposed to Saleh's productionist approach to the industry, for example, telling one of the managers of Imindo-Uneswa that "the whole scheme is crazy. It just won't pay!" (Interview, Nurluddin, 6 October 1984). He was also generally wary of infant industry arguments, warning Malaysia that a policy promoting automobile assembly might lead to a net loss of foreign exchange (Djojohadikusumo, 1968: 110-111). Indeed, even in the midst of the oil boom he warned against the use of capital-intensive technologies, fearing that the resulting technological dualism could exacerbate existing social frictions (Djojohadikusumo, 1975a: 23).

Sumitro's support for industrialism was most heavily qualified by his commitment to the second element in New Order economic nationalism, however, the concern to protect national business. The 1969 legislation reflected this protectionist intent, and his advocacy of licensing controls to favour national capital became an important source of influence for the pribumi Old Guard. This protection evidently made auto-TNCs reluctant to invest.

Officials made it clear to potential investors that the government gave high priority to eventual auto manufacture, making overtures to auto-TNCs which initially seemed to strike a responsive chord. Hansen (1971: 66) records that a certain Japanese firm was granted a license to assemble in 1969, conditional upon acceptance of a local content programme. Once it became clear that the government intended to limit the number of major assembling plants to seven, there was something of a rush of commitments to upgrade existing assembly plants and to invest in new equipment. Daimler-Benz announced plans to open a new plant (Pedoman, 1 Feb 1969, USET); Henry Ford II declared that his US firm would soon invest in assembly operations (Indonesia Raya, 19 Feb 1970, ICAT); VW also planned to establish an assembly venture (Warta Harian, 12 Jun 1970, USET).

Despite the official relish with which these commitments were announced by senior government figures, a number of factors constrained their realisation. Firstly, the number of different types of vehicles assembled

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4 For example, Suharto announced that Ford would invest $10 million in construction of an assembly plant at Cilacap on the south coast of Java (Kompas, 23 Feb 1971). Nothing ever came of the proposal.
locally had proliferated seriously. The diversity of imported trade marks goes back to the large-scale importation of East European vehicles in the early 1960s, using credits from Communist bloc countries. This was followed by an influx of Japanese makes. By 1969 nearly 50 makes were licensed for import in a market of less that 20,000 per year. Competition between national business groups and the vulnerability of the state to external pressure meant that attempts to restrict the number of makes were not politically feasible. Hansen (1971: 51) reports that the existing assemblers were physically unable to handle the number of models and that, throughout 1970, many CKD automobiles were simply stored away. This market fragmentation made assembly costs prohibitive, attempts to reorganise the industry extremely difficult, and auto-TNCs cautious about becoming involved in local production.

Moreover, there were apparently numerous exemptions and exceptions in the complicated legislative process by which local assembly was eventually made compulsory. The capacity of the state to oversee commitments by international firms and translate them into reality must then have seemed very elastic. When the Japanese auto-TNC mentioned above responded that local assembly was not feasible for five years, officials were satisfied with a verbal promise to provide financial and technical assistance after that period (Hansen, 1971: 66). At this stage, the relationship between the government and the auto-TNCs was something like that between shadow-boxers: the international firms went far enough to convince the government of their sincerity, thereby avoiding exclusion from the market, while trying to avoid large outlays on expensive equipment; for its part, the government tried to cajole auto-TNCs to invest by referring to its success in attracting other firms into production arrangements. Nonetheless, foreign firms remained wary of entering a tiny market of uncertain stability and unproven potential.

Perhaps the most important factor restraining the entry of auto-TNCs was the government's orientation towards protecting established assemblers. In a lively debate conducted in the pages of the national press, the common response of foreign observers and liberal-minded local commentators was that the industry was expensive and overprotected and did not warrant the attention given it. In particular, they complained that protectionist policies were inconsistent with the need to encourage foreign investment. Kaptin Adisumarta, an Indonesian economist closely associated with the economically liberal ideas expressed during the early years of the New Order, argued that unprofitable industries only attracted state protection because they were at least
partly state-owned, and that vested ideological interests were trying to prevent new investment. Certain businessmen were still being favoured (dianakmaskan); state-owned corporations like Gaya Motors and ISC could not alone provide the transport Indonesia needed; neither could they fulfil the promises they had made (literally, 'their pants and shirts were too big', Kompas, 31 May 1969). Mulyono Buntaran, chairman of the agents association, Gakindo later complained that the decision to purchase locally assembled vehicles was premature, since more than 2,500 unassembled vehicles were piled up on the Tanjung Priok wharves (Tempo, 20 Mar 1971: 47-49). In what would in the following decades prove to be a recurrent defence against criticism of state protection, supporters of government policy responded that protectionist policies had to be maintained, for the only alternative was to write off all existing investments, to "throw the machinery and equipment into the sea or auction it off like scrap-iron and tell the workers to go sleep at home" (Dr S. Lukman, Kompas, 11 Jun 1969).

The legislation was not altered, however, reaffirming the influence of the Old Guard of pribumi assemblers in automotive policy formation. With economic nationalism defined around both objectives, the development strategy for the industry was to promote localisation by consolidating the position of the established assemblers. Despite the fact that legislative responsibility for the industry was divided, for a number of years there was a general consensus to maintain the existing ownership structure and channel work to the existing assemblers. It remained difficult for new competitors either to interest their principals into assembly operations or to challenge the situation by winning state contracts.

6.1.3 - The 'New Guard' of Business Entrants

The domination of the industry by survivors of the Benteng period (Aziz, Eman, Panggabean, Koerwet, Lubis and Ning) was loosened considerably in the early 1970s. With a number of auto-TNCs keen to expand their interests in the market and with external contacts largely controlled by new military and political centres, patronage became more important. A number of business figures new to the industry gained licenses in the early 1970s.5

5 Reliable information is not available on a number of businessmen who won agencies during these years, namely Mulyono Buntaran (Chevrolet), Des Alwi (Volvo), Hartanto (Tan Kiem Seng - Citroen), and Budiman (Ang Kang Ho - Honda). The figures discussed here had the major impact on future localisation policy.
The German auto-TNC, Volkswagen, sought to replace Panggabean with a more capable and better-connected local agent. After direct negotiations with the President, in 1971 the agency passed to a company owned by Suharto’s former command, Kostrad (Interview, Falkenberg, 1 May 1984). Suharto had established Yayasan Dharma Putera as a fund-raising foundation for Kostrad in 1964, and the VW agency subsequently became one of its major business interests, along with an airline, forestry concessions, and a film company (Tempo, 13 Oct 1979: 8-13). The new company, PT Garuda Mataram Motor Company, was named after a military battalion active in South Sulawesi after the revolution. Directed until his death in 1973 by the chairman of Kadin, Brig-General Sofjar, Garuda Mataram was from the outset also associated with the Chinese businessman in the CSIS camp, Sofyan Wanandi (Appendix 4, note 21).

The most important entrant of the early 1970s, however, was General Ibnu Sutowo. With the decline in Suhardiman’s influence in 1969, the Daimler-Benz agency was secured on a private basis by Sutowo. PT Star Motors was licensed in 1970 as a majority German-owned joint venture, with the Indonesian shares divided between Sutowo and his subordinate in Pertamina, H.M. Joesoef (Appendix 4, note 19).

The choice of Mitsubishi’s new partner was less clear-cut. The Japanese firm was keen to establish a stronger presence in the market, having sounded out local prospects as early as 1968 (SH, 17 July 1968, USET). A number of local businessmen were competing for the license. According to Sjarnubí Said, Sutowo’s former personal adviser, Mitsubishi representatives approached the Pertamina chief in 1970 (Eksekutif, Aug 1980). In 1971 PT Krama Yudha was established, with ownership shared between Sutowo and Said.6 Ning also made repeated visits to Japan between 1970 and 1972, negotiating for the agency (Ning, 1986: 360-363). However, Mitsubishi evidently considered the Pertamina connection offered better prospects. In 1972 the agency finally passed to PT Krama Yudha, although Suwarma retained a part-ownership in the agency for a number of years (Appendix 4, notes 25 and 26).

Sutowo became the dominant force in the industry in the early 1970s, overshadowing Hasjim Ning. Sutowo in fact took a 40 per cent share in Ning’s

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Djakarta Motors in 1972 (Appendix 4, note 2). In 1974 he became involved in the management of ISC (TBN 595/76). Most interviewees felt that Ning sought the involvement of the Pertamina chief for political security. This seems plausible, given the unstable pattern of ownership and the declining fortunes of many of Ning's associates at this time.

Another major entrant into the industry during this period was the *peranakan* Chinese, William Soeryadjaya (Tjia Kian Liong). PT Astra International had been established in 1957 by Soeryadjaya and his brother, Tjia Kian Tie. It was involved in minor retail trade until 1961, when Astra won a lucrative contract to supply metal and cement for the giant Jatiluhur dam project in West Java. Two informants claimed this contract was won through the patronage of General Suryo, the head of the financial section of the Supreme Operations Command, KOTI (#15, #30). Astra had thus formed important links with emerging military centres, well before it consolidated its position in 1966.

Political connections were also used to good effect in the early years of the New Order. Soeryadjaya claims to have obtained the capital to move into the automotive industry from the importation of 800 Chevrolet trucks in 1969, when fluctuating exchange rates provided Astra with a windfall profit of US$ 7.5 million (*Tempo*, 12 Feb 1977; Astbury, 1982). Some of my interviewees claimed that the value of this contract was actually small, arguing that Soeryadjaya still relied primarily on military patronage (e.g., #15). One claimed that Astra formed a capital base from a temporary monopoly thus gained on the supply of textile goods in 1967-1968 (#30). What is certain, however, is that Astra soon formed a valuable alliance with the major bureaucratic centre promoting industrialisation, the Department of Industry. The Director-General of Basic Industries, Ir. Suhartooyo, was appointed caretaker of the nationalised Gaya Motors assembly plant in 1967. The following year, Soeryadjaya leased the plant, and in 1969 Astra took a majority share in PT Gaya Motors, a new joint venture with Indonesian government (Appendix 5). Ir. Suhartooyo became chairman of the board of both this partly government-owned assembly plant and the, fully private, Toyota agency (Appendix 4, note 23).

It was Astra's ownership of the Gaya Motors plant that led to the link-up with Toyota. Toyota was keen to expand its holdings in Indonesia, having negotiated as early as 1966 on an order for 5,000 Toyota vehicles (Minister of
Industry decree, No. 235/M/66). By 1969 Astra had a supply of scarce working capital, was operating the only efficient assembly plant in the country in a propitious ISI policy environment, and had nurtured a promising alliance with an important part of the new political order. According to interviewees, Buntaran also sought the Toyota licence, before the struggle went into government circles (#7, 30). Most felt that Toyota's preference was crucial to the outcome, arguing that it was because Toyota ignored Buntaran that Astra won the agency.

Toyota never really pushed for Astra, but they did want a politically safe partner. They were looking at 'Astra', but what they really saw was 'government' (Interview, Bratanata, 5 Oct 1984)

Astra was formally granted the Toyota agency in 1969 and in 1971 the last automobile importing joint venture, PT Toyota Astra Motor Sales, was established (Appendix 4, note 23). Toyota soon made heavy investments in assembly facilities, taking over the management of both production and sales in the early 1970s.

Other entrants during this period include the Sumatran trader Wahab Affan, who reportedly won the Nissan agency in 1969 following the personal intervention of General Soedjono Hoemardani (Tempo, 27 Sep 1980: 58; FEER, 16 Jan 1981: 48-50). In 1972 the President's brother, Probo Suterdjo, became a major shareholder with Astra in the Peugeot and Renault agency, PT Multi France (Appendix 4, note 33). Finally, in 1973 the totok Chinese businessman, Liem Sioe Liong (Sudono Salim), secured the Volvo agency and established an assembly plant, ownership of which was shared with the government of Jakarta (Appendix 5).

The most obvious conclusion to be drawn from this account of the changing structure of ownership from 1969 to 1974 is that ethnic divisions reinforced the distinction between the new entrants and the Old Guard. Where the new licensees were not themselves Chinese, most had established joint ventures with Chinese business groups. As competition for political protection grew, an obvious rallying point for the established assemblers was to appeal to prabumi nationalist sentiment. The fact that a number of the new entrants were themselves indigenous only served to focus attention on the issue of ethnicity, for they too emphasised their prabumi heritage. These

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7 Newspaper reports at the time reflected such appeals. A paper close to prabumi business interests blamed a 'Chinese mentality' for favouritism towards Astra in PT Gaya Motors, hinting that the Department of Industry was penetrated by Chinese interests (Nusantara, 23 Sep 1970, USET).
divisions within the business class involved in automobile importation allowed state agencies greater latitude in policy formation.

6.2 The Redefinition of Policy Goals, 1970-1974

The policy consensus within the government, on promoting automotive industrialisation by supporting national capitalists, was replaced in the early 1970s by a new strategy premised on auto-TNC participation. Some of my interviewees argued plausibly that this reorientation was a by-product of increased business competition. In this view, the new entrants established links with auto-TNCs seeking entry into the market; the switch in orientation followed pressure from joint ventures seeking to invest. Although increased local competition was an important precondition for this shift, it became evident from interviews that there had been a prior reorientation within the state itself, stemming from the victory of an influential section of the state apparatus.

6.2.1 - The Shift in State Orientation

The policy consensus between the Departments of Trade and Industry meant that they were initially able to coordinate supervision of the industry, without sharp competition for bureaucratic influence. Policy differences between them were not fundamental, so a simple division of authority was maintained, with Trade responsible for licensing and Industry for overseeing assembly operations. After 1969 this consensus was shattered, however, by the increasing political influence of the Directorate-General of Basic Industries.

Although Minister of Industry Mohammad Yusuf frequently met with business leaders and took a personal interest in the automotive industry, the formulation and implementation of policy was generally left to the second administrative level within his department. Closely supervised by a man said to have been personally close to Yusuf, Ir. Suharto, the Directorate became an ideological stronghold for state economic intervention. During 1969, it was increasingly the Directorate that took up the cudgels on behalf of the legislation. According to the official Department of Industry journal, the decrees reorganising the industry were needed because we do not want to see our automobile industrialists just flooded with built-up cars, trucks, jeeps and buses from overseas, leaving no work for our national assemblers ... We don't intend just to let our people and nation be experimented on by foreign countries and
foreign industrialists, who just send their automobiles here at whatever price they like, without guaranteeing spare parts and so on. (BL, Apr 1969: 13-14)

Suhartooyo met frequently with local business leaders. A consummate Javanese politician, he let it be known that he was sympathetic to those trying to carve out a niche in the market.

Initially at least, these overtures did not induce a significant business response. As we have seen, auto-TNCs were generally not prepared to invest in the uncertain economic and political conditions of 1969. Although Fiat, VW and a number of American firms explored the possibility of setting up assembly operations, none made definite moves. The business community was not the forum to which Suhartooyo pitched his message, however. The important arena for determining policy lay within the bureaucracy itself and it was here that the Directorate first gained the support it needed to outflank the Department of Trade. A number of my interviewees volunteered the opinion that rivalry between the Departments of Trade and Industry increased after 1969, and they were virtually unanimous that in 1970-71 the locus of policy formulation for the industry shifted decisively from Trade to Industry. In the political climate that prevailed in the early 1970s, criticism of the open door policy of the technocrats was especially potent. By hitching nationalism to its vision of a future industry, the Directorate's argument that Trade had acquiesced in Indonesia's continued dependence gained considerable ideological force. Its industrial nationalism also dovetailed with a widespread feeling that the 'agriculture first' strategy of Repelita I was ignoring industry.

The success of the Directorate's campaign became apparent when the President declared that the ultimate rationale for promoting radio, TV and automobile assembly "was to create complete national industries" (Kompas, 19 Jan 1971). The government had begun to purchase only locally assembled automobiles, a decision which aroused strong and vocal opposition from the automobile agents' association, Gakindo. Despite this opposition, the Directorate's industrialisation plans clearly had significant popular appeal. As a leading Jakarta weekly declared, "if nothing else, the government's decision to rationalise government purchases [shows] that it is now prepared to force foreigners to invest capital in Indonesia" (Tempo, 20 Mar 1971: 47).

By late 1971 Suhartooyo felt sufficiently confident to begin expounding a comprehensive three-stage programme for the construction of a full iron and
steel industry, including completion of the Krakatau Steel Mill abandoned in 1967 (Kompas, 10 Aug 1971). An important component of this programme was promotion of the automotive industry. Exemplifying the difference between Old Order and New Order industrial nationalism, the deletion programme (penanggalan) promoted by the Directorate was basically the Imindo-Uneswa scheme turned on its head. Rather than beginning with the production of major components, localisation would begin with downstream assembly and move 'upstream', into the production of individual components. Initially, national firms would import vehicles CKD and assemble them locally at one of the designated assemblers. The principals would be required to produce a CKD album containing photographs and dimensions of each component. As production capacities increased, locally produced components would be incorporated in final assembly and imports deleted from the album.

For the business class, the important difference between this and the earlier orientation was that the Directorate proposed more immediate integration with auto-TNCs. The state-coordinated production initiatives of the early 1960s had been based on the exclusion of foreign capital. The 1969 legislation was premised on protection for national business. Although the bureaucratic forces promoting localisation generally remained the same, in the changed economic circumstances of the New Order the productionist objective was now to be achieved within auto-TNC networks. The scheme was thus founded on a less autarchic form of economic nationalism, on the faith that the market potential was sufficiently attractive to cajole auto-TNCs into achieving Indonesia's own development goals.

The transfer of full authority for the industry to the Department of Industry was formally sanctioned in June 1972, with Presidential Decree 45 (Keppres 45). The shift in orientation was complete, and for the next six years all important legislation on the industry would be drafted by the small team coordinated by Ir. Suhartoyo. The 1969 decrees had been intended originally to protect the Old Order 'survivors'. But the redefinition of economic nationalism represented by Keppres 45 meant that these decrees would now enter the official lexicon as the first of a long list of measures with the single purpose of localising production.

6.2.2 - The Diffusion of the Manufacturing Scheme

This redefinition of economic nationalism would have remained as lifeless as that of the early 1960s but for the response of national capital.
National firms first responded to the redefined policy orientation after Hasjim Ning became involved in the policy formation process. Ning was in 1971 still undisputed 'car king', and it was felt that he alone had the economic bargaining power to induce his auto-TNC principals to make major new investments. He publicly urged Ford and Fiat to honour their commitments to localise assembly (Tempo, 10 April 1971). According to a legal adviser who had been involved in the negotiations that led to the first CKD album in 1971, it was after Ning gave assurances that he would support the scheme that other automobile entrepreneurs did likewise (Interview, Mulyono S.H., 11 July 1984). Increasingly, both Old Order survivors and the new entrants struggled to compete in terms of the Directorate's manufacturing policy, to gain the prestige of heading towards automobile manufacture.

The inclusion of the largest national automobile entrepreneur in the manufacturing scheme consolidated the Directorate's bureaucratic victory, transmitting the industrialisation objective to the automotive business. Eager to prove its nationalistic credentials, the Directorate drafted a decree issued just one week after Keppres 45, giving notice to foreign investors that all automotive joint ventures would eventually be required to have majority local equity. Increased business competition accelerated the move to component localisation, a development examined at greater length in the following chapter. For the moment, it is sufficient to note that the divisions within the national business class allowed the Directorate to pursue its preferred policy objective of promoting industrialisation more freely. Decree SK545 of July 1972 also required all import agencies to establish their own assembling capacity and to cease having vehicles assembled elsewhere.

The decision requiring all importing and assembly activity to be carried out by one corporate body gave rise to a great deal of bitterness from the smaller assemblers, less able to adapt to the frequent changes in government policy. In 1969 firms had been required to separate import agencies from assembly operations, which were already operating well below capacity. Many had simply created 'sister companies' to satisfy this stipulation (Hansen, 1971: 49). But the 1972 decree required these companies to merge once more. The so-called 'shotgun wedding' of agents and assemblers, following their forced separation three years earlier, bemused observers and the interested public.

The convolutions of this legislative process become clearer if they are seen in terms of the changing ownership structure in the industry. The 1969
legislation had been drawn up during a bleak economic period, to assist the Old Guard businessmen. By 1972 a number of major national capitalists had entered the industry, backed by auto-TNCs keen to gain access to oil wealth. It was therefore possible to legislate compulsory assembly arrangements.

After 1972 the Directorate was thus in a position where it could ride the crests of two waves that it had played a key part in setting in motion. Not only had the enthusiasm for deletion programmes gathered momentum within the bureaucracy, but the Directorate was also 'riding on the back' of the new capital seeking entry into industry. National and foreign business representatives noted that the Directorate drew up regulations on an acceptable level of CKD disassembly in 1972. However, opposition from auto-TNCs delayed their implementation until 1974. What changed in the intervening two years was that the Directorate was able to cap its bureaucratic victory with the public support of organised business.

6.2.3 - Gaakindo: Bolstering the Directorate

A significant outcome of the excitement generated by the mission to formulate a localisation scheme in the mid-1970s was that indigenism lost its ideological bite within the bureaucracy, as official attention was focused on industrialisation. The automotive industry illustrates how state interaction with organised business meant that it was overwhelmingly the higher reaches of the economy to which important arms of the state gave most attention, the expressed public concern for small-scale prihumi business notwithstanding. Many prihumi entrepreneurs active in the industry were influential members of Kadin and continued to push for state protection. But when speaking in public they wore the mantle of industrialism. As economic nationalism became more closely associated with manufacturing initiatives, it was no longer sufficient to be prihumi to gain state protection: business leaders had to be Industrial Pioneers also.

In February 1973 the Directorate began publicly to promote the automotive industry as evidence of the rehabilitation of basic industry during Repelita I (DPR, 1973: 1). As had already been decided for the motorcycle industry, it also announced that a deletion timetable for automobile components should also be drafted "because of the interest shown by investors in producing automobile parts, even if this year only at a preparatory stage" (Directorate-General, 1973: 7). In April a team was appointed to carry out a nine-month survey and investigate the feasibility of a deletion programme,
with assistance from the Bandung Institute of Technology, ITB (Directorate-General, 1973a: 7-8). The industry associations subsequently agreed to take part, in consultation with their member companies (DPR, 1974: 4).

The process by which these industrial goals were transmitted to the private sector illustrates the crucial role of organised business in disseminating this industrial goal. Auto-TNC investment in manufacturing was essential to the programme's success, and it seems to have been given impetus by pressure from local business figures active in the automobile associations, marshalling business support for the scheme.

Mirroring the unification of bureaucratic authority over the industry in 1972, the assemblers' association, GAM, and the agents association, Gakindo, decided to merge (Appendix 3). These two associations closely coordinated their operations for the next two years, formally melding in 1975 into GAAKINDO, Gabungan Assembler dan Agen Tunjang Kendaraan Bermotor Indonesia, the 'Automobile Assemblers and Agencies Association of Indonesia' (Interview, Topobroto, 9 May 1984). The associations were dominated by their pribumi majorities, functioning as organised pressure groups pushing for state protection. The public face of the association had altered, however, as the raison d'etre of protecting pribumi business receded in the face of the new hegemony of industrialism.

A feature of the Department of Industry at this time was its reliance on external sources for basic data about the industries it supervised. This reliance certainly increased Gakindo's prestige and influence, as it was the major source of information on the industry (only in the 1980s did the department develop an efficient data-collecting service). Seen to 'have the ear' of a powerful and increasingly influential part of the bureaucracy, Gakindo was acknowledged to be the most influential of Kadin's member associations by 1974. According to the Secretary-General of Kadin's Jakarta branch, it was "the first business association to have been upgraded by Kadin in accordance with Presidential Decree No 49 of 1973," thus making it the first business association to manage the major part of government-business contacts (Kompas, 15 Jan 1975).

The association was in no sense independent of state influence, however, for its political authority had, in effect, 'trickled down' through its association with the Directorate. Interviewees agreed that it was on Suharto's personal
urging that meetings with business associations were institutionalised. The inaugural meeting of the Consultative Council for Basic Industries (BKS-ILM) between the Directorate and some eight business organisations, was held in February 1972, and formalised as a regular exchange in 1974. Although little of importance was actually decided at these meetings, they were valuable forums for seeking the business input essential to policy formulation. Such meetings were dominated by the bureaucracy, with state officials drawing up the agenda, chairing the meeting and issuing the final report.

As the Directorate continued on its bureaucratic ascent, buoyed up by rising oil revenues in the mid-1970s, the authority of the automobile association rose correspondingly. During 1974 a consensus was reached on the industrialisation objective, and it was agreed that Gaakindo and the Directorate would cooperate in drafting a deletion schedule.

6.2.4 - Concluding Comments

The immediate impression left by this account of the forces behind the revival of economic nationalism is the intensely domestic nature of policy formation. Despite the industry's cosmopolitan flavour, the selection and definition of policy goals expressed essentially historical themes. The fiscal necessity of saving foreign exchange in the early years of the New Order was soon linked up with the objectives of prominent automotive industrialists. The initial policy orientation for the industry's development thus emphasised both localisation of production and protection for national capital.

To return to the issue discussed at the beginning of this chapter, the increased authority of the state over that part of the business class involved in automobile importation during these years indicates that Model 1, that of the dependent state, best describes the nature of the state-business relationship at this time. The business class involved in automobile importation had entered a period of flux, with erstwhile powerful groups weakened (in some cases obliterated) by state intervention. The new entrants were meanwhile too dependent on political connections to force their will upon the government. A bureaucratic realignment subsequently redirected policy towards the industrialisation objective, as increased local competition enabled the state to effectively promote its own vision of economic nationalism, a definition that was subsequently generalised throughout the business community. Both before and after the Malari episode, broad policy guidelines were consequently
implemented in terms of a pragmatic, outward-looking vision of industrial nationalism.

As oil revenues increased in the following years, competition between auto-TNCs seeking entry also grew, bringing the industrialisation objective within reach. The following chapter will detail a number of the state-business alliances that gave body to the scheme sketched out by the Directorate.
Chapter Seven

THE CLASS NATURE OF STATE INDUSTRIALISM, 1973-1976

As government revenues increased with the influx of oil wealth in the mid-1970s, so did the drive to promote local automobile production gather pace. The optimism nourished by increased oil revenues partly manifested itself in proposals for a leading state role in pioneering engine production. The Department of Industry had already begun to rehabilitate metal foundries in East Java, Medan and Surabaya with German and Japanese assistance. Suharto called for similar joint ventures with auto-TNCs to establish smelters to produce engine blocks for automobiles (SK, 24 Dec 1974, ICAT).

More enduring than proposals for direct state involvement were requirements placed on assemblers to use locally-produced components. The Department of Industry began to implement a deletion programme for motorcycle imports in 1975, and the following year Yusuf gained the President's approval for a similar schedule for CVs (Kompas, 22 Jun 1976). A decree was issued in August that year which expressed growing official confidence that local CV production targets could be achieved by restricting auto-TNC imports. Decree SK307 legislated for the use of locally-produced paint, batteries and tyres in 1977. Universal components such as shock absorbers, windows, mufflers, radiators and chassis were to be deleted from CV albums over the following three years. In addition, an ambitious timetable was also gazetted for the deletion of major components, setting 1984 as the date for the local production of engines, transmissions, clutchlinings and axles (Figure 7.1). Although penalties outlined in the decree itself were vague, elucidations released subsequently made it clear that imports of deleted components would be banned altogether (BN, 15 Oct 1976: 10B).

Most explanations for the confident targets announced in 1976 commonly seek to identify a particular political protagonist as the force behind the decree. The Director-General of Metal and Engineering Industries at the time would later assume full responsibility for the manufacturing programme, claiming that SK 307 was his own initiative (Interview, Suharto, 10 Oct 1984). The author of a study of the localisation programme conducted in the late 1970s doubts this, suggesting that the political pressure for automotive industrialisation in the mid-1970s came from senior officials in BKPM, or
perhaps Bappenas (Interview, Witoelar, 5 Jun 1984). Businesspeople interviewed in 1984 also sought to locate particular individuals as the source of the industrialisation objective in the mid-1970s. They differed, however, over where the source of political pressure lay, some pointing to Minister Yusuf, others Suhartoyo, some BKPM Vice-Chairman Suhud, and still others Sumitro. This lack of an identifiable focus suggests that there was in fact no single source of bureaucratic pressure, and that the optimistic localisation timetable was issued in response to a widespread political mood favouring automotive industrialisation.

**Figure 7.1**

SK307, AUGUST 1976

'SCHEDULE FOR THE COMPSULORY USE OF LOCALLY MANUFACTURED COMPONENTS IN THE ASSEMBLY OF COMMERCIAL VEHICLES'

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<td>less than 1 ton</td>
<td>Paint, tyres storage battery</td>
<td>Glass, seat leaf spring, cabin, wheelrim, shock, absorber, radiator, mufflers,</td>
<td>Chassis, fuel tank, air filter, spark plugs</td>
<td>Engine, axle, transmission, clutchlining, wheeldrum, brakes</td>
</tr>
<tr>
<td>2.5 ton</td>
<td>Paint, tyres, storage battery</td>
<td>Glass, seat, leaf spring, shock, absorber, radiator, wheelrim, busbodies</td>
<td>Loadcabin, chassis, cabin, fuel tank, oil and air filter, spark plugs</td>
<td>Engine, axle, transmission, brakes, wheeldrums, clutchlining</td>
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<tr>
<td>5 ton</td>
<td>Paint, tyres, storage battery bodies</td>
<td>Glass, seat, radiator, rubber parts, ornaments,</td>
<td>Cabin, loadcabin, wheelrim, shock absorber, spring, fuel tank, oil filter air filter, spark plug</td>
<td>Engine, brakes, chassis, axles transmission, wheeldrum, clutchlining</td>
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(Source: Department of Industry)

A more fundamental deficiency of personalised accounts of automotive industrial policy is that they cannot fully explain how the industrialisation objective was linked to economic nationalism, for these explanations make the common assumption that the decree was chiefly the outcome of a political process. Certainly, increased oil revenues changed the state-capital relationship, increasing state leverage over national firms. Keppres 45 of 1972 had signalled
that the scheme for local assembly and manufacture had won presidential approval. With the Department of Industry now controlling the allocation of government contracts for vehicle purchases, the capacity to win state backing by promoting localisation became an important means to economic success. Yet the government was not independent of business influence in policy formation.

Prior to 1976, a number of well-connected business groups had won state protection by launching manufacturing ventures. As in Model 2, of the nationalist state, industrial policy in the mid-1970s reinforced initiatives already made by politically-influential capitalists. The first part of this chapter will describe the alliances forged between certain national firms and prominent arms of the Indonesian state, alliances which gave impetus to the negotiations with Gaakindo conducted in 1975. The second section will describe the circumstances preceding the promulgation of the decree, advancing some likely reasons for its optimistic projections.

### 7.1 The Pribumi Pioneers of Automobile Manufacture

In the mid-1970s certain national capitalists began to compete in earnest in terms of realising that old bureaucratic dream, to build the all-Indonesian automobile. Significantly, Chinese business groups played little part in the revival of industrial nationalism during this 'heroic period' in the industry's development. Ang Kang Ho (Honda) and Hadi Budiman (Citroen), for example, did not move into manufacturing until the late 1970s. With its operations largely run by Japanese managers, Astra's officials also felt little compunction to hide their preference for cheaper and higher quality imports. Astra thus used Japanese tyres in 1973, although there were already three local suppliers and tyres were one of the first products to be sourced locally (Tempo, 19 May 1973). Apart from a battery-producing venture that began in 1974 and a company established for the manufacture of spark-plugs in 1975, it was also not until after local production was made compulsory that Astra commenced significant component manufacture.

While Gaakindo marshalled business support for localisation, the driving force behind the formulation of the schedule were particular pribumi business figures. Using a populist term that strongly invokes Indonesia's nationalist past, a number of businessmen interviewed in 1984 fondly described the
localisation campaign of the mid-1970s as a *perjuangan*, a 'struggle'. Since the business groups who first 'answered the call' to localise manufacture were invariably pribumi, the cause of localisation soon took on heavy ideological overtones. Their demands for protection had redoubled impact, since criticism of Chinese-owned agencies like Astra was popularly linked to the struggle for structural economic change. The following case studies describe in greater detail the role of pribumi business figures in establishing manufacturing facilities, the state-class dialectic that accelerated the relocation of component production to Indonesia.

7.1.1 - Case Study No 1: Eman and PT Udatin

Perhaps the best-known pioneer of local component manufacture was the Menadonese businessman, Frits Eman. An economic nationalist in the PNI mould, it has been Eman’s proclaimed mission to realise full automobile manufacture ever since PT Borguin’s unsuccessful attempt in the 1950s to assemble Borgward vehicles (section 4.2.2). Once relations with General Motors Holden had been restored and agreement reached with Melbourne for assembling CKD Holden imports in the late 1960s, Eman became a prominent public advocate of localisation. He made repeated overtures to GMH to invest in local manufacture, for he considers international integration the most effective means to promote the industry.

We can't just let Japan do it, Australia do it. If something goes wrong we'll need our own industry. Our ultimate objective must be to dominate our own national economy, to build the *ekonomi nasional*. But that doesn't mean we don't want multinational corporations: we'll make use of their expertise to strengthen our own national resilience

(Interview, F. Eman, 4 Oct 1984)

Thee efforts met with only qualified success, however. As an internal company publication notes, profits from marketing Holdens grew rapidly after 1971 (Udatin, 1982: 41). Eman's personal secretary wistfully recalled the years 1970 to 1976 as Udatin's 'golden period' (Interview, Mrs Walanda, 18 Sep 1984). The Surabaya assembly plant began to operate double-shifts, reaching a maximum daily output in 1973 of 30 vehicles (Interview, F. Eman, 4 Oct 1984). The production facilities were modernised the following year, by which time Holden was the third best-selling make in the market (Table 5.6). Yet even during Udatin's heyday, Eman was not able to interest GMH in his manufacturing schemes, a subject of some bitterness amongst local directors.
There was considerable optimism in Australian business circles in the early 1970s concerning Holden's exports prospects in Indonesia. A history of the industry in Australia notes Holden's initial confidence that could establish a significant market presence in Indonesia (Stubbs, 1972: 295-296). As the author warned, however, the company faced stiff competition from Japanese auto-TNCs. GMH officials evidently felt they could not match this competition. Holden representatives visited the proposed sites for component manufacture in 1971, when investments by other auto-TNCs were in the air, and again in 1973, when Holden sales were still buoyant. Despite initial indications that the Australian company would become involved, Eman was told, after what local directors complained were 'endless considerations', that GMH would not invest.

They stalled and stalled. All they wanted us to do was assemble, assemble, assemble! They were actually shortsighted, and that's why the Japanese have succeeded. They make plans for the future in terms of decades, not just the gain or loss of a single transaction.

(Interview, P.W. Eman, 18 Sep 1984)

Eman nevertheless remained determined that his would be the first company to use only locally produced components. Holdens, for example, were the first automobiles to use local batteries and tyres (Sharma, 1974: 8). Eman launched an ambitious scheme for component manufacture - without auto-TNC support. After preliminary moves dating from 1972, in the following two years Udatin established subsidiaries in East Java for the assembly and manufacture of air conditioning units, batteries, exhaust systems and shock absorbers (Appendix 5). The first company to produce wheelrims in Indonesia, PT Inkoasku, was established in 1974, with construction of the plant at Bitung, North Sulawesi, commencing in 1976.

The expansion of the Udatin group into manufacturing demonstrates that, in the early stages of automotive industrialisation, the involvement of international capital is not an absolute prerequisite. The self-reliant strategy Eman was forced to adopt relied instead on political support for its success. There are a number of indications that Eman's appeal to nationalist sentiment gained significant state backing. All the component manufacturing subsidiaries were national (PMDN) companies, capitalised with credit from the state bank, BNI-46. They also largely relied on scarce local technical and managerial skills for their operation. Finally, the decision to locate a major manufacturing initiative in North Sulawesi suggests that state-defined ideological
considerations had priority in Eman's scheme. The official explanation for the selection of a site 2,500 km from Jakarta, that the location would expedite exports to the Philippines, can be disregarded, since the targeted market was bound to be Java. Some of those interviewed claimed that the idea was Minister of Industry Yusuf's brainchild, and that state support flowed from this personal connection; others suggested that Eman's Menadonese background may have coloured the choice. But wherever the suggestion originated, the choice expresses a traditional theme of prabumi nationalism: to spread the benefits of modernisation equitably to the regions.

It is not purely coincidental that Udatin's 'golden period' and its manufacturing initiatives was contemporaneous with Yusuf's term in office. The Minister was personally close to Eman and, as indicated by the Inkoasku wheelrim venture, was a keen supporter of his manufacturing scheme. Several interviewees ascribed the allocation to Udatin of a Pertamina contract for 3,000 vehicles in 1976 to this personal link (ICN 83, 8 Aug 1977: 42). As one businessman gleefully recalled, "Suharto yo was as mad as hell. But he couldn't do a thing about it!" (Interview, #30).

7.1.2 - Case Study No 2: Mitsubishi and PT Krama Yudha

A relative latecomer to the automotive industry, Mitsubishi is the least internationalised of the major Japanese automobile firms. The production facilities of this, third-largest, Japanese auto-TNC are concentrated in Japan. Significant overseas penetration only began after a production agreement was reached with Chrysler in 1971. The subsequent internationalisation of Mitsubishi production has taken place chiefly via its US partner (UNCTC, 1983: 87-88).

Given its limited overseas operations, Mitsubishi's heavy involvement in Indonesia in the early 1970s is at first glance somewhat surprising. The key to its expansion into manufacturing was the virtually unassailable political position of its local partner. The precondition for its entry was set when General Ibnu Sutowo gradually eased the Sundanese businessman, Suwarma, out of automobile importation between 1967 and 1971. Although Sutowo took 50 per cent of the equity in both the Mercedes and Mitsubishi agencies, day-to-day management was generally left in the hands of his lieutenants in Pertamina, in this case Sjarnubhi Said, who remained head of the state oil company's Security and Maintainance Division until 1975.
Mitsubishi also looked favourably on local proposals to move into low-scale manufacturing. A director of company investment policy explained Mitsubishi's original commitment to localisation in terms of a desire to preserve its economic sphere of influence.

Mitsubishi looked very closely at investing heavily here, because the Japanese regard Indonesia as their natural market. Sjarnubi campaigned strongly for local manufacture. But it was basically a decision by Tokyo to preserve its long-term interests by fitting in with government aspirations. (Interview, Fahmi Idris, 7 June 1984)

After discussions in Tokyo with Said in late 1972, Indonesian workers were sent to Japan for training in component and body manufacture. The PMA company, PT Mitsubishi Krama Yudha Motors and Manufacturing, was established with great fanfare and not a little exaggeration, to build "the first automobile factory in Indonesia" (Pedoman, 7 Jun 1973, USET). Construction of the plant for the manufacture of body panels, fuel tanks, frames, doors and mufflers was completed the following year, and production commenced in 1975.

Although Sutowo and Said remained prominent advocates of nationalist economic policies, the interests of Mitsubishi and Krama Yudha converged in the mid-1970s. Initial success meant that Mitsubishi was prepared to court government favour in order to preserve its market lead. In sharp contrast to the accepted wisdom of state officials, for whom it is axiomatic that auto-TNCs must be force-marched every step along the journey to full manufacture, Krama Yudha managers speak privately of Mitsubishi's continued willingness to support local production ventures. Several company managers did begin their interviews with assertions that Mitsubishi had been forced to relocate, recounting bitter contests that had taken place over the choice of models and designs. The Krama Yudha Vice-President, Amran Zamzami, used an interesting analogy to characterise the relationship with Tokyo. "It's like husband and wife: publically we are united. But in private we squabble like hell!" (Interview, 12 Sep 1984). As my interviews with company officials proceeded, however, I was left with the distinct impression that these were de rigeur opening statements. Despite a certain ambivalence in explaining the success of the Mitsubishi-Krama Yudha partnership, at some stage all interviewees expressed the opinion that in the evolution of manufacturing policy, the relationship with the principal had been basically harmonious and

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2 One issue which evidently generated particular disquiet was Mitsubishi’s decision, against the advice of its local partner, to discontinue production of the Colt-120, which was replaced with the larger and more unwieldy Colt L-300.
mutually beneficial. Asked to what extent the principal had to be pushed to localise, Zamzami indicated that convincing Mitsubishi of its benefits presented few difficulties.

They already had a market. They carried out studies. They saw that it was worthwhile. The deletion schedule wasn't forced on them; it just irritated them. They knew that in the end the final decision was in their hands. (Interview, 22 Sep 1984)

To invert the previous analogy, the 'marriage' between Krama Yudha and Mitsubishi was well-established by the time the deletion scheme was formalised in 1976. The union had been strengthened by oil revenues and state contracts, making Mitsubishi-Krama Yudha a pioneer in local manufacture. When localisation was made obligatory, Krama Yudha won further political kudos for having anticipated the schedule. "After SK307 the others complained. Because we were the only assembler of Japanese vehicles that was manufacturing seriously" (Interview, Zamzami, 22 Sep 1984).

7.1.3 - Case Study No 3: Volkswagen and PT Garuda Mataram

One of the most internationalised of manufacturing firms, VW is the only auto-TNC to have its largest overseas operation in a Third World country. Its Brazilian subsidiary produces low-cost popular vehicles which are then exported as CKD kits for assembly in other developing countries. There is also a large assembly plant in Nigeria and considerable backward integration into engine manufacture in the Mexican and Argentinian branches. Although VW has reportedly negotiated to open assembly operations in South Korea and China (UNCTC, 1983: 93), the firm has no significant presence in Asia.

After the government began to promote the automotive industry in 1969, VW's prospects were bright. The former 'palace businessman', Panggabean, had been replaced by a local agent with impeccable connections to the new regime, a company owned by the military command, Kostrad. Large numbers of VWs were ordered for the 1971 general elections, and VW became the second best-selling make in Indonesia. One of the first auto-TNCs to localise assembly, production began in 1971 at PT German Motors, using the old Gaya Motor site at Tanjung Priok.

Volkswagen soon made a concerted foray into the Indonesian market by pioneering local manufacture. A major shift in VW's investment strategy took place in the early 1970s, to concentrate on the production of cheap but sturdy
vehicles for developing countries. Designed in 1970 to suit conditions in Third World countries, the Basic Transport Vehicle (BTV) has the engine is relocated to the front to allow the loading of goods from the rear. It was originally the brainchild of VW's President Director, Lons, and, as with Mitsubishi, the introduction of the BTV into Indonesia was an initiative of the principal. A team from Germany visited Indonesia and was impressed with the oplet, the English Morris redesigned for the transportation of goods and passengers and a common means of public transport throughout Indonesia since the 1950's. A prototype of the BTV was presented at the 1972 Jakarta Fair where it attracted attention and, importantly, received the blessing of the President. VW decided to market the concept locally.³

VW's local partner, however, was behind the birth of an ambitious venture to manufacture a locally-designed version of the BTV. The first director of Kostrad and its VW agency, PT Garuda Mataram, was Brigadier-General Sofjar, by all accounts a capable manager who was enthusiastic about the BTV. After Sofjar's death in 1973, however, Garuda Mataram became more closely associated with the CSIS camp. One director was Sofyan Wanandi, brother of the CSIS director, Yusuf Wanandi (Liem Biau Kie). The venture might plausibly be considered a physical embodiment of the CSIS industrialisation formula, of state-supported initiatives to transform the national economic structure. Coordinated by a military arm of the state, the manufacturing scheme was intended to accelerate industrial development by changing Indonesia's external economic relations.

The new President-Director was impatient with the dependence on overseas imports and the need to share assembly facilities with Mercedes-Benz at German Motors. Variously described as a 'pioneer' and a 'dreamer' by interviewees, President-Director Tenggala planned to have the BTV produced at five new assembly plants scattered throughout the archipelago. He also drew up schemes for local component production, parcelling out production to many small producers in Jakarta, Bandung, Jogja and Solo. In 1974 the substantially redesigned BTV was renamed Mitra, Sanskrit for 'colleague' and an abbreviation of Mini Transport Rakyat, the 'Peoples' Mini Vehicle'. Having

³ Except where indicated otherwise, my primary source for information on VW comes from a series of enlightening interviews with the VW representative in Jakarta, Peter Falkenberg. While the information he provided on VW's reaction to its local partner's manufacturing scheme has been confirmed by other observers, this interpretation of VW's Indonesian experience is, of course, my own.
gained the President's approval and the enthusiastic support of minister Yusuf, Ir Suhartoyo officially launched the Mitra at a press conference at the Jakarta Fair in June 1974, a presentation which attracted a great deal of press attention as heralding 'the first automobile totally made in Indonesia'.

The Mitra experience also reveals how auto-TNC corporate plans were changed by the vigorous campaign of the local partner, indicating the adaptations that international capital may be willing to make in order to win state approval. VW tended to restrain the enthusiasm of its local partner. It put a brake on Tenggala's scheme for constructing assembly plants, for instance, and assembly was eventually carried out at one military plant. But with its position in the market under pressure from Japanese competition, VW was prepared to support the manufacturing scheme, presumably with one eye on the new locus of bureaucratic power in the Department of Industry. Production arrangements for the Mitra made generous use of Garuda Mataram's Kostrad connections, representing one of the military's first joint ventures with a foreign manufacturing firm. Tenggala arranged for the production of body frames at PT Purnasadhana, a company in the Bandung armament complex PINDAD (Pusat Industri Angkatan Darat). Assembly was carried out in Jakarta by PT Wahana Bhakti Utama, within the army's equipment maintenance unit, PALAD. Although the Mitra minibus was quite similar in appearance to the VW Combi, extensive modifications were carried out and the redesigned vehicles were eventually sold as oplets, ambulances, police wagons, hearses, delivery vans and pick-ups.

It soon became apparent, however, that these military entrepreneurs was less intent on operating a successful commercial business than on winning government approval. The assembly plant reached a maximum daily production of only three units! One director acknowledged that "we aren't trying to make profits," adding that the chances of doing so were 'extremely slender' (Progres 57, Oct 1974: 46). He later declared that it was not the major business groups with their large factories that had made important industrialisation initiatives; the pioneers of Indonesian automobile production

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4 VW eventually consented to the costly importation of Combi front panels to improve Mitra's appearance.

"have given birth to the Mitra in a stable" (*Progres*, Nov 1974: 39). The tie-up with a military arm of the New Order state meant that VW was led, willy-nilly, into supporting a production scheme whose overriding objective was to win legitimacy within the parameters set by the state drive for automotive industrialisation.

A common element to all three of the above manufacturing schemes is that they were able to win significant state protection through appeals to Indonesian economic nationalism, protection provided chiefly in the form of government orders. They mobilised political support in different ways, however. Eman appealed to a tradition of economic indigenism, and sought political backing by promoting dispersed, self-reliant industrial development. Krama Yudha, meanwhile, appealed to the element of Indonesian economic nationalism that favoured rapid industrial development. Finally, Garuda Mataram appealed to both elements, both the desire to spread industrial development equitably and to bring about structural economic change. The following chapter will explore the varied fates of these pribumi manufacturing pioneers in greater detail. Prior to this, however, it is necessary to describe the political process by which these manufacturing initiatives were formalised in policy in 1975 and 1976.

### 7.2 The Manufacturing Programme Takes its Concrete Form

We have seen that negotiations between the Department of Industry and Gaakindo on formulating a deletion schedule began in 1974. In early 1975 both organisations began campaigning in earnest for the schedule, a campaign which swept away lingering doubts about the scheme’s feasibility. The bond between Gaakindo and the Directorate grew firmer, as national firms strove to involve their principals in manufacturing ventures. Yet it seemed unlikely that the government would be able to enforce a mandatory deletion timetable, for in the mid-1970s at least, the apparatus possessed neither the experience nor the administrative capacity to monitor local investment; it was certainly unable to direct auto-TNCs into manufacturing.

Implementation of the 1974 ban on CBU car imports illustrates this lack of authority. For over a year there was widespread confusion and conflicting statements over how strictly the ban would be enforced. The Minister for
Trade, Radius Prawiro, announced that the importation of CBU vehicles might be permitted for certain government officials and Armed Forces officers (Kompas, 17, 31 Jan 1975). Suhartoyo reassured business that SKD vehicles could still be imported, provided prior permission was sought from the Directorate and additional taxes were paid (Kompas, 20 Jan 1975). Meanwhile, numerous accusations were made that prominent, well-connected importers of French automobiles (all of whom were Chinese) were bringing in vehicles in SKD condition, and assembling them "under the trees" (Kompas, 17 Jan 1975; 10, 12, 21 Feb 1975).

Nevertheless, the deletion schedule announced in August 1976 went far beyond the generalisation of existing production activities. Although the following interpretation relies chiefly on interviewees' recollections of events that had taken place almost a decade previously, it is likely that two developments finally triggered the promulgation of this ambitious deletion schedule in 1976; firstly, the keen business response to promotion of CV manufacture and, second, the inability of the government to effect a rationalisation of the industry.

7.2.1 - Commercial Vehicle Production: Populism Coopted

Moves to restrict imports of sedans date from 1968, when duties of up to 200 per cent were levied, possibly the highest in the world. These tariffs were intended to both discourage the expenditure of scarce foreign exchange and provide a convenient source of revenue. As Hansen (1971: 56) notes, these measures made "the import of built-up vehicles commercially impossible." Sedans were nevertheless imported in increasing numbers, seemingly unaffected by these extraordinary import duties. This valuable source of revenue was closed off, however, when sedan imports were banned totally in 1974, a ban presumably in response to the egalitarian ethos that had begun to flourish. The new emphasis in development policy required constraints to be placed on prominent symbols of wealth.

It is in this light that the promotion of CV production must be seen. The interlinking of populism and industrialism in official economic nationalism is perhaps best demonstrated by the case of the Basic Transport Vehicle, widely known by its Indonesian initials, KBNS (Kendaraan Bermotor Niaga Sederhana). The KBNS was a cheap, 'no-frills', pick-up truck, intended to come within the financial reach of middle class groups. Although a version had been marketed by VW in 1972, the concept was first introduced into Indonesian
policy-making circles at a conference at Cilegon, West Java, in early 1974 (Directorate-General, 1974; ICN 4, 22 April 1974). That this particular juncture was chosen suggests that it was a bureaucratic response to broader social issues, that the tenor of the times demanded a populist response to criticism of the elitism popularly associated with the automotive industry.

National firms soon sought to tap into increased state revenues by promoting their own versions, while the earlier examples of Mitsubishi's Colt and Garuda Mataram's Mitra persuaded other auto-TNCs were to consider the KBNS. In September 1975 Mulyono Buntaran (Garmak Motors) introduced the 'Morina', a basic General Motors truck with a projected local content of 40 percent (ICN 57, Jul 1976: 11-14). Lubis also announced that Ford would launch a local version of the Fiera, the vehicle successfully marketed in the Philippines. Astra and Eman also urged Toyota and Holden to market KBNS designs, both eventually released the following year (BN, 20 Aug 1977: 9).

Encouraged by this private sector support for the promotion of cheap popular automobiles, the Economic Stabilisation Council chaired by the President decided to stimulate further the production of commercial vehicles, abolishing import duties for CVs in July 1976 while doubling that for sedans (Kompas, 21 Jul 1976; Tempo, 14 Aug 1976). This decision was greeted with some scepticism by the political public. Permadi, for example, head of the Consumer Affairs Association, foresaw that the legislation would simply encourage the use of CVs for private use (Kompas, 23 Jul 1976). Suharto's nevertheless seized the opportunity to promote the deletion programme. In August a seminar was held in Bandung, the location of the 1955 Asia-Africa Conference, where the Directorate promoted its own version of Third Worldism, presenting the KBNS as a means to increase local content (Kompas, 6 Aug 1976).

Business competition thus once more proved to be an important factor encouraging the focus on the industrialisation objective. In a political climate which militated against protection of luxury industries such as automobile production, the KBNS had been proposed as a populist, egalitarian alternative. The keen response to indications that the government favoured CV production, however, reinforced the political position of advocates of automotive industrialisation. The Directorate's industrialist formulation of economic nationalism gained wider currency within the bureaucracy, encouraging further protection for local production.
7.2.2 - Rationalisation by Localisation: the Soft State Solution

The second factor influencing the timing of the 1976 legislation was the government's inability to control the number of business entrants seeking to benefit from increased oil revenues. By 1976 production agreements between auto-TNCs and national firms had multiplied dramatically, with the number of active assemblers doubling between 1972 and 1976, from 10 to 20. The number of makes produced locally rose even more sharply, from 12 in 1972 to 42 in 1976 (Table 5.5). This growth in international linkages chiefly reflected increased local competition, as national capitalists convinced their principals to commence local assembly in order to tap into the state's oil wealth.

The eagerness with which national firms vied to establish assembly facilities and their success in drawing in auto-TNCs proved to be both a burden and a boon to state planners. If this competition made automotive industrialisation a feasible policy objective, it also demonstrated the limits to state authority. Government officials were well aware that it was vital to limit numbers during the formative stage of the industry's development. The 1969 legislation had intended to limit major assemblers to seven and trade marks to 33. Throughout the 70s rationalisation remained an important objective of state policy, with countless pronouncements made by senior officials reaffirming the government's determination to 'narrow' (menciutkan) the market. Licenses that had been granted were never anulled, however, and additional licenses were issued as exceptions. The inability of the government to curb the inevitable market fragmentation earned it the epithet of a 'soft state' amongst foreign representatives and local critics.

The attempt to consolidate the industry into a number of groups in the mid-1970s illustrates how business competition hampered the government's effort to regulate the industry. SK545 of July 1972 had decreed that assemblers and agents would merge into a more manageable number of units built around single holding companies. The overriding concern of state officials, expressed in press releases at the time and stressed to me in interviews, was to both facilitate administrative procedures and increase assembly activity. The decree itself states that the mergers were to be voluntary, suggesting that moves may have already been under way when it was promulgated. The staunchest advocates of the policy were the New Guard importers, and companies such as Astra and Krama Yudha that themselves constituted a single group quickly consolidated. Yet the legislation became the subject of bitter dispute within the
industry in the following years. Companies that imported only one or two makes found it relatively simple to come to new arrangements with their principals, but Old Guard assemblers who handled a number of makes generally opposed the mergers. Smaller agents also resisted while it remained uncertain exactly what 'grouping' entailed, and many had been unable to come to new arrangements with their principals. The six month period originally allowed for the reorganisation was extended three times, yet by early 1974 most companies had still not grouped.

The absence of a business consensus on rationalisation drew government intervention. Throughout 1974 the Department of Industry issued increasingly stern warnings that it would impose a reorganisation on recalcitrant firms. 14 groups were announced in January and February, and the department later declared that the number of recognised groups would be limited to 20 (Kompas, 3 May 1974). In August the government gave firms their "last chance" to group, warning that no new import licenses would be issued. The reorganisation was finally completed in late 1974, when 36 licensed agents and 26 assemblers were consolidated into 20 groups (BN, 13 Aug, 3 Sep, 21 Sep, 12 Oct 1974).

This politically-sponsored consolidation was ineffective, however, and most of the 20 groups existed only on paper. Although a few companies, notably partners of Japanese auto-TNCs, had made new importation arrangements, most were unable to conform with government regulations. More seriously, the attempt to rationalise the industry underlined a fundamental inconsistency in state policy which, contrary to its intent, had simply stimulated further investment in assembly. The policy clearly implied that groups with their own assembler would be favoured, so sole agents sought TNC support for construction of assembly plants. In 1973 Liem Soe Liong (Volvo), Astra (Toyota), Krama Yudha (Mitsubishi), and Budiman (Honda) all established joint ventures for automobile assembly, all operating by 1975 (Appendix 5). In 1974 Pantja Motors established an assembly plant to assemble Isuzu vehicles. When Wahab Affan's Indokaya group was finalised in April 1974, it had no assembler of its own, with Datsun cars assembled at Eman's PT Udatin and Nissan UD trucks at Koerwet's PT Imermotor. Affan established a company to assembly vehicles in 1974, PT Zastam, but was unable to attract auto-TNC support (the manufacturing efforts of this pribumi business group are discussed at greater length in section 10.1.2).
As pressure mounted from the priyumi groups for the compulsory incorporation of locally-produced components, the disjuncture with the need for industry rationalisation confronted the government with a political dilemma. Whenever these two imperatives had clashed in the past, the susceptibility of the government to pressure to protect a particular business interest meant that it was inevitably rationalisation that gave way. But by 1976 Indonesia enjoyed the dubious distinction of having one of the most fragmented production structures in the world, with 20 assembly plants operating and a further five under construction or in preparation (Witoelar, 1983: 19). A reduction in the number of assemblers and makes was unavoidable. Pressure from policy advisers, planners and even business itself for the government to implement its pronouncements on rationalisation had become irresistible. As the leading Jakarta weekly magazine noted, the 'explosion' in numbers finally drove the government to carry out its "family-planning program for automobiles" (Tempo, 14 Aug 1976: 49-53).

Since the government was evidently unable to oversee a rationalisation, the solution hit upon was to reverse the order of these two objectives. In the past, proponents of rationalisation had justified a reduction in makes and assemblers as a necessary precondition for manufacture. According to the scheme now put forward by the Directorate, however, only companies that could localise production would secure their market place. The industry was warned that companies unable to comply with state localisation goals would lose their licenses, that rationalisation would be achieved by 'natural selection'. In 1975 and 1976 the Directorate began to consciously use state purchases to favour agents associated with manufacturing initiatives. SK307 was accompanied by statements that the government would reduce the number of sole agencies by controlling sales. In late 1976 Suhartoyo announced a '10-10' scheme, which would see the market rationalised to 10 makes of sedans and 10 CVs. He later predicted that eventually only five auto-TNCs willing to support localisation would remain: Mitsubishi, Toyota, Daihatsu, Hino/Mazda and Mercedes (Kompas, 17 Dec 1976).

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6 The Indonesian terminology for rationalisation tells us something about the ideological pervasiveness of statism within the bureaucracy. In Jakarta business circles and in discussions with foreign representatives, the relatively innocuous 'rasionalisasi' or the English term 'natural selection' is often used. Officials still prefer 'pencautan', however, which carries inferences of state imposition.
7.2.3 - Concluding Comments

The ambitious goals gazetted in SK307 was the culmination of the government's success in both drawing auto-TNCs into the industry and in stimulating manufacturing initiatives. The decree showed that the government had indeed become 'tougher' on international automotive firms, and was followed by general auto-TNC resistance. But the legislation was only promulgated when the pressure from pribumi sectors for protection had become irresistible. De facto alliances with local business groups had added weight to the industrialisation proposals advanced by certain parts of the state apparatus, and state intervention to restrict auto-TNC investment was originally intended to bolster the initiatives of nationalist, pribumi firms.

The applicability of Model 2 to the class-state relationship behind economic nationalism is further attested by the fact that the government's authority was insufficient to rationalise the industry by decree. Rather than representing the state's independence from business pressure or a determination to monitor the industry's development, the rationalisation-by-localisation strategy was an easy solution to an increasingly sticky political problem. By assuming the position of umpire in the rationalisation 'race', the government made localisation a matter of survival for national automotive capitalists. The following chapter describes the fate of different business interests in the late 1970s in implementation of the programme.
Chapter Eight

THE LOCALISATION PROGRAMME AND BUSINESS CONCENTRATION, 1977-1980

While the industrialisation objective became a more widely accepted element of economic nationalism in the late 1970s, the impact of measures to promote industrial development varied between sectors. In relatively simple industries such as textile production, where national and foreign firms tend to come into direct competition, state protection took the form of measures to exclude foreign capital. As the timber reprocessing industry became increasingly subject to state regulation, well-connected local capitalists also eased out foreign firms. In more capital-intensive and technology-intensive industries, by contrast, national capital was more reliant on foreign assistance. Here, the state played a more complex role, overseeing the terms under which national capital integrated with manufacturing TNCs.

The modern manufacturing sector in the late 1970s was characterised by the penetration of national capital into areas previously dominated by foreign capital. As Panglaykim (1983: 66-74) notes, prior to 1977 national firms were largely excluded from more sophisticated industries, despite beachheads in distribution won because of the government stipulation that marketing be carried out by nationals. In the following years, however, the framework erected by state protection for national manufacturers began to be filled by a rejuvenated private sector. A number of large capitalist groups were able to bargain more effectively with international capital, 'unpackaging' TNC investments and even managing without TNCs altogether.

Automotive industrialisation manifested both these characteristics in the years after SK307 was promulgated in 1976. On the one hand, the preparedness of a number of auto-TNCs to invest in new manufacturing ventures injected a new vigour into policy implementation. The overriding impression conveyed by state intervention during this period is that localisation requirements were less the expression of an inability to rationalise production, than they reflected a determination to push the industry into upstream manufacturing. This official confidence in the state's ability to set the pace of industrialisation was accompanied, however, by an accelerated rate of concentration. The industry came to be dominated by business empires based on automobile assembly and
manufacture, while the smaller companies languished. New manufacturing activities were generally associated with these business conglomerates.

Most observers recognise that these two phenomenon are closely related, that the hardened resolve of officials to localise production could only succeed if major firms were able to do so. But most commentators also assume that one or the other is the prime causal factor, that state intervention was responsible for business concentration or, alternatively, that the government was driven to exercise greater control over the industry as policy came under the sway of dominant capitalist groups. To summarise my conclusion at the outset, it is argued here that neither 'state' nor 'capital' was the dominant force behind policy during these years. It is shown that these two phenomena were interlinked, that business concentration expressed a symbiotic relationship between that part of the state promoting localisation and the internationalised section of the industry.

8.1 The State Localisation Drive Gathers Momentum

As we have seen, the tangible success of prominent national capitalists in localising auto-TNC operations had already loosened the reliance of the Department of Industry on foreign advice when it was formulating the automobile manufacturing programme. Once the timetable had been gazetted, the government's commitment to automotive industrialisation grew firmer. The enthusiasm with which SK307 had been generally greeted by organised business waned, however, as the full implications of the schedule became clear.

8.1.1 - Growing Business Opposition to the Programme

Component manufacture had gradually increased during the early 1970s. By 1975 over 30 firms were significant producers of automobile paint, tyres, radiators, batteries, bodies, leaf springs, windows and chassis. About a dozen of these manufacturers had formed the Association of Automotive Component Manufacturers, AAPCOMI (Progres 74, Oct 1974: 43). There was an enthusiastic business response to the policy favouring production of commercial vehicles in the following years. In 1977 the number of CVs produced jumped by 80 per cent, while the figure for PVs fell by half; by 1978 CVs and jeeps made up 85.8 per cent of imported units (Table 5.2). The demand for KBNS in particular far outstripped supply, resulting in long delays before purchases were delivered. There were already three makes of KBNS on the market, of which the Toyota
'Kijang' was the most popular, but in 1977 a cheap Suzuki pickup also appeared. Three companies - Mazda, Datsun and Fiat - also announced plans to introduce their own versions (BN, 4 Jan 1978: 13). This focus on CVs provided an important stimulus for local manufacturing, since the deletion scheme was restricted to CVs.

When it became clear that the local sourcing of simple manufactures would soon be made compulsory, existing companies increased output and new firms were established. The production of most universal components doubled between 1975 and 1978, and in some cases more than trebled (Table 8.1). The output of local body presses, for example, was virtually all for trucks, buses, oplets, minibuses and station-wagons. By 1978 there were estimated to be 200 body factories scattered throughout Indonesia (ICN 113, 6 Nov 1978: 38).

### Table 8.1

**PRODUCTION OF AUTOMOBILE COMPONENTS, 1975-1978**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Car batteries</td>
<td>unit</td>
<td>220,000</td>
<td>480,000</td>
<td>575,000</td>
</tr>
<tr>
<td>Pistons</td>
<td>unit</td>
<td>50,000</td>
<td>47,000</td>
<td>180,000</td>
</tr>
<tr>
<td>Radiators</td>
<td>unit</td>
<td>15,000</td>
<td>17,000</td>
<td>27,000</td>
</tr>
<tr>
<td>Exhaust Systems</td>
<td>unit</td>
<td>17,000</td>
<td>20,125</td>
<td>23,000</td>
</tr>
<tr>
<td>Chassis</td>
<td>unit</td>
<td>1,000</td>
<td>1,150</td>
<td>1,332</td>
</tr>
<tr>
<td>Bus Bodies</td>
<td>unit</td>
<td>2,700</td>
<td>3,124</td>
<td>3,650</td>
</tr>
<tr>
<td>Safety Glass</td>
<td>tons</td>
<td>30</td>
<td>31</td>
<td>44</td>
</tr>
<tr>
<td>Wheelrims</td>
<td>unit</td>
<td>-</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Shock Absorbers</td>
<td>unit</td>
<td>8,500</td>
<td>9,775</td>
<td>3,080</td>
</tr>
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(Source: ICN 144, 25 Feb 1980: 12, from Department of Industry data)

The incorporation of other components was a different matter. Although most firms could envisage complying with the schedule for 1977, which required that paint, tyres and batteries be sourced locally, auto-TNCs protested the requirements for later years. Japanese firms in particular resisted the localisation of wheelrims, shock-absorbers, cabins and exhaust systems scheduled for 1978, since there were at most only two factories producing these components and in the case of wheelrims and exhaust systems, only one, subsidiaries of Udatin (BN, 18 Feb 1977: 19). Japanese auto-TNCs were not prepared to make the technical alterations necessary to incorporate the
wheelrims produced by Eman's PT Inkoasku, which largely accounts for the stagnating production during these years. Astra, for example, protested that 'forced localisation' would provide its rival, Eman, with a monopoly, and sought to postpone the schedule (see the interview with the director of the Toyota import agency, Moedahar, Kompas, 5 Nov 1977). By the end of 1977 it was clear that the schedule for the following year was unlikely to be realised, since the major local firms would not use local components (BN, 26 Dec 1977: 3). The industry grew less enthusiastic about the whole programme, and the pioneering spirit that had flourished previously gave way to uncertainty.

If Gaakindo had functioned virtually as an arm of the Department of Industry while the schedule was being drawn up, the association now adopted a more cautious approach, calling for greater flexibility in its implementation. It presented a long list of reasons for the programme's impracticability: principals would not use parts that had not been quality-tested, the distinction between components and sub-components had not been clearly defined, there was a lack of installed capacity, credit to build new plants was difficult to obtain, and Indonesia had insufficient technical expertise to run plants even if they were constructed. While the association refrained from publicly questioning the appropriateness of the localisation objective, it pointed out that large investments in a small market could not be profitable, and pleaded for more time to implement the decree (Gaakindo, 1977: 5-6).

The antagonism of auto-TNCs to SK307 and the unenthusiastic response of national firms soon led to doubts about the economic rationale of the entire programme. Some observers claimed that the backward integration scheme had been purely politically-inspired, and warned that it would simply deepen Indonesia's dependence on imported capital goods (Kompas, 9 Mar 1977). While conceding that Indonesia had the potential to develop a fully-fledged automotive industry, a UNIDO report conducted for the Department of Industry predicted that the programme would lose momentum because fundamental inefficiencies had not been addressed. The effective rate of protection for locally-assembled automobiles was estimated to range from 530 per cent to 682 per cent, and it was calculated that five dollars were spent for every dollar of foreign exchange saved (Sharma, 1977: 37-39). The "soft policy of the government" and its preoccupation with increasing production capacity favoured inefficient manufacturers, while encouraging them to reach informal price agreements (Sharma, 1977: 3). The study suggested that the government focus instead on rationalisation and the standardisation of components.
In the face of the desultory business response to the schedule for 1978 - and no doubt influenced by such reports - the scheme began to be cautiously reevaluated even within the Department of Industry, the stronghold of New Order industrial nationalism. When Repelita III began to be drafted in 1977 it was evident that the 'easy' stage of automotive ISI was over. Continued state protection for fledgling automotive manufacturers had come under challenge, and the key policy issue now was whether to extend ISI or to scale down the projections for expansion into upstream production.

8.1.2 - Suharto's Campaign

The Directorate began to promote automobile manufacture with increased determination in 1977, a campaign which attracted considerable public attention. My interviewees surmised that at a time when its future had become clouded, Suharto hoped to gain politically by promoting the industry as a symbol of New Order development. Some even suggested that by targeting such prestige industries, he hoped to succeed Yusuf as Minister of Industry in 1978.

In 1977 the Directorate identified automobile component production and engine assembly as two of ten 'key projects', leading-sector industries to build up an integrated iron and steel industry during Repelita III (Directorate-General, 1978a: 1). Renewed efforts were made to stimulate auto-TNC interest in upstream component manufacture. A feasibility study carried out for the Directorate proposed that the government establish a $51 million foundry and forging shop, to be financed by foreign project aid or loans. More ambitiously, it suggested that the government invest $32 million in a massive $535 million engine machining and assembly in the Krakatau Steel complex, a joint venture with auto-TNCs "which have a substantial share in the Indonesian automotive market" (Directorate-General, 1977a: 5). The Department of Industry subsequently invited Mitsubishi, Perkins and Daimler-Benz to participate.

Such efforts to attract foreign investment by direct negotiation were largely ineffectual, however. Instead, auto-TNC investment in component production came about indirectly, via pressure from local partners. The Directorate employed a number of instruments to win private sector backing for localisation goals. The most important of these was to trace more finely the link between localisation and rationalisation. Import licenses for types of
which less than 300 units were produced would be revoked (BN, 21 Feb 1977: 9). Suhartoyo also told automobile associations that the government would provide technological and financial assistance to local firms, while securing a captive market for local production initiatives. Meanwhile, concerted efforts were made in 1977 and 1978 to draw up a registry of component producers, and firms were warned that those not using their products would be excluded from state contracts.

Second, in order to gain support from organised business, Suhartoyo deflected the criticism from Gaakindo by turning to its smaller rival, the more nationalistic component manufacturers association, renamed GIAM (Gabungan Industri Alat-Alat Mobil). As one businessman recalled, "after 1977 Giam became the favoured child (anak-mas); Gaakindo was orphaned (dianaktirikan)" (Interview, Moedahar, 1 Jul 1984). State-business relations were increasingly conducted through Giam.

The final element in Suhartoyo's campaign was to harness public support for the localisation objective. Throughout 1977 and into 1978, the Director-General constantly advertised the goal of full automobile manufacture at seminars, conferences and public exhibitions such as the 'Automobile Component Industry Week'. For example, in June 1977 he organised a public forum in an attempt to overcome business opposition. Delivering a paper entitled 'Stirring up (menggalakkan) the Automobile Component Industry', Suhartoyo told the seminar

the government has come here to serve as a catalyser, to guide component producers and assemblers in obtaining data, and to identify problems so that government policy can be properly implemented. (Directorate-General, 1977: 2)

Adept at gaining press backing for his campaign, Suhartoyo also organised a series of meetings in 1977 and 1978 with a dozen economic journalists from various publications to increase pressure on business to support the scheme. In the words of one of these journalists, during these 'brainstorming' sessions the press was assigned the task of "building a bridge between business and the interests of the government" (Interview, Wiwoho, 19 Jul 1984). Consequently, a second seminar attended by industry associations and business representatives was held in April 1978. The journalists responded to Suhartoyo's urging by calling on the government to implement the scheme more rigorously - and to convince consumers that the national interest
justified higher prices. In order to prevent auto-TNCs from denying Indonesia its right to local component production, they declared, business should unite in "the spirit of SK307" (Directorate-General, 1978: 26-27). At the same meeting, Giam also reminded the meeting of the industry's national duty.

For years, we have held our aspirations in check, suffering from the idea that Indonesian technology is inferior to foreign technology. We have to realise that we are a capable and fully sovereign nation [united] behind the motto 'speaking one language, marching in step'.

(GIAM, 1978: 13)

Suharto's efforts at this essentially ideological level would have been in vain, however, were it not for the support of national capitalists able to win auto-TNC support. Given Gaakindo's opposition to the scheme and Giam's limited influence at this time, the Directorate began to negotiate more directly with the large companies. The campaign gathered steam after a number of major firms were able to convince their principals to invest in manufacturing, and it can be shown that the Directorate came to rely, increasingly, on those of the internationalised companies more able to countenance localisation.

8.2 Localisation Policy Splits the Automotive Industry

Suharto's campaign drove a political wedge harshly into the industry. In the industry's heroic period in the mid-1970s, the business community had generally concurred with state policy objectives. Tensions mounted, however, as the localisation drive highlighted divisions within the industry. It is therefore instructive to examine the changing alliances between government and business that underlay policy implementation.

Robison (1985: 316) has described the relationship between state and capital under the New Order as operating at two levels, that of general policy and a personalised form of patronage. The expansion of major business groups during the 1970s cannot be explained solely in policy terms, he argues, for the considerable capacity of state bureaucrats to appropriate economic resources for private use provided certain capitalists with a solid capital base. "A sufficient proportion of the windfall profits derived from extortion appear to have been reinvested to transform what we might term primitive accumulators into capitalists." Similarly, it is the conviction of many observers, particularly the
pribumi entrepreneurs who later suffered declining business fortunes, that the automotive industry is 'fixed', and that business success in the 1970s was primarily due to friends in high places. The endless intrigue that pervades the industry largely consists of efforts to untangle this web of koneksi.

While Robison's argument may be relevant to the Liem Sioe Liong/Suharto group to which the above description evidently refers, it seems not to apply to the automotive industry, where a number of entrepreneurs intimately connected to political power centres were unable to survive the competitive environment of the late 1970s. More important than direct state support in deciding the fate of individual capitalists in the industry was the pattern of auto-TNC linkages that had been established, for the enduring effect of a policy premised on international integration was to test the strength of these transnational links. While it is difficult to ascertain with any certainty the nature of the relationship between principal and local partner, it can be demonstrated that it was the national firms that had established solid ties to auto-TNCs willing to support local production that best survived the period of flux that began in 1977.

8.2.1 - Business Concentration and its Policy Implications

A number of factors gave firms more closely integrated with auto-TNCs a competitive edge in the late 1970s. After the Pertamina crisis, state assistance to private industry was temporarily less forthcoming, and interviewees spoke of a sharp fall in the number of purchases by state corporations in 1977-1978. The massive 37 per cent devaluation of the Rupiah in November 1978 also had serious implications for the industry, since CKD imports and the cost of repaying outstanding debts increased proportionately. Although most firms suffered a sharp increase in sale-room prices and a further drop in sales, some were spared the full impact of the devaluation after their principals agreed to renegotiate outstanding debts and the cost of CKD imports.

The industry's ownership structure began to become more concentrated around those firms linked to auto-TNCs willing to support their local partner. This process is indicated by production figures for different makes. If the three best selling makes in 1976, Mitsubishi, Toyota and Daihatsu, accounted for 61.6

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1 On 15 November the government took the Rupiah off an exchange rate pegged to Rp 415 to the US dollar and related it instead to a basket of currencies, initially at the rate of Rp 625. Susumu Awanohara (FEER, 5 Oct 1979: 92-93) discusses the impact of the devaluation on investment generally. Dick (1979: 23-25) and BN (31 Jan 1979: 5, 19 Feb 1979: 8) describe the serious difficulties the measure caused the automotive industry.
per cent of production, by 1980 this figure had increased to 74.0 per cent (Table 5.6). Production figures according to business group provides a clearer indication, as smaller firms declined or were absorbed by larger rivals. In 1976, 63.6 per cent of total automobile output was accounted for by two groups, Krama Yudha (Mitsubishi) and Astra (Toyota, Daihatsu, Peugeot, Renault). After Probasutedjo won the General Motors agency in 1977, Opel and Chevrolet vehicles reappeared in significant numbers, with foreign advisers reportedly handling both local assembly and marketing (BN, 21 Feb 1979: 6). By 1980 these three business groups, Astra, Krama Yudha and Probasutedjo accounted for 80.2 per cent of production. A number of makes imported by pribumi business groups, including Holden, Dodge, Ford, Fiat, Mazda and Landrover, had virtually disappeared from the market. "Our main problem at that crucial time was that we couldn't get credit from Ford" (Interview, Sarosa, 17 Sep 1984).

Policy protecting local component production is justified as an effort to stimulate the development of independent suppliers, using labour-intensive production techniques along lines of the Japanese model. The effect of compulsory industrialisation underpinned by the threat of exclusion, however, was that manufacture became increasingly 'in-house' production, for subsidiaries of auto-TNC assemblers. When the deletion schedule first appeared on the political horizon in 1975, Indonesian partners had begun to lobby their principals to invest in component manufacture. By 1978 PT Ismac (Liem Sioe Liong), PT German Motors (Sutowo/Joesoef), PT Mobilindo (Astra), and PT Mitsubishi-Krama Yudha Motor and Manufacturing (Sutowo/Sjarnubhi) had all established on-site plants to produce Volvo, Mercedes, Toyota and Mitsubishi body components respectively (ICN 113, Nov 1978: 38). In 1978 PT Suzuki Engineering Indonesia (Atang Latief) and PT Daihatsu Indonesia (Astra) were also established for the production of components. With new manufacturing ventures beginning to cluster around the internationalised firms that dominated assembly, opportunities for independent producers of universal components consequently shrunk.² (this became a controversial policy issue in the early 1980s, and is discussed further in section 10.2.1).

² This tendency for production of universal components to become concentrated around the internationalised sector is illustrated by battery production, in which 21 established firms were threatened by competition from four more efficient PMA joint ventures - one an Astra subsidiary, and another owned by the Pakarti Yoga group of Sofyan Wanandi (BN, 21 Jun 1978: 9-11).
This division within the industry, between the internationalised and more independent firms, came to be expressed in policy terms. Gaakindo struggled to bridge the diverging business interests, proposing what it termed a 'commonisation' policy. Instead of each firm producing its own individual components, the association suggested that a number of different companies combine to manufacture particular components, which would be modified to suit several makes. Smaller companies would not be disadvantaged by the schedule, and the nationalist rationale for local manufacture would thus not be sacrificed to harsh economic laws.

Leaving aside the technical impracticability of obtaining auto-TNC consent to the incorporation of these components thus produced, the likelihood of such a compromise receded as the localisation campaign gathered momentum. The importance of auto-TNC backing is illustrated by the varied fates of the pribumi manufacturers, the business groups that first set the manufacturing scheme in motion.

8.2.2 - The Pribumi Pioneers

The decline of PT Udatin demonstrates the fragility of a manufacturing scheme not vertically integrated with an auto-TNC. Eman has a reputation for being a skilful businessman able to make good use of political favours. His dependence on the political support of his ministerial ally, Yusuf, did not effect the manufacturing projects while the production of Holdens was expanding. When Yusuf lost his portfolio in 1978 and the health of the parent assembler declined, however, Udatin's long list of manufacturing subsidiaries was also endangered.

This fragility had already been demonstrated when Udatin suffered a large drop in sales following the cutback in state purchases in 1977-1978. Although Holden had been the fourth best-selling make in 1975, by 1978 its sales were negligible (Table 5.6). This shrinking market share, coupled with competition from rival firms for assembling orders, meant that the parent company had difficulty supporting its manufacturing subsidiaries. Company directors admitted that the group had overextended itself in the mid-1970s, and now had difficulty obtaining domestic credit.

As the industry developed and its technology became more complex, the need for foreign technical assistance also grew correspondingly. According to a ministerial policy adviser in the Department of Industry who was responsible
for monitoring the manufacturing programme, Toyota and Mitsubishi initially refused to use the wheelrims produced by PT Inkoasku (Interview, Tabiat, 23 Jun 1984). Although a German machinery manufacturer was said to have supervised installation of the wheelrim plant in Menado, auto-TNCs demanded stricter regulation of production methods. Production was delayed several years, before Eman agreed to accept advice from a Japanese quality-control company.3

Although Eman had been one of the prime movers behind an integrationist strategy for localisation, adroitly using state contacts to redirect merchant capital into manufacturing, the failure to establish a firm international link thus condemned the self-reliant manufacturing strategy he had been forced to adopt. From 1980 Eman began to merge with Astra to guarantee the survival of his manufacturing projects.

The Directorate’s campaign also effectively severed the link between VW and Garuda Mataram. Despite state support for the Mitra and the facilities made available to VW through its alliance with Kostrad, these connections were unable to rescue a project premised on support for small-scale producers. The frames produced by PINDAD were of good quality, but many of the small subcontractors had an output of only a few bodies per week. More seriously, three years after the Mitra was introduced, only 750 units had been sold (Promosi Ekonomi, 18 Apr 1977: 23). VW considered these labour-intensive production techniques too small in scale and too unreliable in quality to make the venture economically viable.

Principal and local partner began to move in opposite directions after the formalisation of the deletion schedule in late 1976. Garuda Mataram’s military directors sought further state sponsorship by promoting localisation, drawing attention to expanded PINDAD production facilities and claiming that local content had risen to 55 per cent with the local production of chassis, fuel tanks, brakes and cabins. Although Garuda Mataram attempted to use its military connections to convince VW to support further manufacturing initiatives, the principal failed to respond to such exhortations. It baulked at the investment implications of the localisation campaign.

3 Both state officials and businesspeople complained that Japanese auto-TNCs also refused to use components produced by other Udatin subsidiaries, even though their brake linings, shock absorbers and radiators were used as OEM for other non-Japanese makes, such as VW and Mercedes.
Here, we know that 'four years' means 'fourteen years', and we told Germany they shouldn't be worried. But we couldn't convince them. They weren't prepared to make further heavy investments if they couldn't see immediate benefits.

(Interview, Falkenberg, 11 May 1984)

VW decided to trim its Indonesian operations and the Mitra venture was the first to be jettisoned. "It became a very sore issue with Germany and they lost a lot of money" (Interview, Falkenberg, 11 May 1984). VW did make one final attempt to reestablish its position via localisation, introducing a Minibus produced at PINDAD in 1977 (Tempo, 26 Nov 1977: 49). The firm had lost faith in its local partner, however, and in 1978 effectively withdrew from the market. Although projects such as the Mitra had been instrumental to the formulation of the localisation schedule, by 1980 the German auto-TNC was left with only a token presence in Indonesia.

In sharp contrast to the independent manufacturing strategy pursued by Garuda Mataram and Eman, Krama Yudha's manufacturing activities were closely monitored by its auto-TNC principal. The Colt-120 commanded 20 per cent of total automobile sales while its local content was said to be 51 per cent in 1978, both the highest figures for any single model (BPPT, 1979: 48, 38). Although the estimate for local content was inflated by the high cost of locally-produced components, the commercial success of the Colt made Mitsubishi more willing to support its local subsidiary's manufacturing proposals. Mitsubishi carried out a feasibility study in 1978 for localising engine assembly, for example.4

This auto-TNC backing encouraged Krama Yudha to campaign more actively for the deletion scheme, and Sjarnubi Said became a prominent business advocate of industrialisation policy. In an interview with a Jakarta business magazine, the Krama Yudha president stated that until 1978 the government "had attempted to extract benefits from overseas investors, actively contacting and cajoling them" (aktif menggarap, menghubungi dan memancing investor asing) (Eksekutif, Jan 1980: 96). He recalled, however, that the task of promoting localisation then fell to the private sector. At the 1978 seminar on component production mentioned above, Suhartooyo applauded Krama Yudha-Mitsubishi for its success in increasing the Colt's local

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4 According to one unconfirmed source, Mitsubishi even offered to sell Krama Yuddha the license for full Colt production.
content (Directorate-General, 1978: 8). By 1980 Sjarnubí had become a key business proponent of the Directorate's programme, rather boisterously linking the localisation drive with the struggle to create the ekonomi nasional. No other country wants us to make progress. They're all worried about this. Note: there are not exceptions! They all want us to stay mute, dumb, and remain a target, swallowing whatever they produce. For with our natural resources, our high working spirit, our security, and our stable domestic and foreign policy, they're all scared that Indonesia will stand up —(Bisnis, Jan 1980: 30)

8.2.3 - The Astra Empire and Localisation

The expansion of the Astra group provides the most unambiguous example of how industrialisation became the provenance of the internationalised sector of the industry in the late 1970s, illustrating how private alliances established in the early 1970s became intertwined with state policy.

When he won control of the Gaya Motors assembly plant in 1968, William Soeryadjaya (Tjia Kim Liong) was still a minor merchant relying on contracts to supply the Armed Forces and government departments. The only hint of his subsequent spectacular success lay in his company's name. By 1980 PT Astra International had become the organisational hub of one of the foremost business conglomerates in the Indonesian corporate sector. The Astra group had 60 subsidiaries in distribution, import-export trade, real estate, construction, manufacturing and agribusiness, with a turnover rivalling that of Sime Darby as the largest business group in ASEAN (Asian Finance, 15 Dec 1982: 102). It soon became the first Indonesian company to sell floating exchange notes (to the value of $25 million) on the Singapore dollar market (Astbury, 1982: 20).

At the heart of this business empire, the 'General Motors of Indonesia', are Astra's automotive interests. The tie-up with Toyota in 1969 transformed Astra from a relatively insignificant importer into a major business force. As one commentator has observed, a 'golden deal' was struck when Toyota chose Soeryadjaya as its local partner, and "after 12 long years of fantastic prosperity, that marriage remains a happy one" (Chowdury, 1983: 106-7). Toyota's obvious market success encouraged other TNCs to link up with Astra.

The crucial factor in Astra's subsequent success were the alliances that had been forged with well-connected business figures. Apart from the shares in PT
MultiFrance held by the President's brother-in-law, Probosutedjo, Ibnu Sutowo also became involved in the management of Astra companies. Most of those interviewed felt that these figures were initially included in order to secure Astra's political position. This interpretation is plausible, given the vulnerability of the Chinese-owned firm in an atmosphere of rising prabumi sentiment. However, an important by-product of this support was the multiplication of Astra's international links, as other TNCs sought capable business partners with access to state patronage. PT Multifrance took over the Peugeot and Renault agencies in 1972, while PT Astra International won the Daihatsu agency in 1973. Astra had also gained import rights for Xerox, Fuji, Westinghouse, Honda motorcycles and Komatsu heavy machinery during this period.

By the mid-1970s Astra had become a significant business force in its own right, and was no longer the pale shadow of its Japanese principal. Astra had initially been very much Toyota's junior partner, with 96 per cent of the joint venture's original capitalisation borrowed from Japanese banks (Jetro, 1982: 106). Astra officials interviewed in 1984 conceded that they were initially very dependent on Japanese advice, even in marketing. Perhaps the earliest sign of its independence in corporate policy - and its strengthening alliance with the Directorate - was the decision to move into CV production in the face of Toyota's insistence to focus on PV production. "William was far-sighted enough to see that commercial vehicles would be encouraged in the future" (Interview, Kasih, 28 Sep 1984). Astra entered a period of expansion, chiefly via PT Multivest, the second holding company in the Astra stable (TBN 458/71). The PMDN company, PT MultiAstra, was established to assemble Toyota vehicles in 1973, and began producing two years later. In 1973 Soeryadjaya began to diversify into non-automotive areas, initially into agribusiness and later also real estate and construction with Pertamina (Chowdury, 1983: 111).

Astra showed still showed little interest in expanding into component production, however. Prior to 1976, both Toyota and Astra resisted plans to make localisation compulsory, although neither had the political strength to combat the influence of the prabumi entrepreneurs. It was when localisation

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was to become compulsory that Astra began to explore local component production.

Astra's conversion to the cause of localisation began with its reorganisation in late 1975-1976. This entailed, in part, tighter controls on expenditure following the rapid expansion of the previous years. The organisational structure was also revamped, with many of Astra International's divisions incorporated as separate companies (Tempo, 12 Feb 1977). Finally, Astra made concerted efforts to remodel a public image badly dented by the 1974 riots. Ever since the Malari affair, when anti-foreign and anti-Chinese feeling culminated in the razing of its central offices, Astra had been particularly sensitive to attacks by economic nationalists. One method employed to deflect such criticism was to promote an alternative image, of an efficient, capitalist organisation modeled on Western corporations. More significant for state localisation policy, Astra also sought to play down its 'Chinese-ness' by promoting the official, industrial definition of economic nationalism originally developed by its priobumi rivals. From interviews with Astra staff conducted in 1984, the conclusion seems inescapable that only after the schedule was gazetted in 1976 did Astra urge its auto-TNC partners to support local manufacturing efforts with a degree of success.6

Astra managers had evidently found it difficult to interest Toyota or Daihatsu in establishing manufacturing joint ventures prior to 1976. According to a director of PT Gaya Motor and former chief of the Directorate's automotive division, "they always looked for excuses for delaying, saying that they couldn't ensure quality control, and so forth" (Interview, Sajoeti, 19 Sep 1984). But once the deletion schedule was promulgated and it was clear that other companies were investing, the possibility that Toyota's market share could be affected led it to support the Directorate's plans. "Japan protested about SK307," stated a director of PT Toyota-Astra Motor, "but Mitsubishi was already deleting components. So we persuaded them that they would benefit by participating" (Interview, Moedahar, 11 Jul 1984). "After SK307 we made them see that it was inevitable. We convinced them that they might lose their market" (Interview, Gunawan, 29 August 1984).

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6 One should treat press reports concerning Astra with some scepticism. The effectiveness of its professional image-making efforts is evident, for example, in uncritical acceptance of the claim for 65 per cent local content, and the observation that in promoting localisation, "Astra was among the earliest to take the lead and exploit all the investment and tax incentives the government could offer" (Asian Finance, 15 Dec 1982:103).
Only two months after SK307 was issued, the joint venture PT Toyota-Mobilindo was established to construct a large steel press for the manufacture of bodies, cabin frames, chassis and fuel tanks. A $5.8 million joint venture for the manufacture of shock absorbers was also established in 1976, PT Kayaba Indonesia. Over the next few years, Astra established joint ventures with other firms in the Toyota group for the manufacture of shock absorbers (March 1978), Daihatsu body and component production (May 1978) and electrical parts (August 1979) (see Appendix 5).

An important consequence of Astra's capacity to involve its principals in the localisation scheme was that the interests of the Directorate and Astra further converged. On the one hand, it was vital for the Directorate that the largest automotive group in Indonesia participate in the scheme it was promoting so ardously. At the same time, firmer implementation of the policy aided Astra's expansion, as it absorbed independent producers. In 1978 Astra became involved in the management of the large, pribumi-owned CV body manufacturer, PT Superior Coach (see section 10.2.2 for further discussion of the fate of this company). It also took major shares in PT Inkoasku, Eman's wheelrim plant in Menado, and established a joint venture with Eman in 1980 for the manufacture of wheelrims in Jakarta, PT Palingda (ICN 176, Jun 1981: 34). A latecomer to localisation, Astra had developed an essentially symbiotic relationship with the Directorate, promoting the manufacturing scheme while enhancing its 'clean', nationalist political image.

Both Suhartooyo and Astra benefit. He achieves his goal of industrialisation; we improve our image ... Suhartooyo consulted more closely with us after SK307. But the quid pro quo was that we had to help the pribumi manufacturers

(Interview, Gunawan, 3 Sep 1984)

8.2.4 - Concluding Comments

By 1980 the industry had come to be dominated by three business groups that were associated with major new manufacturing ventures. Paradoxically perhaps, state authority over these groups seems to have increased after 1976. Not only did administrative capacities expand, but the state seemed to achieve a degree of independence from capital in the implementation of the localisation programme. It was more powerful vis-a-vis the auto-TNCs, making continued market presence conditional upon participation in manufacturing ventures; it was more powerful vis-a-vis national firms, reorganising the industry according to the industrial definition of economic
nationalism. A senior Astra manager involved in negotiations with both Daihatsu and Toyota described his experience in formulating company policy as essentially a balancing act, weighing the government's determination to promote industrialisation against the resistance of the Japanese, who couldn't see the immediate economic rationale for localisation. "It's as if we're the actor caught between two very strong forces, each with their own separate priorities" (Interview, Kasih, 15 May 1984).

This apparent paradox, of an industry dominated by large capitalist centres which are themselves subject to state authority, dissolves, however, when localisation policy is considered to represent a distinct state interest. As the above statement indicates, the state commitment to promotion of a prestige industry had persisted, but policy implementation now required investment by the major firms. It was the increased interaction between the state and the internationalised sectors of national capital which enabled the government to exercise increased control over the industry as a whole. As in Model 3 of the Internationalising State, nationalist economic policies served to sift out the weaker firms according to state-defined criteria. Thus, the very success of the prabumi nationalists in promoting industrialisation in the mid-1970s ultimately diluted their presence in the industry. In the words of an Astra director,

the regulations on local content automatically led to concentration ....... unfortunately, the prabumi firms didn't realise that the law of natural selection meant that in the long run, they were dead.

(Interview, Gunawan, 29 Aug 1984)
Chapter Nine

REDEFINING NATIONALISM: AUTOMOTIVE DEVELOPMENT POLICY, 1978-1980

The years 1978 to 1980 were the political touchstone for automotive industry policy, testing the state commitment to the localisation programme. While the drive to promote industrial development in general became more insistent, new considerations intruded into policy-making circles. In particular, a revival of pribumi nationalism challenged the prevailing definition of economic nationalism in an industry in which the internationally connected firms had developed a stake. The industry entered a period of uncertainty, as political authority over the industry became more fragmented and the likely policy orientation therefore less predictable.

Broadly speaking, three forms of economic nationalism dominated debates on manufacturing policy during these years. Although they had in common the goal of creating a resilient national industrial sector, each formulation proposed a different role for the state in promoting industry. The first conception gave priority to encouraging national firms to invest in industrial ventures, considered business concentration an inevitable and necessary part of the industrialisation process, and proposed that the state should simply allow the stronger manufacturing firms to float to the top. This definition was opposed by marginalised pribumi business groups, who took advantage of a broad political mood favouring economic equity to press for state protection. Finally, a third policy strand proposed extensive state reorganisation of manufacturing according to specified criteria, a structural definition of industrial nationalism most closely identified with a new Minister for Research, Dr Habibie.

The debates between advocates of these different forms of economic nationalism had important repercussions for the automotive industry. A considerable portion of the wealth generated by the second oil boom of 1979/1980 was recycled into the industry, chiefly via state purchases, so the policy orientation that eventually emerged from these debates was important for the industry's future. Automobile manufacture had become a powerful ideological symbol of New Order development, and these years were characterised by political struggles for bureaucratic control of industry policy.
This chapter therefore steps back from the examination of state-business relations, focusing on the political forces shaping policy formation during these critical years.

9.1 Contending Definitions of Economic Nationalism

At the outset, it is worth noting that in the late 1970s there were few influential advocates of state intervention to reorganise industry to adjust to changing international conditions, despite constant advice from international advisory bodies on the need to maximise comparative advantage - and notwithstanding the reputedly liberal orientation of Bappenas, which seems to have exercised little influence in these policy debates. By 1978 policy choices were dominated by the first form of economic nationalism, by the Directorate's campaign to encourage the strong centres of national capital able to promote localisation.

This orientation that was first publicly challenged by calls to protect pribumi business. My interviewees noted that, about 1978, the divisions within the industry were transformed into an ideological contest between pribumism and industrialism, as the smaller firms sought protection by arguing in terms of the nationalist foundations to the manufacturing programme, while the larger firms criticised the small for being unable to cope to self-reliance in the modern world.

9.1.1 - The Pribumi Challenge

The commitment to economic indigenism had persisted within key parts of the state apparatus. Although the extent of official support for calls to protect pribumi business is difficult to isolate and measure with any accuracy, pribumi nationalism evidently still enjoyed considerable political currency. A decree promulgated in 1972 by Minister of Trade Sumitro, for example, which had been intended to reduce the number of non-pribumi traders, was implemented by his successor to such an extent that between 1974 and 1976 the number of 'foreign domestic' traders in Indonesia fell by half, from 28,000 to a little over 14,000 (BN, 13 Feb 1978: 10-11).\(^1\)

\(^1\) These figures should be treated with reservation. Many businesses didn't operate with permits issued by the Department of Trade (SIUP), but under a 1938 colonial ordinance (BRO) - or simply with no license at all. This example nevertheless illustrated how state authority was used throughout the 1970s to restrict Chinese-owned firms.
By the late 1970s new social forces were starting to intrude into policy-formulation, reinforcing state actors who favoured economic indigenism. Following the sustained growth of the previous decade, throughout 1977 and 1978 there was a resurgence of demands for social justice. Focusing their attacks on the alleged misdirection of development funds, the vigorous criticism of university students gained added significance when disaffected members of the political elite joined their ranks. At the same time as influential parts of the state apparatus were promoting upstream industries, these political pressures were refocusing attention on the welfare of small-scale producers further downstream.²

The government's response to these social pressures was a flurry of official appointments and pronouncements reaffirming its commitment to social justice. Six new junior ministries in the Third Development Cabinet (1978-1983) expresses this new humanitarian concern: Cooperatives, Food Production, Transmigration, Peoples Housing, Youth Affairs and Womens Affairs (Tempo, 29 Apr 1978: 5-6). The first of the new cabinet's 'seven objectives', Sapta Krida, was to promote social justice and to equalise the distribution of wealth. The new direction of economic policy was confirmed in Suharto's pre-Independence Day speech to parliament. The 'eight paths for the equal distribution of the fruits of development', he declared, meant that the government would concentrate on promoting public health, providing compulsory education, and ensuring the provision of basic human needs (Tempo, 26 Aug 1978: 5). This growth with equity strategy became explicit in September when Prof. Wijoyo, the Coordinating Minister for the Economy, Finance and Industry, indicated that the three guiding principles for Repelita III were to be equity, growth and stability. In the early months of the new cabinet, numerous statements were made emphasising the government's resolve to uplift the prihumi sector.

Both radical political economists and advocates of a hard-nosed brand of interest-based political economy are prone to dismiss such official declamations as cultural baggage, or as obfuscatory rhetoric which fails to address underlying

² 1978 witnessed the establishment of Fosko (Forum Studi dan Komunikasi Angkatan 66), an organisation of 1966 activists critical of what they saw as the Suharto regime's deviations from the developmentalist ideals of the New Order. Even members of Kosgoro, a conservative cooperative society which included members of parliament, state officials and senior Armed Forces officers, protested state corruption and the abuse of state privilege. Eldridge (1980: 11-31) describes the intellectual trend in the late 1970s for prominent Indonesian economists - notably Sayogyo, Mubyarto and Sumitro - to focus on basic needs and issues of equity rather than economic growth and structural change.
structural forces. Yet there are indications that these social forces led the government to begin to live up to some of this rhetoric. One of the recurring themes amongst proponents of a populist development alternative had been the call for greater state protection for small-scale prabumi business. A major obstacle to improving the welfare of the majority of Indonesians, it was argued was unequal access to credit and other state facilities. Whether it was because of this changed political climate, or simply because the government found it easier to protect business than deal with the broader issue of social justice, in the following years assistance to 'economically weak' firms was certainly forthcoming.

The most explicitly pro-prabumi legislation during this period was Presidential Decree 14 of 1979 (Keppres 14/79), which reserved all state purchases below Rp 10 million for 'economically weak' firms. Although officials stressed that the decree was not based on considerations of race, it was generally implemented in such a way as to favour prabumi business (Tempo, 16 Jun 1979). Further evidence of the revival of indigenism and a changed government attitude was the selection of Hasjim Ning as chairman of Kadin in 1979, the first businessman to hold this post, his predecessors having all been military officers. Ning defined the main task of his leadership to be the implementation of Keppres 14 and ensure that small-scale prabumi business was protected (Tempo, 6 Oct 1979). The area reserved for prabumi capital was considerably widened in 1980 with Keppres 14A, a decree drafted after close consultation with Kadin (Tempo, 26 April 1980: 51).

The renewed government concern to upgrade prabumi business encouraged proponents of alternative development strategies, culminating in a 1980-1981 debate over the 'Pancasila Economy'. This inward-looking formulation of economic nationalism has its ideological roots in the anti-capitalist tradition of Indonesian nationalism, holding that only a truly Pancasila economy based on the family principle (azas keluargaan) could overcome the distortions created by economic dependency (Liddle, 1982). Harking back to what was seen to be traditional Indonesian social values, according to this view Indonesia should pursue a more Gandhian, self-reliant development strategy. Despite the continued state commitment to rapid industrialisation, this widespread social mood had thus placed indigenism higher on the official political agenda.
The significance of the prevailing political climate for class-state relations in the manufacturing sector was the deep ideological reservoir on which pribumi capitalists could draw to support their claims for state protection. The interaction between state and external social forces had preserved the dualistic orientation of Indonesia's economic nationalism, for both the more inward-looking, pro-pribumi definition and the 'external' formulation, defined around propositions about maximising Indonesia's industrial strength, had significant support within the state apparatus.

This situation was made more fluid by the injection of a third variant of economic nationalism into the policy formulation process, a form of technocratic nationalism represented by the BPPT, the Office for Research and Application of Technology (Badan Penkajian dan Penerapan Teknologi).

9.1.2 - Habibie's State-led Industrialisation Formula

BPPT owes its existence to the political influence of B.J. Habibie, a technician who obtained his engineering degree in West Germany in the early 1960s. Employed as a researcher for the aircraft manufacturer, Messerschmitt Bolkow-Blohm, he later advanced to become Vice-President of its research division. In 1974 he also began a meteoric rise within Indonesian government circles. Habibie had been approached by Sutowo in 1973 when still in Germany, and the following year was appointed chairman of Pertamina's Advanced Technology Division, responsible for oil exploitation, shipping and steel manufacture (BPPT, 1983: 10-11).

In 1974 Habibie also became Suharto's personal policy adviser on research and technology, and was intimately involved in winning government backing for Pertamina's more grandiose industrialisation schemes. Sutowo's fall from grace does not seem to have damaged Habibie's close relationship with Suharto, from whom he is said to enjoy a virtual carte blanche for his ambitious manufacturing schemes. In April 1978 Habibie was appointed Minister for Research and Technology, and in August that year the BPPT was established, reputedly to continue the industrialisation efforts already launched by Pertamina.³

³ According to a number of my interviewees, the BPPT was created after Habibie convinced the President both that he could realise Sutowo's plans for the much-delayed Krakatau Steel mill and that his aircraft manufacturing scheme was technically feasible. Sacerdoti (1980) describes how Habibie's considerable political influence flows from the personal backing of Suharto, who has a lingering desire for the sort of entrepreneurial government developed by Sutowo and put into effect by Habibie.
Habibie's version of economic nationalism reflects both his technical background and Sutowo's admiration for sophisticated technologies. Intent on escorting Indonesia to its industrial destiny, Habibie is a technological determinist who considers technological change the catalyst to far-reaching social and economic progress.

The transformation into an industrially and technologically-advanced nation is an absolute necessity for development... [It] essentially means enabling people to produce useful goods and services, to defend their political integrity, and to increase their cultural wealth. The key to this process is to increase scientific and technological skills. (Habibie, 1983: 28-29)

He proposes eight arenas (wahana) within which Indonesia's technological and industrial transformation will take place, the most vital of which are the industries linking together Indonesia's far-flung expanses: aeronautic, maritime, telecommunications and land transport - rail and automotive industries. He goes on to outline four stages in the industrialisation process leading to full technological maturity. Reprocessing industries are initially relocated to developing countries that export raw materials, thereby increasing local manufacturing value-added. The major technological advance comes with stage two, when local technicians and entrepreneurs master the whole production process. Products can now be designed for local conditions and existing industries modified. Stage three represents the development of totally new technologies, and stage four the realisation of complete industrial sovereignty, when large-scale research is undertaken to maintain a country's competitive technological edge.

Although the technical innovation of stage three may be an everyday reality for the NICs, Indonesia is still struggling to win modern technology from the advanced countries, with most of her industries still stuck in the first, 'value-added' stage of their development. He nevertheless considers that progressive manufacturing programmes will inevitably lead to the second, 'technology-integrating' stage, when contact with foreign firms will allow technicians to begin designing totally new products, using existing production techniques.

Unlike other Indonesian formulations of economic nationalism, for Habibie dependency is not a hindrance to economic development, but can in fact be a shortcut to modernity for a technologically-backward country.
This opportunity will come naturally and without cost to the expanding company, because component producers will vie (berlomba-lomba) to offer their designs and products to a company known to be planning a new product... Encouraged by market forces, the flow of technological information into the country about the most up-to-date developments suddenly increases (Habibie, 1983: 6-7)

He argues that conditions have become ripe for Indonesia's rapid progression through these stages. Certain pioneering industries have already entered stage two, predictably those managed by the state corporations operating under the BPPT umbrella, the armaments producer PT PINDAD (now managed by BPPT), the state ship-building firm, PT PAL, and the well-known aircraft manufacturing project, PT Nurtanio (Habibie, 1983). Other industries will inevitably follow suit, because increased competition between advanced countries searching for new markets means that TNCs are struggling to establish a technological presence there. "No country wishes to be left behind by its competitors in offering to transfer technology to Indonesia" (Habibie, 1986: 48). In a transmutation of Rostow's expression, commonly used in Indonesia by advocates of state-led development, Habibie (1986: 50) predicts that by controlled integration into international production networks, Indonesia will achieve "industrial takeoff" in 1994, reaching full technological modernity in 2025.

The definitive feature of Habibie's vision of technological progress is the supervisory role allotted to government agencies, for he considers strict state control a precondition to the success of his scheme. Capital and technical resources are limited, so targeted industries must be carefully chosen, with foreign partners closely screened to ensure that local experts have access to a diverse range of new technologies. He argues further, that Indonesia can only take full advantage of favourable international conditions if the industrialisation process is thoroughly planned, tightly scheduled and closely monitored. BPPT will select the industries to be promoted, design their development programmes, choose the appropriate foreign partners, as well as "evaluating, selecting and preparing the Indonesian companies to implement industrial development programmes," monitoring the transition through stages one, two and three (Habibie, 1983: 26). Although he manages to deny

4 The extent of state subsidy for this project, often touted domestically as heralding Indonesia's leap into the industrial age, is a measure of Habibie's ability to gather financial backing support through his association with the President (AFR, 4 Oct 1985: 15; Asian Business, Jul 1984: 53-54). Nurtanio was subsequently renamed PT Nusantara.
that these controls amount to state domination of business, his blueprint for technological transformation leaves little room for either national or international capital, except as the agent for carrying out government decisions.

Despite the fact that his personal political influence has meant the large-scale diversion of state resources into prestige industrial projects, Habibie has not generally been involved in industrial policy issues that affect the life of more than a tiny minority of Indonesians. His formula of economic nationalism is in essence technologically elitist. He has on occasions touched on broad social issues, such as when he calls for a large-scale education programme to make society more technology-oriented. Drawing on symbols of Indonesia's nationalist past, he calls on Indonesians to embrace his own version of economic nationalism, prescribing state-controlled technological development as the means to increase peoples' "personal value-added." Yet he has not been a major participant in policy debates over priority industries.

A notable exception to this generalisation is the automotive industry. As described later in this chapter (9.3.2), the appeal of Habibie's formula won considerable support amongst automotive policy-makers for a number of years after 1979, making the BPPT the dominant voice in automotive policy formation.

Three forms of economic nationalism were therefore promoted by different sectors of the Indonesian state during the years 1978 to 1980, and manufacturing policy was largely the outcome of the interaction between their political advocates. The new Minister for Industry in the 1978 cabinet shared many of Habibie's ideological concerns, and is perhaps best-remembered for his advocacy of state-owned production ventures. Yet Suhud was also open to other political influences, and during his ministry he indicated policy preferences that spanned all three forms of economic nationalism. His attempt to encompass these separate forms entailed deeper state intervention into the

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5 "The fact that in Indonesia technological and industrial development is controlled, guided and supervised does not mean that private enterprise is curtailed. In fact, as I have indicated, in all arenas for the transformation of our country there are many opportunites for private enterprise. Because Indonesia believes in the market mechanism" (Habibie, 1983: 30).

6 What we face is the attempt to change the mentality of our people. What we face is the effort to transform ourselves into a nation (bangsa) that feels and applies the values of the industrially advanced countries, to change ourselves into a nation that is generally more productive, a nation that is generally more efficient (Habibie, 1986: 50-51).
manufacturing sector generally, so it is useful to review his personal agenda for industrial development.

9.2 Minister Suhud's Reorganisation of Industry

When he came to office, Ir Abdul Rauf Suhud had long experience in economic policy formulation and a firm set of priorities on the appropriate path to industrial sovereignty. After a career in the Indonesian Air Force, he worked in private industry during the Guided Democracy period. Suhud entered the bureaucracy in the early years of the New Order, initially serving as senior ministerial adviser on industrialisation policy. A director of CSIS, Suhud subsequently became chairman of the Sub-Committee on Foreign Investment, vice-chairman of the BKPM, and in 1976 was appointed chairman of the Asahan Authority responsible for the massive US$2,000 million hydroelectric and aluminium smelter project in Central Sumatra. In these various official positions, Suhud was closely involved in formulating industry policy and was responsible for important legislative innovations, hitching TNC investments to Indonesia's own development goals. Well-placed interviewees surmised that it was this interlinking of economic nationalism and industrialism which was the major consideration in the President's decision to appoint him to cabinet.

Although he is often considered to be a 'state entrepreneur', committed to creating an integrated industrial structure, if necessary, under close state supervision, Suhud's personal background meant that his policy concerns extended beyond structuralist issues. He often stated, for example, that it was the government's role to provide appropriate conditions for the expansion of private national industry. At other times, he emphasised that the ultimate beneficiaries of industrialisation should be small-scale producers, indicating that the government's primary state responsibility was to protect them from the ravages of the market place. It is thus possible to identify a number of ideological tenets in his approach to industrialisation, three guiding principles that correlate with the three forms of economic nationalism mentioned at the beginning of this chapter which, taken together, help to explain the increasing emphasis on state intervention during his ministry.
9.2.1 - Suhud's Industrialisation Objectives

The first of these principles defines the purpose of state economic policy to be the creation of an environment conducive to the expansion of national capital. While recognising the need for foreign expertise, Suhud proposes state controls on foreign investment to avoid dependence on one source of technology. Redirecting TNCs into upstream production would also allow firms in less sophisticated, downstream industries to avoid the rigours of foreign competition. Finally, government negotiations with TNCs should aim at 'unwrapping' turnkey investment packages, making them more digestible for national capital by directing purchases to local suppliers. He prescribes state involvement in upstream industries and in advanced sectors such as the steel industry, because only state corporations can face up to foreign capital and prevent the economy from being swamped. Yet even here he sees state intervention as purely a stopgap measure, a temporary political means of creating an economic niche to be filled by national capital. Joint ventures between TNCs and state holding companies would serve as "bridges," until they could be held by local firms (Kompas, 17 Dec 1975; Suhud, 1977).

Suhud's second guiding principle was an ideological theme with deep historical roots. In his inauguration speech, he pledged that he saw his main task to be ameliorating the harsh divide between large and small-scale producers, by ensuring that small-scale business flourished (BN, 3 Apr 1978: 6). Noting that there had been a decline in the number of small-scale and medium-scale businesses during Repelita II, he set out during his ministry to employ state authority to assist this predominately pribumi economic sector (Suhud, 1979a: 9-11).

The minister's third guiding principle most obviously implied direct state intervention. In Suhud's estimation, meaningful economic development necessarily connotes changes to the structure of production. Even at the outset of the New Order, at a time when planners were preoccupied with conserving foreign exchange and with loosening market controls, Suhud (1967: 84) had cautiously urged government controls on private investment so as to achieve a higher objective: the rehabilitation of the manufacturing sector.

Such a far-reaching change is unlikely to come about if it is left to market forces alone. There is need for overall guidance, based on a comprehensive review of the present conditions and prospects of individual industries and areas, perhaps involving a measure of reprogramming and redirection.
By the mid-1970s Suhud was proposing that the government employ its considerably greater powers to redirect foreign investment into sectors that would provide major development spin-offs. He later argued that during Repelita III, the industrial sector should be promoted in its own right, with more attention paid to target-setting and no longer treated simply as an adjunct to agriculture. State promotion of the petroleum industry had transformed it into the economic pillar of the New Order, but other important industries had been ignored. State coordination was therefore necessary to guarantee the orderly development of mineral reprocessing, forestry products, basic chemicals, metals, and engineering (Suhud, 1977: 50-51).

It seems to have been this final vision of the developmentalist state that became dominant during Suhud's period in office. In the Indonesian context, the most politically potent of his criticisms of past ISI policy was that it had perpetuated Indonesia's dependent status, since planners had failed to address serious structural weaknesses. From a perspective firmly within a dependency framework, Suhud argued that the rapid industrial growth of the first two plans had merely shifted the terms of dependence, away from a reliance on imported consumer goods but into a deeper reliance on imported basic materials, intermediate inputs, components and capital goods. Manufacturing firms had sprung up more or less independently, with few firm backward or forward linkages. Only the development of basic and intermediate industries could realign a production structure heavily skewed to the final stage of manufacture.

Suhud's scheme to overcome these structural deficiencies was thoroughly konsepsional, built upon rationally-derived theoretical principles. The structural rejuvenation he foresaw far exceeded the capacity of national capital, so it was structurally necessary for the state to become involved in both management and ownership of production.

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7 The different approaches of Suhud and his superior, the BKPM chairman, Barli Halim, is brought out by Jenkins (1976: 48-49). Whereas Halim was content to coordinate the operations of different government departments when issuing foreign investment licenses, his Vice-Chairman was urging the synchronisation of controls on TNCs - to push them into upstream production.

8 Suhud (1979) provides the most succinct outline of his five broad industrialisation objectives: to reduce basic and intermediate imports by developing upstream industries; to rationalise the existing industrial pattern by internal consolidation; to increase local content; to standardise technologies; to increase industrial employment by promoting subcontracting arrangements. A more detailed presentation is to be found in a paper delivered to the 1981 CSIS Seminar on Industrialisation (Suhud, 1982). Suhud's views on state-generated industrialisation were shared by his senior policy adviser, Suhartono, who is said to have been heavily involved in drafting Suhud's 1981 paper (see e.g., AWSL 18 Aug 1981, for Suhartono's views on dependency).
Considering that basic industries are ... strategically vital, development by state corporations is at present probably the only way to accelerate development and strengthen the national industrial production structure. (Suhud, 1982: 446)

Suhud was subsequently responsible for the designation of 52 upstream leading sector industrial projects, mostly joint ventures with TNCs, but all to be managed by state corporations and largely capitalised by state banks. Suhud's structuralist diagnosis thus led to the state becoming the prime mover in the struggle to overcome dependency.9

Suhud (1979a: 5-6) was well aware of the contradiction between his concern for promoting small-scale business and the diversion of state resources into huge upstream infrastructural projects. He frequently justified such investment theoretically, with the structuralist argument that the more basic the development project, the greater would be its multiplier effects. Although the Asahan project, for example, would create less direct employment than if the same amount of capital was invested in say, textile production, it would become a "development node" for national manufacturers and the ripple effects throughout the economy would be far greater. In practice, however, the uneasy tension between his second and third principles, between the need to support small-scale business and the large-scale projects central to his structural reorganisation, was to be overcome more mechanically, via the allocation of contracts. This solution, of parcelling out contracts to targeted businesses, may have been feasible for industries that were largely state-owned; reorganisation of the privately-owned manufacturing sector was more problematical.

9.2.2 - Restructuring the Manufacturing Sector

Suhud considered that manufacturing had suffered from something of a Klondike atmosphere since the beginning of the oil boom. At the core of his programme to impose order upon an unruly private sector was state coordination of investment, for only thus, he believed, could Repelita III (1979-1984) lay the structural basis for the full engineering industry scheduled for Repelita IV (1984-1989). Prior to 1978, the laissez-faire attitude of Minister Yusuf had given the four Directors-General a great deal of latitude; policy had evolved somewhat haphazardly, with little integrated planning. In 1979

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9 The 52 industrial projects were announced in the 1982 Speech of State. They included projects in basic chemicals ($5.8 billion), fertiliser ($1.8 billion), cement ($1.1 billion), basic metals ($1.0 billion), machinery ($0.7 billion), wood processing($0.65 billion), pulp and paper ($0.64) (Gray, 1982).
Suhud revamped the department’s administrative structure to carry out his reorganisation. The four sectoral Directorates-General (Textiles, Metals and Machinery, Chemicals, Manufactures and Cottage Industries) were replaced with five Directorates-General reflecting the new functional emphasis: Planning & Research, Basic Metals, Basic Chemicals, Miscellaneous Industries, and Small-Scale Industry. He also established clear guidelines on how state-business relations were to be conducted, drawing up detailed schedules for monitoring policy implementation.

This reorganisation of the manufacturing sector revolved around two medium-term objectives: the internal reorganisation of industries to overcome structural weaknesses, and increased participation by small-scale producers to combat economic dualism. When he came to office, Suhud hoped that the force of logic underlying his konsepsional industrialisation scheme would win general business acceptance. He evidently expected that the intellectual appeal of his nationalistic programme would encourage business to reach a consensus, and initially limited the government’s role to monitoring and giving advice (BN, 6 Dec 1978: 5). It became apparent during his ministry, however, that the linkage between domestic equity and external nationalism was to be forged politically, by state pressure on the modern sector.

While earlier credit schemes for small-scale producers introduced by the Department of Industry were maintained, and, in fact, extended, Suhud increasingly turned to decree indigenism as a policy instrument. In 1979, the production of a number of simple manufactures was reserved for small-scale producers. The bapak angkat, ‘foster parent’, scheme was officially introduced in 1980, whereby major corporations would provide technical assistance, raw materials and marketing facilities to a number of small-scale producers that would function as supply satellites. This promotion of subcontracting arrangements was later formalised as the well-known scheme for keterkaitan, ‘interlinkages’.10

The Department also pressured major companies, unofficially, to purchase materials from small-scale producers. The following account, as well as the interpretation that appears in the following section on the automotive industry, does not represent the Department’s version of events, but is chiefly based on the impression gained from personal interviews. Nevertheless,

10 Krakatau Steel, for example, became ‘foster parent’ to many small-scale producers, including a small town of smitheys near Yogya for producing simple metal implements (Tempo, 6 Dec 1980: 44).
published evidence also exists which shows that Suhud's attempted to use state authority to link industrialism and pribumism placed him on a collision course with the large internationalised firms. Reaffirming his resolve to use state authority to counter the trend to economic inequality, Suhud publicly attacked what he called the foreign-linked conglomerates. He told a business convention in Central Java, for example, that after ten years of rapid growth, business activity was restricted to only a handful of business groups. Because such concentration had come about naturally, via the market mechanism, only state action could "straighten out and neutralise" this distortion (Kompas, 3 Sep 1979; Tempo, 15 Sep 1979).

Although Suhud subsequently corrected 'misinterpretations' which indicated that he had alluded to certain domestic business groups, no one mistook his targets. At the time, he frequently observed that Japanese TNCs invested in Indonesia solely to seize a share of the domestic market. He later described their subsidiaries as "a mere arm of the parent company for capturing the host country's market." These TNC partners inevitably put Japanese interests before the national interest, and were therefore not concerned to develop integrated national industries (Suhud, 1981a: 137; see also Suhud, 1983).

Suhud's nationalist scheme for an industrial rejuvenation, one that would bridge the gap between the overwhelmingly indigenous small-scale sector and the ethnically-mixed business conglomerates in the manufacturing sector, generated considerable enthusiasm within the Department. It was also embraced wholeheartedly by the many politicians, political observers, and bureaucrats in other state departments, since the scheme appealed to all forms of economic nationalism. As demonstrated in the case of the automotive industry, the success of this attempt to reverse the trend of the previous decade depended on support he could muster from these bureaucratic forces.


In the years 1978 to 1980 there were thus three forms of economic nationalism promoted by different parts of the state apparatus, each having a bearing on automotive industry policy. The Directorate's method, of international integration by gradually tightening restrictions on auto-TNCs, had become the established policy orientation. A statist, industrialise-at-any-
costs strategy was closely identified with Habibie and the BPPT. But it was the political comeback of the pribumi formulation under Suhud's ministry that first made its impact felt.

As Suhartooyo's campaign gathered momentum, an increasing number of smaller importers expressed their opposition to the deletion scheme. Although some companies were able to continue assembling vehicles imported before the schedule for 1978 came into effect, the uncertain supply of leafsprings and wheelrims for small CVs caused difficulties. By late 1978 only a handful of companies could envisage complying with the schedule the following year, while many smaller firms had stopped importing CKD kits altogether (BN, 25 Oct 1978: 21). The introduction into policy-making circles of other nationalist economic formulae had made it uncertain, however, that the schedule would be implemented consistently. The smaller firms faced with extinction lobbied for a suspension of the programme, their trump card being that 'forced localisation' would spell the end of these predominately pribumi business groups.\footnote{The small = pribumi equation is not an entirely watertight explanation for business opposition to Suhartooyo's campaign, for some pioneering pribumi manufacturers were calling for accelerated implementation of the schedule. Thus, CV Auto Diesel Radiators, a pribumi-owned PMDN company established in 1974 for the complete manufacture of radiators, complained of 'unfair competition' from a later Astra subsidiary, the PMA company, PT Nippondenso, which simply assembled radiators. The pribumi firm consequently pressed for full, compulsory localisation. While some interviewees argued that Astra supported a suspension of the scheme in 1978 because its other component subsidiaries had yet not come on stream, one can nevertheless safely say that it was the pribumi importers who would have been most heavily disadvantaged by the scheme's full implementation.}

Meanwhile, the partners of Japanese auto-TNCs that had invested heavily in component manufacture were concerned that the schedule should proceed once their manufacturing subsidiaries were producing. Gaakindo was split down the middle by these opposing business interests and, unable to reach a consensus, was rendered powerless as a pressure group.

With the business community effectively bisected by Suhartooyo's campaign, it became more pressing for Suhud that a policy consensus be forged within the bureaucracy. In October 1978 he appointed an ad hoc committee of senior officials from the departments of Industry, Communications, the BKPM and BPPT, to conduct an inquiry into the industry. The idea of creating a body to liaise between different departments had been mooted in 1977, but disagreements over the precise format delayed its formation (Interview, Topobroto, 9 May 1984). The timing of this move suggests that it was at least
partly intended to counter the Directorate's domination of policy formation, and to allow alternative proposals to be heard.

The Interdepartmental Team for Automobile Policy Formulation had no direct business representation, but was a quintessentially technocratic team of seven, first-echelon bureaucrats from these departments with an interest in the industry. The 'Interdep', as the team came to be called, was given the tasks of formulating a long-term strategy for automobile localisation, establishing realistic medium-term targets, and was also initially responsible for coordinating policy implementation. It recommended that the deletion schedule be delayed, pending a preliminary study of the component industry (Interview, Tabiat, 23 Jun 1984). Implementation of the localisation programme was officially suspended by decree SK231 of 29 Nov 1978.

The official rationale for SK231 was that it would allow time to revise the schedule, for the vague guidelines of SK307 were said to be too general for implementation. While this lack of specificity may have been a contributing factor, the underlying political reality was that the Interdep did not want to risk further alienating vocal pribumi firms by excluding them from the industry. The decree thus tacitly acknowledged the continued political influence of pribumi business. "Basically, the government did not feel that existing policies provided sufficient opportunities for small and medium scale industries to gain access to the motor vehicle industry" (Witoelar, 1983: 68).

The suspension, which one magazine describing it as causing "panic and confusion," further deepened the schism within the business community (BN, 18 Dec 1978: 5). The large, internationally-connected firms were evidently appalled by the suspension, and grew more concerned after the minister declared that future legislation would ensure that the "strong groups" did not push out the smaller companies. With the division between the large and smaller companies now effectively set in concrete, for the next two years the arena for policy formation shifted firmly into the upper reaches of the bureaucracy, where Suhud's determination to deepen the industry's production structure became the dominant policy issue.

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12 The team's members, all technical graduates (insinyur), were from the planning section of the Department of Industry (Tabiat), the Directorate (Sajoeti), BKPM (Ibrahim), BPPT (Ramelan) and Communications (Giri). There was later also a representative from the Department of Defence and Security, Harkam. The only non-bureaucrat member was Ir Soehari Sargo, from the Society of Automotive Engineers, IATO. The team was formalised by decree on 18 November 1978 (SK216).
9.3.1 - Suhud's Automotive Industrialisation Scheme

The minister considered automobile production a leading industrial sector that would pioneer the development of a full manufacturing potential. It was one of three industries to which he gave particular attention during his ministry, the others being the Asahan hydroelectric scheme and an ASEAN urea project. He certainly regarded it as the manufacturing industry with the greatest potential for linkage creation, making it a testcase for his konsepsional industrialisation strategy.

His automotive development scheme comprised all three of his industrialisation principles. Firstly, in order to enhance the technical independence of national firms he encouraged the diversification of sources of technology, thereby avoiding reliance on one country. Secondly, he attempted to compel auto-TNC subsidiaries to establish sub-contracting arrangements for the supply of components, thus spreading the benefits of industrial development more equitably. Finally, he envisaged that future production would be linked to Krakatau Steel and that the industry would thus spearhead structural changes to the Indonesian economy.

Suhud considered that the deletion scheme for CVs epitomised the inadequacy of ISI strategies of the 1970s. Auto-TNCs are naturally opposed to their subsidiaries producing vital components themselves, in his view, so they invest locally only to the extent necessary to preserve their market share. Past policies had not tackled this problem, however, resulting in a production structure with few backward or forward linkages to other sectors. The essential shortcoming of the localisation programme, he argued, was that it had left too much power in the hands of individual firms. Although other countries have begun with assembly operations and worked back upstream to produce major components, these schemes had succeeded because they had been closely coordinated and monitored. In Indonesia, by contrast, the Directorate's 'upside-down' development strategy was implemented in a 'liberal' economic environment, permitting auto-TNC domination and encouraging the growth of foreign-linked monopolies (BN, 22 Jan 1979: 4; Suhud, 1983: 574).

The failure to control investment adequately also reinforced economic dualism in the industry. The Directorate's scheme may have encouraged localisation of production, but this was at the price of greater vertical integration and accelerating business concentration, with struggles between
foreign-dominated conglomerates overshadowing the industrialisation objective. The disturbing trend to in-house production had further concentrated production activity amongst a handful of auto-TNC subsidiaries, making it more difficult to establish links to independent and small-scale producers. Suhud also criticised over-generous licensing procedures in the past for the level of competition in the industry, causing local partners to become extremely jealous of their foreign link. Powerful political interests had been established to defend these international economic ties, and he acknowledged that it was therefore extremely difficult to restructure the industry according to a broad national interest.

Suhud's method to tackle these problems was to nevertheless take firm political charge of the industry. One important source of opposition to his plan came from the conglomerates whose activity he wanted to bring under the state umbrella, and the following chapter examines the state-business alliances that affected its implementation of this policy. A more immediate source of opposition came from within the department itself. Despite the enthusiasm that his industrialisation scheme had generated, his reorganisation of the department had encountered resistance from upper echelon officials who suddenly found their freedom of action circumscribed. In particular, his determination to chart the future of the automotive industry in the face of opposition from the partners of Japanese auto-TNCs generated a great deal of friction with the former locus of government authority, resulting in lasting personal animosity with its Director-General. Resenting his loss of influence over the most prestigious industry within the orbit of Basic Metals, Suhartoyo was extremely critical of the Minister's faith in the power of state edict to control the industrialisation process (Interview, Suhartoyo, 10 Oct 1984).

Suhud had little tolerance for the bureaucratic fractions that had become established during the 1970s, but he seems to have lacked the power base from which to place them under tighter control. According to the chairman of the parliamentary committee for industry, "Suhud was going dead against all Departmental-operations. He was too Western in outlook for the Indonesian scene" (Interview, Witular, 10 Jun 1984). Soon after Suhud took office, there were thus two state policy-making centres determined to oversee development of the automotive industry.
9.3.2 - The Bureaucratic Revival of the Localisation Programme

The localisation programme was eventually resumed, one year after it had been suspended, when a new deletion schedule was gazetted with decree SK168 of September 1979. Suhartooyo was not, however, responsible for the resumption. The Interdep had completed its preliminary study of the national component industry, and in February 1979 recommended that the deletion programme be recommenced (Interview, Tabiat, 23 Jun 1984).

Nor did the Directorate resume its former role in the automotive industry once the programme recommenced, for the BPPT soon became the dominant voice in the Interdep. Habibie had taken an immediate interest in the automotive industry after his appointment to cabinet, seeing in the industry's disorderly development a fertile field to test his definition of economic nationalism. When the Interdep was established, the director for industrial research in the newly-created BPPT, Ir Ramelan, had been appointed committee chairman.

The BPPT was highly critical of the policy orientation of both the Directorate and the political advocates of the smaller, pribumi firms. Reflecting the institutional ideology with which Habibie had endowed his agency, the BPPT was primarily committed to changing the industry's production structure. This determination to oversee the development of a full manufacturing capacity left little room for sympathy for the fractions that had opposed compulsory localisation. The BPPT's response to the postponement was to treat it as a purely temporary measure, a short 'breather' on the long march to full manufacture.

Yet the BPPT also opposed the integrationist strategy of the recent past. Interdepartmental competition was almost certainly an important factor behind this opposition, for rivalry with the Department of Industry began almost immediately the BPPT was born, becoming steadily more acute as the new bureaucratic arrival began to encroach on regions previously considered the Department's domain. More significantly for future policy, BPPT officials are also deeply suspicious of the impact on the industry of untramelled, 'free-fight capitalism'. Ramelan (1979: 14) argues that the Directorate's scheme, rather than creating an independent manufacturing potential, had simply encouraged certain foreign-linked assemblers to move into component production. It is also likely that the BPPT opposed the Directorate's form of industrial nationalism, not simply because it might lead to foreign
domination, but because it would lock Indonesia into economic dependence on Japanese technology. The initial localisation scheme favoured those firms that had already invested in manufacturing facilities, and Ramelan believes that had the schedule continued, Toyota, Daihatsu and Mitsubishi would today totally control the national industry (Interview, Ramelan, 10 Oct 1984).13

The BPPT proposed a statist alternative which recalls the structuralist precepts of both Habibie and Suhud. Ramelan (1979: 9-10) considered it structurally vital that state companies pioneer the development of upstream industries beyond the capacity of national capital. State-owned engine plants, for example, would thus link the downstream assembling activities of private national firms to new investments in major component production and, eventually, the Krakatau Steel foundry and forging centre. To reinforce its policy recommendations, in early 1979 BPPT conducted a joint investigation of the industry's potential with the Stanford Research Institute (SRI), an advisory agency on development policy. According to the SRI business consultant who helped draft the study, the request came from Habibie himself.

What he wanted was to create a state department that would virtually control the industry - just like Nurtanio now runs the aircraft industry. (Interview, Duncan, 22 May 1984)

The fairly comprehensive report that was the outcome criticised past administration for having "no real long-term development policy and objectives," but drafting legislation "on a step-by-step basis" (BPPT-SRI, 1979: 100). Noting that the "BPPT believes that Indonesia has the potential to develop the strongest automotive industry in Southeast Asia," it presented "a strategic plan for the automotive industry to make the transition, in the shortest possible time, from an assembler of foreign CKD vehicles to a producer of Indonesian vehicles" (BPPT-SRI, 1979: 2).

A feature of the BPPT proposals for developing a strong national industry was its advocacy of close monitoring of national capital.

With SK307 the government forgot that businessmen were really only traders, with no real feel for industry. All they did was call out 'more local content, more local content!' But you have to slowly

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13 A number of interviewees claimed that Habibie's strong German connections and the willingness of Daimler-Benz to invest accounted for the BPPT's support for the localisation programme - and its opposition to the Directorate's programme. This seems a plausible proposition, given the emphasis placed by BPPT officials in interviews on the need to diversify technology away from a reliance on Japanese auto-TNCs.
educate traders to invest in industry: it needs a complete mental change.  

(Interview, Ramelan, 10 Oct 1984)

The emphasis on state control is evident, for example, in recommendations for controlled integration into international production networks. A tight bidding process would select three to five auto-TNCs, against which two fully nationally-owned makes would compete (BPPT-SRI, 1979: 7). By contrast with the Directorate's rationalisation-by-localisation strategy, the BPPT also advocated rationalisation by decree, whereby the number of assemblers and locally-produced makes would be reduced legislatively, prior to a resumption of the manufacturing programme (BPPT-SRI, 1979: 107-9).

By force of its technical expertise, the appeal of its dirigiste development strategy, and the broad political influence of its founding chairman, the BPPT soon dominated the Interdep. In June 1979 Ramelan repeated the call for a new decree to revive the deletion scheme (Interdep, 1981: 86). In September the Interdep team was formalised as a permanent interdepartmental committee when decree SK167 was issued, a move later interpreted by BPPT as intended to "release Indonesia from its foreign dependence and head to full manufacture" (BPPT, 1983: 42). The bureaucratic pressure that had built up for a revival of the manufacturing scheme overwhelmed the political influence of its business opponents, and Minister of Industry decree SK168 recommended the deletion schedule in September 1979.14

9.3.3 - State Fragmentation, Policy Implementation

If the arena for the formulation of the original deletion schedule in the mid-1970s lay in consultation between the Directorate and organised business, by the late 1970s policy was the outcome of negotiations between three different policy centres, each seeking to control the industry's development. Perhaps as a consequence of this dispersion of authority, SK 168 differs from SK 307 of 1976 in that the localisation objective was tempered by other considerations, notably sympathy for the smaller firms.

14 According to one unconfirmed source, another political manoeuvre behind the scheme's resumption came when Habibie arranged for funds to be poured into PINDAD in 1979 to produce a 'Jip Benteng', thereby proving that local manufacture was feasible. Only five were ever produced, but, so goes the story, the purpose was political rather than economic, so the venture can be considered a success. Ramelan partly verified this report when he stated that the experiment shows how "our people are only ready to make one or two automobiles, not a thousand" (Interview, 10 Oct 1984). These vehicles may possibly be the prototypes of a 'Truk Nasional' mentioned in a BPPT publication, produced in conjunction with Ning at PT ISC and demonstrating how "the private sector can improve its engineering capabilities" (BPPT, 1983: 47).
On the one hand, the 1979 decree required universal components to be deleted from all imported CV albums by 1980, with production of wheelrims and body components (fuel tanks, rear bodies, frames, cabins) to be fully localised by 1980 or 1981, depending on the category of vehicle. Penalties for non-compliance were also spelled out in more detail, with imported components classified as spare parts and therefore subject to higher duties. Indicating that the localisation goal had been restored as a policy objective, in-house production of these components would be permitted (Article 7). At the same time, however, several clauses seemed to indicate that localisation would not to forced. Makes of which less than 5,000 units had been sold in 1978 were not required to source body components locally; the schedule for major components was not specified; to assist the smaller agents, the deletion schedule for makes that sold less than 500 units was waived completely, initially for one year (Articles 9 and 10). As Witoelar (1983: 31) notes, SK168 showed "the government is pushing localisation, 'but only when the small industry is ready'." The new decree sought to eliminate some of the unwanted side-effects of the deletion schedule, i.e., the growth of large conglomerates as they filled the production demand for local components. (Witoelar, 1983: 19)

The promulgated legislation was clearly a bureaucratic compromise, providing little indication of how it would actually be implemented. Because stated policy was ambiguous, then its impact on the industry depended upon how it was interpreted within the bureaucracy. The decree left open the timetable for the production of major components, for example, but the BPPT evidently envisaged that the assembly of engines and transmissions would begin in 1984, with production to be completely localised by 1990 (Swaminathan, 1982: 27). This uncertainty was compounded by the Directorate's loss of influence in the policy-making process, and the shift away from the established procedures of the 1970s.

This dispersion of state authority was the most significant factor influencing policy implementation during these years, with the differences between these centres crystallising over policy towards national capital, despite the Interdep's attempt to achieve a consensus. BPPT carried out further studies with SRI, producing reports which became the basis for the Interdep's policy
recommendations.\textsuperscript{15} It continued the press for state intervention to take control of the industry. Meanwhile, the Directorate remained in close contact with the larger firms and continued to urge state protection for localisation initiatives. Finally, although he was formally responsible for localisation policy, Minister Suhud was restrained by wider political concerns, particularly the widespread sympathy for indigenism during these years. During this time of uncertainty, which lasted until about 1981, an effective standoff between these three state factions meant there was no single locus of political authority.

This fragmentation of authority had some interesting implications for the external face of industry policy. Both local and foreign joint venture partners were unanimous that the revised schedule was implemented more rigorously from about 1980. While the precise mechanism will remain unclear, it seems that the firmer implementation of policy after 1979 was closely related to rivalry between these three centres. Despite their differences on other policy issues, the three centres apparently converged on the external aspect of economic nationalism, on the need to control foreign capital, for it was precisely when government authority over the industry was most fractured that auto-TNC investments began to be monitored with renewed vigour. The strong impression I gained from interviews is that the competition between these three centres resulted in a return to the industrial nationalism of the mid-1970s. As one auto-TNC representative complained when summing up his company’s experience since 1980,

\begin{quote}
the government’s intentions are straightforward enough, but it’s hard to know how strictly they’ll force us to adjust our investment plans. Because it’s so damned difficult to find out just who’s responsible for implementing the legislation!
(Interview, #29)
\end{quote}

9.3.4 - Concluding Comments

In the literature, the efficacy of economic nationalism is almost universally equated with unity; political fragmentation with an inability to implement policy. In the case of Indonesian automotive industry, however, it was this very fragmentation that lay behind the more determined implementation of the localisation programme: the hidden agenda in these

\textsuperscript{15} These studies, relatively sophisticated in the Indonesian context, outlined BPPT’s proposals for a long-term development strategy (BPPT-SRI, 1979), estimated future market demand (BPPT-SRI, 1981a), examined different auto-TNC strategies (BPPT-SRI, 1981b), provided a profile of the international component industry (BPPT-SRI, 1981c), and finalised proposals for rationalising the industry (BPPT-SRI, 1982).
disputes for control of the industry was a consensus on the need to redirect
foreign capital. Once the scheme was promulgated in statute, this rivalry was
expressed in ideological terms, in competition to gain the political kudos
associated with localisation.

This development had more general implications for the state's capacity
to guide the industry's development. The divisions within the industry had
politically neutralised organised business, allowing bureaucrats to determine
policy with a greater degree of independence. Suhud's plan to restructure the
industry, coupled with the increased influence of Habibie in automotive policy
formation, involved an enormous increase in the scope of legitimate state
authority over the industry during these years. But the return to the industrial
nationalism of previous years, of cajoling the internationalised firms to
localise production, meant the state could not be independent of capitalist
influence in charting the industry's future, for the implementation of the new
localisation programme relied, once more, on investment by the
internationalised firms.
Chapter Ten

THE POLITICAL POWER OF BUSINESS, 1980-1984

Having outlined the process leading to the eclipse of statism and indigenism by an integrationist form of economic nationalism, it remains to describe the business response to this outward-looking development strategy. Many interviewees considered that the bureaucracy came to dominate the industry in the early 1980s, arguing that official economic nationalism gave impetus to the industrialisation drive and drawing from this the conclusion that the government was independent of business influence in both policy formulation and implementation. A new deletion schedule for automotive components was promulgated in late 1983, SK371, stipulating that CVs must incorporate locally-produced axles in 1984, engines in 1985, and transmissions in 1986 (See Appendix 2 for a full description of the decree). During my interviews, most state officials indicated that the 1983 legislation was promulgated in the face of general business recalcitrance, and some felt the decree showed that, after 15 years promoting automotive industrialisation, the government had finally freed itself of capitalist influence. Similarly, more than one business figure stated that the force for implementing the legislation came from within the bureaucracy. As one senior figure involved in the industry for almost three decades lamented,

everyone's opposing the scheme now. But the departments aren't listening; the Repelita has become holy. They have to keep pushing for political reasons. (Interview, Sugianto, 25 Jul 1984)

If we were to conclude this story of the industry's development on this note, it would certainly lend this thesis a sense of symmetry. Beginning with the faltering revival of economic nationalism in the late 1960s, the state-business relationship behind nationalist automotive policy would have passed consecutively through Models 1, 2 and 3, culminating in Model 4, with the state directing both national and international investment. This would also accord with the image of state omnipotence promoted by the government, of economic policy formulated and monitored by planners independent of - and

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1 SK371 also scheduled bans on CBU imports of a number of components not dealt with in this chapter, namely wheelrims, brake systems, as well as clutch and steering systems. The decree did not specify what constituted local production, but within this time frame only local assembly was feasible.
usually at odds with - business interests. SK371 of September 1983 would thus mark the apogee of state authority within the industry.

Such a conclusion would also be misleading, for this common image of state authority provides us with the less important half of the story. Undoubtedly, the government's capacity to monitor investment increased enormously in the decade-and-a-half from 1969. We can accept the assertions of officials that after 1980 policy options were debated chiefly within government agencies and at interdepartmental meetings, that industry representatives were consulted mainly for technical advice, and that there was little effective business pressure in the formulation of policy. But this does not imply that policy makers were insulated from class influences, or that capitalists were unable to shape policy outcomes. It certainly does not indicate that the state was free of business influence during policy implementation.

The issue of business concentration dominated policy debates in the period from 1980 to 1984, a controversy resolved, not by political fiat but, once more, in the interaction with national capital. In order to examine the forces behind the persistence of industrial nationalism within the industry, it is therefore important to try to pierce the wall of official ideology that surrounds state policy. This final chapter in the empirical section of the thesis thus resumes the discussion of state-business relations left off in Chapter Eight.

To note in advance the points I wish to make, it is argued, firstly, that it was chiefly opposition from national capital that prevented Suhud from restructuring the industry. The limits to state authority in policy implementation will be demonstrated by reference to the rationalisation issue. Secondly, it is shown that a thorough shake-out in the industry's ownership structure was set in train during these years. A handful of Old Order business groups survived, but were crowded out by the large internationalised firms and could not expand. By reference to policy on localisation of major components, in the second half of the chapter I maintain that realisation of the industrialisation objective increased the state's dependence on these national capitalists, drawing sectors of the state closer to particular business interests.
10.1 The Politics of Rationalisation

With the localisation objective once more situated at the axis of state policy for the industry, in 1980 officials turned their attention to rationalisation. As we have seen, Suhud's industrialisation scheme had gathered considerable political support. There was also a sense of urgency about the need to reduce the number of makes and assemblers. Rationalisation was consequently linked to Suhud's broad development objectives. Yet it was here that the government's plan for a comprehensive restructuring of the industry was defeated. Attempting to bridge the gap between the interests of the small and the large firms, Suhud won the support of neither and, eventually, the active opposition of both. In order to appreciate the reasons for this opposition, it is necessary to briefly review how different business interests lined up over the rationalisation issue prior to 1980.

10.1.1 Rationalisation and Competing Business Lobbies

Having served as minister for no more than one week, Suhud made it clear in his opening speech to the April 1978 seminar on the automotive industry that reducing the number of assemblers and makes was his immediate policy priority. Rationalisation, he declared, would be based on three criteria which were evidently derived from his three industrialisation principles: the ability of local firms to win price reductions from their principals, to improve ancillary services, and to include small-scale enterprise in the production process. He also provided tacit support for Gaakindo's 'commonisation' proposal, to incorporate one component in a number of makes, by suggesting that "the ability to increase the interchangeability of components should be the basis for selecting vehicle makes and types to be assembled in Indonesia" (Suhud, 1978: 5).

Suhud felt that, ideally, the number of locally assembled makes should be reduced to 15 (BN, 10 Jul 1978: 3). Initially, he hoped that the industry would accept the logic of his rationalisation criteria and adjust its production arrangements accordingly. He pledged that taxes would be reduced and protection increased if business could reach a consensus on implementing this delicate operation. "Rationalisation... must come from within the body of the industry itself, without government intervention unless absolutely necessary" (Suhud, 1978: 7).
As pointed out in Chapter Eight, the likelihood of such a consensus was remote, even in 1978, despite general agreement that rationalisation was both necessary and overdue. If the rationalisation-by-localisation policy was implemented consistently, makes such as Holden, Fiat and VW faced elimination. Pressure on the smaller importers increased in late 1978 after Suhartooy declared that this policy would be more sternly enforced, at one stage making the startling announcement of a cut-off point of 500 units per year, below which licenses would be revoked (Kompas, 20 Sep 1978). After Suhud placed rationalisation higher on the political agenda and signalled that alternative strategies might be considered, pribumi business figures with strong political connections suggested different criteria. Frits Eman, then chairman of Kadin's industrial division, proposed that the 15 makes be selected on a geographic basis: six European, two Australian, two American, one Korean, and only four Japanese. The Affans urged that the rationalisation be implemented as a matter of urgency, preferring that the selection be implemented according to political criteria (Tempo, 22 Jul 1978). Joesoef also generally supported a state-imposed rationalisation, although Benz's manufacturing investments meant that he was not averse to localisation requirements.

As business tensions mounted in the following years over the choice of criteria, two business lobbies emerged on the rationalisation issue, most easily distinguished by reference to their foreign partners. On the one hand, national capitalists linked to Japanese auto-TNCs that had invested in manufacturing facilities generally supported a continuation of the rationalisation-by-localisation programme. These groups included Krama Yudha (Mitsubishi), Astra (Toyota, Daihatsu), and the companies within the Salim group backed by the considerable financial resources of Liem Sloe Liong (Volvo, but later also Suzuki, Mazda and Hino - see section 10.2.3 below).

Ranged against the partners of Japanese firms were the importers of American and European makes, whose principals were less willing to invest in manufacturing ventures and who consequently sought to delay implementation of the scheme. This geographic divide between importers of western and Japanese makes was reinforced by an ethnic distinction, since these firms were mostly owned by pribumi importers. Most were also small, a notable exception being the GM licensee, Probosutedjo, whose automotive interests grew rapidly in the late 1970s based on Chevrolet imports.
Probosutedjo is nevertheless a champion of small-scale enterprise and a vocal proponent of economic indigenism. One would also include the Nissan licensee PT Indokaya in this category, both because of the Affans' reliance on indigenism for political support and because of Nissan's reluctance to support its local partner, as described more fully in the following section. The capitalists in this second category tended to adopt the traditional, defensive attitude of pribumi business towards foreign investment, seeking state protection by appealing to the broad, pro-pribumi political climate that prevailed during Repelita III.

The competition between these two lobbies enabled Suhud to formulate a rationalisation policy according to his own industrialisation principles, a policy that ostensibly favoured neither business lobby. During 1979 and 1980 he stated repeatedly that rationalisation would be carried out on the basis of the objectives promulgated in SK168 of 1979 (section 9.3.3), to promote localisation while checking the growth of the business conglomerates. During 1980 it seemed increasingly likely that the industry would be rationalised according to these criteria, and by direct state intervention. The BPPT won Suhud's support for a 'six/four' scheme, to reduce the number of CV makes to six and PV makes to four. The Minister in turn appealed to the President for political backing. After reportedly winning endorsement of his broad industrialisation goals, Suhud announced that large state orders would be placed with firms that implemented his bapak angkat scheme (section 9.2.2). He took the same opportunity to warn business leaders that they would shortly "be summoned to the Department to discuss those makes which will be eliminated and those which will not" (SH, 17 Jan 1980). The parliamentary commission for industry, Komisi VI, supported BPPT's six/four scheme, and accepted Suhud's suggestion that the number of makes should eventually be reduced to six (Tempo, 23 Feb 1980: 48). The first stage of the rationalisation was decreed in April 1980, reducing the number of licensed makes from 57 to 30 and the number of models from 140 to 72.

Suhud stressed that considered the second stage of rationalisation to be the more fundamental. The first rationalisation was in fact largely a de jure recognition of the existing situation, since most 'eliminated' makes had

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2 One can speculate that his opposition to the localisation programme may also stem from General Motors' continued reluctance to invest in Indonesia since it withdrew in 1955.
already ceased production.\(^3\) Press statements accompanied the first rationalisation stating that the industry would be consolidated into eight major groups, the mergers to be based on compliance with SK168 and Suhud's other industrialisation objectives. A preliminary step towards its implementation was a decree issued in August 1980 making approval for design alterations conditional on conformity to these principles.\(^4\) In mid-1981 Suhud and the Interdep began to formulate a 'grouping' policy, to consolidate the 22 sole agents and 20 assemblers into a number of major groups, a reorganisation Suhud hoped would increase the working efficiency of assembly plants and encourage manufacturing initiatives as member firms coordinated production activities. This rationalisation is outlined in Figure 10.1.

It was now that the battle lines with the Japanese auto-TNC subsidiaries became more sharply drawn. When Astra and Krama Yudha protested the restrictions on their principals' investment prerogatives, the minister replied that he was determined to reduce the power of the Japanese-linked conglomerates. He had already rebutted rumours that SK168 would lead to Japanese domination, promising that the government would make exemptions "in order to maintain a balance" (Bisnis, Jan 1980: 19). The guiding principle in implementing the second stage, he stated at one time, was less a reduction in the number of makes and assemblers than to prevent certain makes dominating the market (SK, 29 May 1981).

One commentator predicted that Suhud's rationalisation formula "precipitated a shakedown of mammoth proportions" within the industry (Astbury, 1982: 42). A local publication was more circumspect. The issue to be tested, it suggested, was whether "BKPM [has] the political power to take on the giant companies that have become established in the motor vehicle industry ... that have proven so difficult to touch" (ICN 180, Aug 1981: 3). The crucial question was whether the government had sufficient coherence to implement this policy if opposed by major sectors of national capital, and whether the

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\(^3\) A number of makes that had almost disappeared but were imported by prominent business groups nevertheless retained their licenses: Leyland (Lubis), Holden (Eman), Berliet and Aro. This last vehicle was imported by an almost inactive company that was an extension of the failed Imindo venture of the early 1960s, the state corporation, PT IMC.

\(^4\) SK 349 decreed that changes to the technical specifications of major components would only be permitted for makes that had been assembled for three years at a minimum volume of 15,000 (CVs) or 5,000 (PVs). More importantly, alterations would only be considered if they would accelerate technology transfer, promote standardisation, increase value-added, and if a company was judged to have "performed well" in its manufacturing and marketing arrangements (Article 5). The last point was widely understood to refer to Suhud's bakak angkat subcontracting vision.
government could reach a consensus on domestic restructuring similar to that reached on controlling foreign automotive firms.

**Figure 10.1**

**1981 GROUPING OF COMPANIES**

<table>
<thead>
<tr>
<th>GROUP I</th>
<th>(HASJIM NING)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Agents: National Motors (Hino, Mazda), Java Motors (Landrover, Leyland), Jakarta Motors (Jeep, Dodge), Daha (Fiat), IRMC (Ford), Tjahya Sakti (BMW), Garuda Mataram (VW)</td>
<td></td>
</tr>
<tr>
<td>Assemblers: ISC, National Assembler (2 plants), Permorin [and a minor assembler, Wahana Bakti]</td>
<td></td>
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<thead>
<tr>
<th>GROUP II</th>
<th>(PROBOSUDEJO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Agents: Garmak Motor (Chevrolet), Pantja Motor (Isuzu), Udatimex (Holden)</td>
<td></td>
</tr>
<tr>
<td>Assemblers: Garmak Motor (2 plants), Pantja Motor, Udatin [and Pamos]</td>
<td></td>
</tr>
</tbody>
</table>

| GROUP III |
|==========|
| Sole Agents: Wahana Wirawan (Datsun), Imer UD (UD Nissan) |
| Assemblers: Zastam, Imer Motor |

<table>
<thead>
<tr>
<th>GROUP IV</th>
<th>(JOSEOFI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Agent: Star Motors (Mercedes)</td>
<td></td>
</tr>
<tr>
<td>Assembler: German Motor Manufacturing</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>GROUP V</th>
<th>(ASTRA)</th>
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</thead>
<tbody>
<tr>
<td>Sole Agent: Toyota Astra Motor (Toyota)</td>
<td></td>
</tr>
<tr>
<td>Assembler: Multi Astra</td>
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</tbody>
</table>

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<tr>
<th>GROUP VI</th>
<th>(KRAMA YUDHA)</th>
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</thead>
<tbody>
<tr>
<td>Sole Agent: Krama Yudha Tiga Berlian (Mitsubishi)</td>
<td></td>
</tr>
<tr>
<td>Assemblers: Krama Yudha Ratu, Krama Yudha Surabaya Majapahit</td>
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<thead>
<tr>
<th>GROUP VII</th>
<th>(SAlim)</th>
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<tbody>
<tr>
<td>Sole Agents: Imora Motor (Honda), Indo Mobil Utama (Suzuki), Central Sole Agency (Volvo)</td>
<td></td>
</tr>
<tr>
<td>Assemblers: Prospect Motor, Indo Mobil Utama, Ismac [and IMC, Insan Bahagia]</td>
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<table>
<thead>
<tr>
<th>GROUP VIII</th>
<th>(ASTRA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Agents: Astra International (Daihatsu), Multi France (Peugeot, Renault), Alun (Citroen)</td>
<td></td>
</tr>
<tr>
<td>Assemblers: Gaya Motor, Alun Indah [and Horas Lambok]</td>
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</tbody>
</table>

(Source: Gaakindo)

Some of those interviewed believed that Suhud's attempted reorganisation of the industry might have succeeded had he broadened his base of political support. Instead of building links to emerging power centres like Golkar, the minister is reputed to have maintained his close association with CSIS after it went into political decline in the late 1970s. Opposition to his industrialisation scheme from within the state apparatus did become more entrenched during his ministry. In mid-1981 Suhartooy replaced Barli Halim as chairman of the BKPM, and from his new bureaucratic power base had little reason to support Suhud in 'taking on' the Japanese-linked conglomerates.
But this bureaucratic opposition does not seem to have been fundamental, for even as late as 1984 Suhud's konsepsi of industrial development was politically unassailable, commanding wide respect amongst state officials and economic observers. Rather, it was business opposition within the automotive industry which exacerbated differences over implementation of the scheme.

In the face of opposition from the Japanese subsidiaries, the three political centres made disconcertedly uncoordinated interpretations of rationalisation policy. Suhartooyo continued to defend the Directorate's original strategy, pointing out that 'natural selection' was taking place. On the other hand, the BPPT urged that assemblers and agents be merged by exercising stricter controls on auto-TNC investment. True to its technician's approach, the compatibility of engine specifications was evidently the main criterion for its recommendations (Interview, #16). Meanwhile, Suhud continued to urge rationalisation on the basis of his konsepsional criteria. The very disarticulation of state authority that had underpinned localisation policy thus militated against a reduction in the number of makes, since no single measure was consistently applied to force through a rationalisation.

Suhud's reorganisation might have conceivably proceeded had he retained the support of the smaller prabumi firms. But this support too eroded, with charges from both lobbies that measures to assist prabumi business had been abused. One indication of this opposition concerned the importation of Opel automobiles. For some years, few vehicles from this German subsidiary of General Motors had entered the country, and Suhud had planned to have them banned in his first rationalisation. However, Probosutedjo had taken up the Opel license, and after they began to appear on the streets of Jakarta in 1980, there was apparently an uproar in Gaakindo, with loud complaints about 'unfair competition'. The intensity of the reaction attests to both the widespread acceptance that Suhud's rationalisation scheme had gathered and the political backing that the President's brother-in-law needed to sidestep the rationalisation.5

The support of the prabumi lobby in Gaakindo for the planned reorganisation became more qualified. In 1981 this support completely

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5This account is based on the recollection of a number of Gaakindo business figures. One well-placed interviewee spoke conspiratorially of a "memo coming down from above," obliging Suhud to license Opel once more (#31). Newspaper reports also make oblique reference to the case, noting the long delay in specifying which makes would be removed in the second rationalisation. One newspaper called on Suhud to "act firmly to prevent certain businessmen from doing just whatever they like" (Kompas, 7 Jun 1980).
dissipated, after a rather extraordinary dispute between a prominent business
group and its Japanese principal, depriving Suhud of the political credibility he
needed to restructure the industry.

10.1.2 - The Indokaya vs. Nissan Dispute

At the same time as the opposition of the Japanese subsidiaries to Suhud's
rationalisation scheme was growing, a bitter conflict between the Affans' PT
Indokaya and its principal, Nissan, was also reaching a climax. This dispute
was in most respects unique, for an international link is not usually severed so
publicly. This very uniqueness is nevertheless instructive, because both
partners in the joint venture PT Innismo strove to marshall domestic political
support. When Nissan brought pressure to bear on the government, the Affan
brothers responded by appealing to pribumi sentiment. The dispute thus
brought to the surface the underlying tension between the social roots of
Indonesian economic nationalism and the necessity of international
integration, a tension ultimately translated into a struggle for influence within
the state apparatus itself.

The drive for industrial sovereignty formed the constant backdrop to the
conflicts played out between principal and local partner. The Affans had a
reputation for being fanatically pro-pribumi, and signs outside their companies
invariably bore the proud prefix, 'a pribumi company.' Like other pribumi
nationalists in the industry, the Affans had long harboured aspirations to
establish an independent manufacturing capacity. After it was established in
1974, the joint venture, PT Innismo, was presented by Wahab Affan as the
embodiment of New Order industrial nationalism, of integrating with foreign
capital on favourable terms and thereby creating a technologically-capable class
of indigenous industrialists. Other joint ventures with Japanese auto-TNCs
established body presses in the mid-1970s, and the Affans also sought to
involve their principal in manufacturing ventures. Unlike Krama Yudha and
Astra, however, the Affans wanted Nissan to finance construction of a body
press which they planned to use as a base to diversify beyond the automotive
industry. Beginning with the fabrication of chasses, cabins, fuel tanks and rear
bodies, they proposed to launch into production of train carriages, radio
cabinets and TV sets. The example of Tata's vertical expansion in India using
German technology was mentioned as a model.

The likelihood that it would lose control of its subsidiary meant that
Nissan also lost confidence in its joint venture partner. Innismo had borrowed
heavily to finance its operations, and doubts about its ability to repay these enormous debts would have certainly contributed to Nissan's concern. But unlike groups like Astra and Krama Yudha which also borrowed large amounts to establish component manufacturing plants, the Affans were determined to manage the venture themselves, without close Japanese supervision. Whatever Nissan's fears about Indokaya's financial strength, the auto-TNC was apparently most concerned that the Affans' move into manufacturing was likely to take place at a rate beyond its capacity to control. According to confidential but reliable sources, Nissan stated that it was satisfied with the Affans' management of the joint venture and even considered their manufacturing aspirations sound, but found the Affans' press plant proposal unacceptable due to differences over management. After two years of negotiations, this proposal was finally rejected in January 1978.

Both partners in the joint venture moved to champion state manufacturing policy in 1979. At a time when the industry was growing very rapidly, production of Datsun's had stagnated, with its share of production falling from a peak of 9.2 per cent in 1977 to 5.8 per cent (Table 5.6). Both partners hoped to win further state orders and thereby improve Datsun's market position. Both attempts were premised, however, on the exclusion of the other partner.

The Affans had established their own PMDN steel press company in 1978, PT Indopres. After Nissan rejected further overtures to become involved, alternative sources of technology were sought. Large loans were eventually provided by European banks for the importation of machinery from a German engineering firm, Thyssen Rheininstall Technik. In 1979 the largest, most modern steel press in Indonesia was built on the outskirts of Jakarta (Tempo, 2 May 1981: 72-73). The Affans drew up blueprints to produce CVs under an Indonesian brandname.

In mid-1979 Nissan made a counter-offer to the Department of Industry to construct a huge, $200 million engine machining and finishing plant. In what

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6 US$70 million had been loaned to PT Innismo by various foreign and domestic banks and financial institutions, of which $30 million was still outstanding in 1980 (BN, 16 Sep 1980: 17).
7 The Affans argued that the question of control was at the heart of the dispute, claiming that Nissan resisted because it knew that "whoever controls the steel press can control the automotive market in Indonesia" (Tempo, 27 Sep 1980). Evidence for this claim is provided by the fact that Nissan later relented after Indokaya had established a steel press using German technology, stating it would allow the Indonesian importer to use the German machinery to produce Datsun bodies. However, approval was subject to the proviso that Nissan have full control over what was produced at the factory.
turned out to be something of a breakthrough for the department’s industrialisation plans, Nissan also agreed to use the output of Krakatau Steel to manufacture engine blocks (ICN 158, Sep 1980: 6). According to several of those interviewed, this offer was conditional, however, on the replacement of Indokaya as sole agent by Sofyan Wanandi.

The Affans responded to Nissan’s offer by appealing to pribumi sentiment, galvanising political support with claims that Nissan had been infuriated by the loss of ‘imperialist’ controls. Their association with a heritage of indigenous Sumatran trade and their allegiance to national industrialisation policy generated widespread sympathy for the Affans’ cause, support which was crucial to their ability to persist in the face of opposition from the principal. The link with Thyssen, for example, was reportedly created on the initiative of the Ministry of Defence (Tempo, 27 Sep 1980: 56). The Affans consolidated their support within the bureaucracy during 1979, and Suhartooyo was able to convince his Minister to support the Indopres alternative. Nissan’s application was rejected by the BKPM on 13 November 1979 (Document #2).8

Until now, the political influence of the Affan family seems to have prevailed over that of Nissan. But in 1980 the Japanese auto-TNC brought increased pressure to bear on the Affans to force them to step down from Innismo. When that proved fruitless, Nissan apparently decided to seek government intervention on its behalf, efforts which became more insistent when Suhud’s second rationalisation threatened in late 1980.

The trading company Marubeni, Nissan’s trading link with its overseas partners, stopped the supply of CKD vehicles to PT Innismo in early 1980 pending full repayment of outstanding loans and the withdrawal of the Affans from the joint venture. The Affans would not yield, however, so Marubeni’s efforts were redirected towards senior government officials. Legislation to protect national importers meant that sole agents could not be removed without special permission from the Minister of Industry. Despite the political advantages enjoyed by the Affans, in late 1980 Marubeni was able to win Suhud’s accession to its demands. An investigative team within the Department of Industry headed by Suhud corroborated Marubeni’s complaints

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8 According to one report, BKPM later ordered Japanese representatives in PT Innismo out of Indonesia because they had tried to "supervise, control and dictate to the Affans" (Promosi Ekonomi, 15 Jun 1984: 59). Such accounts might be dismissed as journalistic embellishment were it not for the expressions of support for the Affans made by state officials during interviews. Whatever the state of disharmony within the joint venture, the Affans’ efforts to marshall political support evidently forced the government to support their plans.
of financial mismanagement, urging the Affans to stand down (Kompas, 3 Sep 1980). Suharto himself intervened and asked General Alamsjah, the 'financial general' who was personally close to the 'Lampung' group of Sutowo, Ning and Affan, to persuade the Affans to accept a compromise without an unseemly court battle (Merdeka, 24 Sep 1980).

The Affans responded by mobilising public opinion. One spokesman condemning "these savage economic animals we have become so tired of," and even raised the possibility of a repetition of the 1974 Malari riots over the issue (AWSI, 1 Oct 1980). Such hyperbole notwithstanding, there was a chorus of protest from Indonesian academics, politicians and prominent Kadin figures against Japanese capital. The Secretary-General of the Pribumi Entrepreneurs Association, HIPPI, Himpunan Pengusaha Pribumi Indonesia, declared that the dispute proved Japan wanted to prevent the development of Indonesian industry (Tempo, 13 Sep 1980: 51). The reaction from Rachmat Witular, chairman of the parliamentary commission on industry, typifies this spirited nationalist response. "The Japanese are imperialists by nature. What they once did militarily is today done by economic means" (Mutia, 29 Oct 1980). Adnan Buyung Nasution, chairman of the human rights organisation, LBH, the Legal Aid Institute, pointedly called on the government "not to allow Japan to colonise Indonesia for a second time" (Eksekutif, Oct 1980). Nevertheless, in December Suhud gave the Affans an ultimatum to step down from the management of Innismo and take a minority share in the joint venture (Kompas, 7 Jan 1981; 9 Jan 1981).

Interviewees suggested several plausible reasons for why Suhud switched his support to Nissan. Negotiations on engine localisation had stalled and Nissan's offer to invest in an engine plant may have been the breakthrough his plans required. Others suggested that Suhud was no longer prepared to defend a business group whose managerial competence was now being challenged. Finally, Marubeni held direct negotiations with senior state officials, and some felt it was these officials who convinced Suhud that Marubeni's terms should be accepted.9 Whatever the precise mechanism behind the Affans departure from Innismo, the outcome was that nationalist

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9 Several of those interviewed claimed that Maj-Gen Soedjono Hoemardani, still a moving force behind CSIS, was instrumental in getting his fellow CSIS director to reverse his support for the Indopres venture. One magazine article hints that Soedjono's "sudden appearance" in the corridors of the Department of Industry was related to the harsher terms Suhud gave Indokaya two weeks later (Tempo, 13 Jun 1981).
criticism was subsequently redirected towards an alleged 'Japan Lobby' within the Department of Industry.\textsuperscript{10}

The Affans accepted Suhud's ultimatum, subject to the condition that the new majority shareholders be pribumi.\textsuperscript{11} In early 1981 five prominent Kadın business figures made a noteworthy attempt to shore up Indokaya's position and capitalise on the wave of pribumi nationalism the dispute had generated. This coalition made a formal offer to take over the Nissan license, purchase the Indopres steel plant and absorb Innismo's considerable debts. Probosutedjo appealed to Kadın for support in bringing about this "quick solution" to the dispute (SK, 4 Jun 1981).\textsuperscript{12}

Although the Affans had accepted Suhud's ultimatum, the government was effectively immobilised by divergent business forces. The choice of a new partner was prolonged for almost a year. Nissan publicly surrendered the choice to the Department of Industry (Kompas, 4 June 1981). The pribumi consortium was, however, unacceptable to Nissan and its government supporters. The rumour that Marubeni was privately pressing Suhud for its own choice, Sofyan Wanandi, and that the Nissan crown might pass to this Chinese business figure, meanwhile amplified pribumi nationalist criticism of the so-called 'Japan Lobby'. Even though the major institutional actors were intent on the Affans' removal, the press campaign had the effect of strengthening the position of the pribumi claimants. This prevented the government from conceding to Nissan's preference for fear of exacerbating the political backlash. The long delay suggests that the political weight of the auto-TNC was balanced by that of its pribumi opposition, indicating the persistent political influence of economic indigenism into the 1980s.

Unable to act decisively, the government failed to resolve the issue before the agency license (PKT) expired. In early 1982 the agency was finally transferred to a new company, PT Wahana Wirawan, the 'Echo of Valour',

\textsuperscript{10} The most strident editorial criticism of this so-called 'Japan Lobby' typically came from the nationalist newspaper, Merdeka (e.g., 24 Sep 1980).

\textsuperscript{11} They also insisted that they be chosen by a consultancy firm associated with Sumatran trading interests. PT Konsultasi Pembangunan was established in 1968 following the release from jail of the Armed Forces officers, Sumual, Hussein and Simbulon, who had been arrested for involvement in the PRR/Permesta rebellions in the late 1950s (Tempo, 28 Feb 1981: 52; Robison, 1977, Appendix B: xxiii). Illustrating the maze of interlocking political and economic interests that constitutes the Indonesian business community, Harvey (1977: 151) reports that these officers were close to Lt-Gen Ali Murtopo, th founder of CSIS.

\textsuperscript{12} This company, PT Yudhistira Utama, had been established in 1980 by Probosutedjo and Thaib Affan with minor shares held by Ning, Eman and Djukardi Odang, director of the state Isuzu licensee, PT Pantja Motor (Appendix 5). It was later fully taken over by Probosutedjo, and absorbed PT Indopres.
owned by the Association of Retired Armed Forces Officers 'Pepabri', and directed by Sukardi, a senior Golkar figure and former adviser to Suhud. The Affans had been convincingly defeated.13

The immediate effect of the Indokaya-Nissan dispute was that the government lost the business support necessary to implement both industrialisation and rationalisation policies. The broad acceptance of Suhud's formulae had allowed the government to formulate a development strategy for the industry, relatively independent of business influence. This comprehensive scheme for restructuring the industry could not be realised, however, due to opposition from both business lobbies. The attempt to effect a rationalisation by promoting small-scale industry and restraining the growth of the conglomerates had given rise to the enmity of the large Japanese subsidiaries. Now, the failure to extend state protection to a prominent indigenous business group had snapped the alliance with the pribumi sector. Rather than this independence in policy formation indicating state autonomy, a more appropriate analogy is of the state set adrift, unable to implement stated objectives because of the failure to secure business support.

The long-term significance of the conflicts surrounding rationalisation policy is that they marked the limits to the state capacity to implement an automotive development policy. Political considerations meant the government could not promote industrialisation without regard for issues of national sovereignty, especially the force of economic indigenism. Yet neither could the protectionist demands of national business be supported without reference to international investment requirements. The Indokaya dispute shows how the government was forced to compromise the indigenisation objective in order to provide appropriate conditions for auto-TNC investment. The Indonesian state has a degree of independence in determining the terms of integration between national and international capital, but cannot change structures set by the international capitalist system.

13 Pepabri had little business experience and was expected to be quickly absorbed by a capable business group. In 1984 it was rumoured that Wahana Wirawan would be taken over by the Salim group, but I am uncertain of its current status.
10.2 The Politics of Localisation

The nature of state-business relations in the industry during this period is best demonstrated in policy for the localisation of major components. In 1980 it was uncertain which business groups would benefit from state protection, as the criteria for implementing rationalisation was still undecided. By 1984 the melange of intersecting state and business interests in the industry had begun to clear. The following section will illustrate how the state orientation towards indigenism was now overshadowed by the industrialisation objective, how state protection was extended to a handful of national capitalists closely associated with auto-TNCs, and, finally, how this internationalised sector of the industry had become a significant force in shaping state policy.

The course of policy encouraging engine manufacture illustrates that a shift in state authority took place between 1980 and 1982, away from advocates of state-led industrialisation and towards proponents of an integrationist form of economic nationalism.

10.2.1 Drawing in the Auto-TNCs: Engine Manufacture

The predilection to confer upon the state the task of pioneering engine manufacture had lingered within the bureaucracy ever since Chairul Saleh's ministry in the early 1960s; the idea was periodically refloated for almost two decades thereafter. During Repelita I (1969-1974), state involvement in engineering ventures had been limited to the production of marine and agricultural machinery, namely the Deutz pumps produced under license by the state corporation, Boma-Bisma-Indra, (BL, 4, 1977). The aspiration for a leading state role in the prestigious automotive industry, however, surfaced once more during the oil boom of the mid-1970s. Minister Yusuf and other senior officials declared that Krakatau Steel and Barata smelters would eventually be used to pioneer CV engine production (BY, 14 Nov 1974; SK, 4 May 1975). During Suhartoyo's localisation campaign, it was widely accepted that the state corporation, Bisma, would produce Deutz diesel engines and that these would be 'commonised' for use by all makes (BN, 4 May 1977).

Following the 1976 Pertamina crisis, the industrialist ambitions of officials within the Department of Industry had come under closer scrutiny from financially-minded technocrats. Minister of Finance, Ali Wardhana, had long considered the automobile manufacturing objective an unwarranted extravagance, and he finally torpedoed the aspiration for state-pioneered
engine production. In an effort to salvage the manufacturing scheme, proponents of automotive industrialisation evidently tried to induce an auto-TNC response. The Directorate (1977a: 2; 1978: 5) proposed that the government construct foundries and forging shops, but this involvement was now seen as a means to attract auto-TNC investment. Firms from West Germany, Japan and England were persuaded to carry out feasibility studies for state-TNC joint ventures in CV diesel engine production - to eventually use engine blocks produced by Krakatau Steel. In 1978 the Department of Industry issued Terms of Reference for CV engine assembly and publicised a depletion scheme leading to full production.

These early attempts to draw auto-TNCs into engine production are generally regarded as rather amateurish. They certainly failed to produce a meaningful response. Daimler-Benz kept its options alive by submitting a Letter of Intent for engine manufacture, but this was accompanied by a feasibility study evidently intended to convince the government that the project was not economically possible (Interview, #29, 20 Sep 1984). Perkins's agent demonstrated that its diesel engine was a suitable candidate for engine commonisation (BN, 4 Dec 1978: 10). The principal remained unimpressed, however, and later withdrew from Indonesia altogether. Finally, although I have no confirmed information on Mitsubishi's response to this 1978 campaign, it is nevertheless likely that they were just as sceptical. One foreign representative said he was urged by Mitsubishi's Tokyo office to "stop talking to the BKPM people - or they may think they can actually do it." 

A few years later this situation changed rather dramatically. During 1981 nine auto-TNCs submitted concrete engine manufacturing proposals, and by 1982 seven engine assembly plants were planned or already under construction: Toyota ($39.4 million), Mitsubishi ($141 million), Isuzu ($29 million), Daihatsu ($121 million), Daimler-Benz ($29.5 million), Hino ($33.3 million) and Suzuki ($20 million).

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14 Most interviewees specified these firms as Perkins, Mitsubishi, and Benz, although one report claim the German company was Deutz (ICN 169, Mar 1981).
15 This interpretation is supported by an examination of the unsophisticated Terms of Reference, which lump hundreds of engine components into no more than eight broad categories. One foreign representative said his principal considered "the whole thing crazy, a lot of eyewash." Some interviewees suggested that they were simply an elaboration of the simple, air-cooled Deutz water pumps.
16 The 1981 submissions also included two proposals which did not proceed, those of Deutz and Perkins (ICN 174, May 1981: 45). Figures on investment cited here taken from ICN (263, Feb 1985: 29), interviews, and corporate sources.
To what do we attribute this flood of applications? The most obvious explanation, and the one usually emphasised, is the continuing inflow of oil revenues associated with the 'second oil boom', with production figures doubling between 1979 and 1981. Auto-TNCs were obviously more prepared to invest in a rapidly expanding market, and the increase in state funds is usually singled out as the cause for these applications.

Beyond this important economic dimension, however, a number of factors assured auto-TNCs that long-term investments were worthwhile. Firstly, the state commitment to automotive industrialisation had persisted. Engine production had become a matter of national pride and the muffled response to the 1978 attempt failed to dampen the resolve of state officials. A BPPT official involved in negotiations over engine manufacture gave an insight into how the earlier failure was translated into a state commitment to engine production. In a description recalling Habibie's industrialisation formula, he complained that the national business class was disorderly, *tak tertib*, and that this diversity of interests had allowed foreign firms to sabotage the scheme.

This taught us that we have to direct, guide and organise the industry (*mengarah, membimbing dan mengatur*) so that production runs smoothly, so that business conflicts don't slow down the industrialisation effort. Only after business was put in order (*di-beres-in*) were we able to form a united front, 'a wall'. Then we showed the multinationals we really meant business

(Interview, #16, 3 Mar 1984).

Renewed efforts were made to interest the three auto-TNCs. Suhud had negotiations with Mitsubishi in Japan in late 1980 and again in Jakarta in early 1981, with discussions focussed on a proposal to invest $120 million in engine assembly (*SH*, 18 Feb 1981). After his appointment as Chairman of BKPM in 1981, Suhartooyo also gave priority to major component production, redrafting the 1978 Terms of Reference for engine assembly and manufacture. The Daimler-Benz representative described state pressure as directly responsible for its engine manufacturing proposal.

We had known since 1976 that the manufacture of vital components was inevitable. But it was forced on us at great pace. We already had our foot in the door, but we had to agree to

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17 Engine components were now listed. In the first stage of the four-year schedule, CKD engines would be assembled locally. Imported forged steel would be machined and finished to produce seven minor engine parts during Year Two, major engine parts (cylinder head, crankshaft, crankcase) in Year Three, and cylinder blocks in Year Four (BKPM, 1981).
assemble engines just to keep it there. We had to invest just to safeguard our previous investment.

(Interview, #29, 20 Sep 1984)

A second factor stimulating the rush of investments was a climate of heightened competition between foreign firms. Competition between Japanese auto-TNCs is particularly intense in Southeast Asia, despite the image of 'Japan Incorporated' that prevails in the region.18 Nissan's offer to manufacture engines had been made in 1979, but it was not clear until 1981 that this would not proceed. Uncertainty over Nissan's plans seems to have been a major consideration in Mitsubishi's decision to invest. The Krama Yudha Vice-President recalled that his principal had consistently opposed engine localisation, urging the government to relax the schedule. "But like all Japanese firms, Mitsubishi wanted to invest once they heard another company might want to come in" (Interview, Zamzami, 22 Sep 1984). Other Krama Yudha officials stated the company had convinced Mitsubishi to preempt its rivals by investing in engine manufacture. The auto-TNC decided to make Indonesia the base for its Southeast Asian operations. Closely following these negotiations, in February 1981 Benz followed up its earlier proposal with a Letter of Intent to invest, also deciding to make Indonesia the base for its operations in the Pacific and Asia.19

The third and probably most important factor behind the auto-TNC response was the easing of restrictions on the number of market entrants. Previously, the attempt to interest auto-TNCs in engine manufacture had been based on the unwritten understanding that the market would be restricted to three firms, and engines produced would then be 'commonised' to other makes. Even as late as 1980, Suhartooyo proposed that state purchases be used to encourage the incorporation of Deutz engines in other CVs (Bisnis, Jan 1980: 8). During negotiations on engine production, however, the Japanese firms rejected engine commonisation on the grounds of technical specificity and quality control (Interview, Tabiat, 23 Jun 1984).20 When it became apparent

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18 This is a central thesis of a US scholar studying Japanese auto-TNC investment in Southeast Asia. I am indebted to R. Doner of UCLA for showing me early drafts of his doctoral dissertation, currently in preparation (Doner, 1985).
19 Outside Brazil and Germany, the heaviest concentration of Benz's production operations is in Indonesia. It has a minor share in Tata of India, 30% of the equity in Iran and a sole agency in Malaysia, but only in Indonesia does it have a majority share in an overseas production venture.
20 Other state officials and business representatives I interviewed were unanimous on this point. It is supported by Doner's (1985: 58) findings drawn from interviews in Jakarta and Japan.
that auto-TNCs would not concede this point, the government decided to allow firms to produce their own engines.

By early 1981 Nissan, Mitsubishi and Benz had all made interested noises, and the rush of applications soon followed. It seemed likely that rationalisation would be based on localisation initiatives, so other firms explored the possibility of engine manufacture. Foreign investors rely heavily on their local partners to gauge the likelihood that policy will actually be enforced and, local competition reinforced the rivalry between auto-TNCs. Faced with the possibility of losing their international link as Suhud’s second rationalisation approached, local partners pressured their principals to display an interest in engine manufacture. Within two months of Mitsubishi’s and Benz’s Letters of Intent, five other auto-TNCs had submitted concrete proposals: Toyota, Daihatsu, Isuzu, Deutz, and Perkins (ICN 174, May 1981: 45). By the end of the year Hino and Suzuki had followed suit.21

The surge of applications made foreign firms more susceptible to pressure to localise production. Foreign representatives stated that in August 1981 Suhartoyo presented them with a six-week ultimatum to submit 'Form A', detailing the capitalisation, shareholding and production schedule of the proposed engine manufacturing joint ventures. This deadline severely tested the commitment of the seven auto-TNCs to the Indonesian market. But most complied, moving a step closer to engine localisation. In late 1981 six were issued with engine manufacturing licenses: Benz, Toyota, Mitsubishi, Daihatsu, Isuzu, and Perkins (AWSJ, 15 Oct 1981). In 1982 the applications of Hino and Suzuki were also approved, although Perkins dropped out.

At the same time as this tangible success in attracting auto-TNC commitments enhanced the authority of BKPM, so did it force the rapid retreat of those government officials advocating direct state involvement in engine production. It had previously been axiomatic that state investment in engine production was necessary, not only to attract foreign investment, but also because major component production was considered a strategic industry. The interdepartmental committee on automotive policy still proposed that the state take a share in these ventures, "given their great importance and the size of the investment needed" (Interdep, 1981: 8). But according to the SRI consultant

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21 The investment application procedure is relevant here. Once BKPM approves an investment proposal, a temporary permit (SIS) is granted. Before the final permit (SIT) is approved, usually about three months later, the SIS is circulated to other departments and is thus bound to have become common knowledge within the industry.
involved in drafting the BPPT reports, Habibie began to lose interest in the industry after the rush of applications effectively precluded state control of engine production (Interview, Duncan, 22 May 1984). As conceded by the BPPT official who was in charge of engine negotiations, after mid-1981 it no longer seemed necessary to commit state financial resources to engine production.

Sure, the government should generally take the lead in bringing about transport self-sufficiency, especially in producing trains and ships. But the private sector wanted to invest in engine production, so the government pulled right out. Why should we worry?

(Interview, Ramelan, 10 Oct 1984)

The locus of policy formulation shifted from BPPT and the Interdep, towards an alliance formed between Suhartooyo and his former colleagues in the Directorate. In 1982 these two bureaucratic centres began drawing up a deletion schedule for engine manufacture, eventually released as SK371 the following year (Interview, Moedahar, 11 Jul 1984). Engine assembly was slotted to begin in January 1985 and, as in Suhartooyo's earlier formula, an ambitious four-year deletion programme leading to full manufacture was laid down.

10.2.2 - Policy Indigenism: Localisation of Major Components

The automobile localisation programme is justified largely in terms of the opportunities for ancillary industries that would be created. Yet in the early 1980s the industry was still marked by the effective exclusion of small-scale industry. Little reliable information is available on component production in Indonesia, and what exists is scattered. There is nevertheless sufficient evidence to conclude that ancillary industries have not developed as planned, for compulsory localisation has not created a class of small, independent parts suppliers. From surveys of a number of major assemblers and component suppliers, Thee Kian Wie has found that increased local content has been mostly achieved through in-house production, by companies linked to the final assemblers, or, if sourced externally, by joint ventures with large engineering TNCs. Where subcontracting arrangements with small suppliers exist, these tend to be exclusive relationships, with production vertically integrated with the auto-TNC subsidiary (Thee, 1984: 27; 35-38). Today, even relatively simple universal components such as exhaust systems are all produced in-house (ICN 203, Aug 1982: 27). The major beneficiaries of the
localisation drive, therefore, have been subsidiaries of firms with a substantial stake in the market, namely Japanese auto-TNCs.\textsuperscript{22}

A balance was sought in the early 1980s by encouraging US and European firms to form joint ventures for the manufacture of major components with pribumi partners. Although Japanese auto-TNCs refused to incorporate engines that were not make-specific, this was not the case for other major, 'non-engine', components. During my series of interviews with state officials, it became evident that all three political power centres - Suhud, the BPPT, and the Directorate-BKPM alliance - had made concerted efforts to foster linkages with pribumi manufacturers for the production of transmissions, drive shafts, axles, steering systems and clutch systems, but with minimal success.

Engaging these firms in local production was intended to have a number of beneficial effects. It would, firstly, reduce Japanese market dominance and diversify sources of technology. Second, economies of scale would be more easily achieved by independent producers supplying a number of firms. Finally, the politically most significant objective was to spread production activity more widely. New market entrants would not be vertically integrated with the established Japanese assembly firms, and planners envisaged that subcontracting agreements with small-scale producers would be easier to arrange.

Two reports illustrate this policy effort. One of the studies carried out by the BPPT and the Stanford Research Institute noted that large production 'gaps' opened up significant opportunities to foreign parts manufacturers. New entrants would need regular inputs of subcomponents, so the report recommended that the government provide technical assistance so that small-scale manufacturers could supply these parts. The gist of the report was to encourage foreign manufacturers to draw small-scale enterprise into their production networks, thereby creating what it called a 'more layered' production structure (BPPT-SRI, 1981c: 58, 70).

\textsuperscript{22} My own enquiries suggest that subcontracting arrangements owe more to political pressure than economic considerations. Senior staff of two Japanese-linked firms volunteered the opinion that subcontracting to small producers was a form of 'obligatory charity,' necessary to maintain a clean corporate image but necessitating the redeployment of scarce skilled management (#36, #39, #42). Thee (1984a: 87) has elsewhere recommended that the government refrain from such across-the-board localisation requirements, and instead promote subcontracting where small-scale producers already have the necessary skills; or focus on vocational and technical training programmes (Thee, 1985: 230-231).
The second report was commissioned by the US Trade and Development Program. It took as its starting point the observation that, at some point in the future, it would be necessary to involve independent producers outside the Krama Yudha-Mitsubishi and Astra-Toyota complexes; it was vital that US firms establish a market presence before this point was reached (Swaminathan, 1982: 33). Since assembly, body production, and manufacture of simple components were all closed off to new entrants, the study recommended production of major components as a suitable point of entry, particularly in view of the technological edge held by US firms. After interviewing 24 local and foreign businesspeople involved in the industry, as well as senior officials of the BPPT, BKPM and Department of Industry, the report recommended that joint ventures with pribumi partners should be established in view of the government programme to encourage indigenous entrepreneurship. This would attract state protection in the form of investment incentives and exclusive production rights.23

As of 1984 at least, this attempt to foster links between western manufacturers and pribumi parts suppliers had not been realised. A number of independent western component manufacturers were approached to produce for the Indonesian market. Bosch (electrical parts), Daikin (clutch systems), Champion (spark plugs), and Dana-Spicer (axles and drive shafts), as well as the transmission manufacturers Peugeot, ZF Germany and Eaton. All had responded positively.24 The manufacturing ventures which succeeded, however, were those undertaken by national capitalists linked to Japanese auto-TNCs. An investigation of particular cases will indicate some of the political and economic obstacles to attempts to realign production arrangements towards small-scale producers.25

Local Transmission Production

One investment proposal that excited considerable interest in the early 1980s was Peugeot's offer to set up a local plant for the assembly of imported transmissions. The government had sought the participation of a number of western producers, but Peugeot showed particular interest. The firm was keen to secure a foothold in the market without

23 An element of brinkmanship in the attempt to draw US firms into the market is evident in this report. Ramelan is quoted as recommending that companies submit detailed manufacturing proposals within three months. If they fail to do this, he warns, they "may not have another opportunity to do so" (Swaminathan, 1982: 24).
24 Others, including Rockwell International (transmissions) and Borg-Warner (clutch systems, transmissions), were also approached, but did not respond.
25 The following information on axles and transmission negotiations is chiefly derived from 13 interviews with businessmen, independent observers and officials of Giamn, Gaakindo, the BKPM and the Department of Industry. The findings are supported by information collected by Doner in 1985.
committing itself to extensive operations which could involve large outlays in the future (Interview, Nurluddin, 24 Jul 1984). A consortium of prihubi businessmen established a joint venture partner, with shares equally divided between Proboesudejo, Eman and Pantja Motors (Appendix 5). In line with state policy, subcontracting arrangements were made with smaller producers to replace imported sub-components.

The project was thrown into jeopardy by opposition from Japanese auto-TNCs. Before a proposed automotive joint venture is licensed, the BKPM requests a 'letter of approval' from all principals stating that the component can be incorporated in local assembly. The Japanese firms refused to do this, claiming they could not ensure quality control. This refusal evidently became a major source of friction between Suhud and Suhartooyo. Whereas the Minister of Industry strongly supported the Peugeot venture and proposed that it should be encouraged by indicating that the use of local transmissions would soon be made compulsory, the BKPM Chairman considered such stipulations unrealistic. He felt that this proposal symbolised the utopian faith in state intervention to overcome economic dualism.26

I believe there are two economies, one big and one small. Each has its own logic, its own laws, its own speciality. They run parallel to each other and can't be linked up just by will. This sort of policy is just artificial; it has meant that something has to achieved at all costs; and if nothing is really there, something is just dreamt up; it's just invented (mengada-ada).

(Interview, Suhartooyo, 10 Oct 1984)

In the meantime, Astra established a joint venture to produce transmissions using Toyota technology with Edward Wanandi, younger brother of the CSIS director, Yusuf Wanandi, and Sofyan Wanandi, the businessman associated with the failed Garuda Mataram venture. This rival PMDN company, PT Wahana Eka Paramitra, was licensed in 1982 (Appendix 5). Faced with uncertain market prospects and unclear about future policy directions due to the opposition between Suhud and Suhartooyo, in 1983 Peugeot withdrew, leaving the market to the Astra subsidiary.

**Local Axle Production**

One project that came closer to realisation was the attempt by Dana-Spicer to establish a plant for the assembly and manufacture of rear axles and drive shafts. Spicer is a division of the US-based Dana Corporation, an independent producer of major components which first expanded into the Asian region in the 1970s, establishing operations in the Philippines and South Korea. It was invited to set up

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26 Although Suhartooyo mentioned neither Suhud nor Peugeot by name, he left little doubt about the "senior state official" and the "gearbox proposal" to which he referred. I was unable to interview Ir Suhud, but his attitude to the project was confirmed by business figures associated with both the Peugeot proposal and its rival from the Astra group.
in Indonesia in the late 1970s. PT Spicer Indonesia was established as a joint venture with PT Pendawa Sempurna, a subsidiary of M. Joesoef’s Star Motors (TBN 675/76). By all accounts, Dana’s involvement was originally based on commitments that investment would secure exclusive production rights.

Two developments hampered realisation of the project. Initially, financial differences with Joesoef over funding caused a long delay in licensing the venture. Joesoef also had a costly public brawl with his former business associate, Ibnu Sutowo, over ownership of the Jakarta Hilton Hotel, which resulting in a sharp fall in his access to political support. Not only could he no longer help the joint venture financially; Joesoef was now unlikely to win state protection.27

The second obstacle flowed from the first. At a time when a ban on CBU axle imports was being discussed, the long delay in licensing the project encouraged other companies to move in. Another Astra/Wanandi joint venture was established to produce axles using Mitsubishi technology, the PMDN company PT Inti Ganda Perdana (Appendix 5). When both Spicer and IGP were licensed in 1982, Dana protested the loss of its captive market. After much negotiation, the government decided to split the market, with axles for CVs under one ton to be provided by Spicer and those for larger CVs by the Astra subsidiary.

One interesting aspect of this case was the attempt to overcome Dana’s objections to this arrangement. It was mentioned earlier that the component producers association, Giamm, had become the ‘favoured child’ of the Department of Industry. The pioneering spirit of prabumi manufacturers in the mid-1970s was still evident in the association, and interviewees noted that the association tried concertedly to convince the Japanese firm of the product’s suitability.28 Giamm officials even claimed that in order to maintain Dana’s interest, they were able to give the US firm prior notice of a decree eventually issued in 1984 gazetting a deletion programme for axles, (Appendix 2). These efforts were ultimately unsuccessful, however. Uncertain about its future in a divided market and dissatisfied with its local partner, in 1984 Dana withdrew, leaving future axle production also to the Astra subsidiary.

Two other western-pribumi joint ventures merit mention here. Although they did not involve major component production, they are further examples of how the efforts of state officials to promote indigenous ownership of automotive manufacturing ventures failed in this period.

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27 Doner (1985: 65) goes further. Because of the law protecting local partners, Dana, he says, was "plagued with a disreputable partner it could not get rid of."  
28 One Giamm official argued that the threat that German and US firms would enter component manufacture had allowed the government to tighten restrictions on Japanese auto-TNCs. "We have divided and ruled the Japanese. They have been 'softened up' (lunak) so we can now make localisation compulsory" (Interview, Safiun, 18 Jul 1984).
American Motor Corporation-ISC
AMC attempted to regain a foothold in the market in the early 1980s via component manufacture, repairing body dies, leafspring equipment and welding gear that had been laying idle at the Indonesia Service Company's Priok plant since the 1950s. New spray paint workshops were also constructed. BPPT was particularly keen to encourage AMC to enter a joint venture with Ning in ISC, and at one point the US firm was considering taking up an equity share in ISC to produce Jeeps (Swaminathan, 1982: 15). In 1983 AMC decided to withdraw, however, unconvinced of the market potential faced with competition from the Japanese firms.

Superior Coaches
The brainchild of Suhartoyo, PT Superior Coach had been established in the early 1970s as a joint venture between a coalition of prabumi businessmen and the US body manufacturer, Superior Coaches of Ohio (Appendix 5). This major CV body producer later won large contracts for Jakarta buses, reportedly in an attempt to draw General Motors into the market (Interview, Nurluddin, 25 Oct 1984). The company ran into financial difficulties, however, and was forced to move into the Astra camp in the early 1980s. "Suhartoyo gave us advice. But we had to help out the prabumi companies, so we bailed out Superior Coaches" (Interview, Gunawan, 3 Sep 1984). By 1984 the company was mainly involved in pressing Toyota and Daihatsu bodies.

A number of plausible reasons were suggested by interviewees for the failure of these efforts. A common explanation was that the prabumi business groups weren't reliable; or if they were, then they had little business sense. In this view, the foreign partners simply decided it was too risky to invest. State officials, on the other hand, tended to blame the obstinacy of the Japanese auto-TNCs for the failure to use local components. When western firms threatened to come in, it was argued, the Japanese would preempt the move by quickly licensing their local partner to produce Japanese components, while refusing to use components produced by their rival. Thus, according to a senior BKPM official involved in basic industry policy, "we negotiated with the Japanese over and over, showing them they could use the Peugeot transmissions. But they just would not move. They would not compromise" (Interview, #21, 10 Oct 1984). Finally, a number of businessmen associated with western auto-TNCs argued that these refusals demonstrated the shortsightedness of state officials, rather than manipulation on the part of the Japanese. "Don't they realise that, if given the choice, the Japanese will never agree? So by making approval conditional on their acceptance, they're allowing Japan Incorporated
to establish itself here" (#29). More than one national businessman interpreted this reluctance as evidence that key state officials were personally beholden to Japanese interests.

The Japanese would have used the Peugeot or Dana components if they were made to. But Suhartooyo won't do this. He knows they'll never agree. So, on the one hand he makes very brave and determined statements, but then throws them out the window to please Toyota. He's two-faced when dealing with the Japanese (dia main wayang dengan Jepang).

I was unable to ascertain the precise reasons for these failures, involving as they do auto-TNC corporate decisions concerning the relationship with both the Indonesian government and local partner. Each of these explanations seems applicable in some cases, but less so in others. One finds, for example, that the pribumi partner's poor financial and political health was a major obstacle to the Spicer venture. But this was not the case for the Peugeot transmission manufacturing plan, which came up against stiff resistance from Japanese firms. The success of the Japanese-linked subsidiaries may have involved external pressure, but it is also likely that their local partners seized the opportunity to take advantage of investment opportunities, persuading their principals to back their efforts.29

The significance of these cases for our purposes is that they provide a measure of state priorities in implementing industrialisation policy. The western/pribumi ventures could not succeed if the Japanese-linked firms were not compelled to incorporate their components. But such protection was no longer forthcoming simply because the local partner was pribumi or because subcontracting arrangements with small-scale suppliers had been made. Manufacturing had evidently became the policy priority, so arrangements favouring localisation were preferred. Automotive development policy was now hitched to the 'economically strong' fractions of national capital, where that term connotes not only major ethnic Chinese capitalists, the common euphemism, but those firms with strong international backing, both pribumi and Chinese-owned.

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29 According to a businessman involved in the Peugeot venture, Soeryadjaya had originally agreed to support the scheme, in which he originally took a small stake, but withdrew following pressure from Toyota (Interview, Nurluddin). On the other hand, the competition between Japanese auto-TNCs would have favoured the pribumi ventures. Doner (1985: 64) notes that Toyota offered to support Dana Spicer rather than use Mitsubishi technology.
10.2.3 - Internationalisation and Business Concentration

The politics of rationalisation and the politics of localisation came together over major component manufacture. As the localisation programme continued and investment requirements became more burdensome, the process of horizontal integration became more marked. With production concentrated around a handful of firms, policy-makers decided to rationalise the industry's ownership structure around these internationalised conglomerates.

One illustration of process was the further expansion of the Astra group, which absorbed a number of priumbi business groups who had run into financial difficulties. Mention has already been made of Eman's financial woes. By 1984 Astra had a managerial role in most of Eman's companies (Interview, P. Eman, 4 Oct 1984). Astra also took over the operations of Koerwet's assembly firm, PT Imermotor (Astbury, 1982). By 1982 Astra controlled the import agency for Nissan UD trucks (Appendix 4 note 17). In the early 1980s Astra also won the BMW license from Ning.30

The most unambiguous example of expansion via industrialisation policy in this period was the rapid growth of the Salim group's automotive interests. With the exception of the Volvo agency which he had held since 1972, legislation protecting existing agents previously prevented Liem Sioe Liong from directly expanding his interests in this profitable industry. In the 1980s, however, he was able to secure a number of agencies indirectly, by wielding control over associated manufacturing ventures. The agent and assembler of Suzuki automobiles, for example, was the ethnic Chinese businessman, Atang Latief, who also established the component manufacturing firm, PT Suzuki Indonesia Manufacturing. When this joint venture ran into financial difficulties in 1980, Latief borrowed heavily from Liem. As the need for investment increased, in 1982 Liem took control of both the assembly plant and the Suzuki agency, PT Indomobil Utama (Interview, #7). In the early 1980s Liem also took an equal share in Bachtiar Lubis's PT National Assemblers, and by 1982 effectively controlled it (Interview, Lubis, 6 Jun 1984; Grahame, 11 Jun 1984). Control of the assembly company allowed Liem to take over Lubis' sole agencies, Hino and Mazda.

30 Astra officials gave the impression that political concerns were as important as financial considerations in this expansion. "We got the Palingda license on the condition laid down by Suharto, that Eman have a share on the venture. We could kill him if we wanted to, since we take most of his output. But we won't do that because it would badly hurt our image" (Interview, Gunawan, Sep 1984).
The success of firms without the established capital resources of the Astra and Salim groups depended on the strength of their foreign connection, since investments in manufacturing guaranteed continued state purchases. The heavy involvement of Mitsubishi and Daimler-Benz, for example, secured the market place of Sjarnubi Said's PT Krama Yudha and Joesoef's PT Star Motor. This also seems to have been the case for the Honda licensee, Ang Kang Hoo (Hadi Budiman), who established the assembly plant Prospect Motors in 1973 and a body press in 1976. His import agency, PT Imora Motors, dominated the market for sedans in the early 1980s.

Those capitalists unable to attract auto-TNC support, by contrast, tended to merge with the internationalised firms. The investment barriers thrown up around the industry by localisation requirements made entry more costly for auto-TNCs. Ford, for example, made a concerted attempt in 1981 to expand its market share by local production of Ford vehicles. Protracted negotiations were held with a joint venture partner associated with Ning, PT Harapan Mobil Nusantara (Appendix 4, note 5). Negotiations collapsed in late 1983, however, and the US firm decided to market 'Ford Lasers' produced jointly with Mazda. The agency returned to IRMC, but Ning retains only 12.5 per cent of shares in the agency (Interview, Sarosa, 17 Sep 1984). The automotive interests of the former 'car king' have been divided up amongst more economically powerful business groups.31

This process has resulted in the concentration of production around a handful of powerful capitalist groups. By 1984 six agencies were held by the Astra Group (Toyota, Daihatsu, Peugeot, Renault, Nissan UD, BMW) and four by the Salim Group (Volvo, Suzuki, Hino, Mazda). Three groups controlled over 86 per cent of production: Astra (46 per cent), Krama Yudha (23 per cent), and Salim (18 per cent). Four other groups with secure but minor market positions were Ang Kang Hoo (Honda), Probusutedjo (Chevrolet), Joesoef (Mercedes), and the state-owned PT Pantja Motors (Isuzu). These seven groups together accounted for over 97 per cent of production (Table 5.6).

Suhud had originally intended that the industry would be consolidated into eight groups according to specified criteria, but in 1981 the Interdep decided

31 According to Sarosa, a majority share in IRMC was held by PT Lumbung Intan of Nursalim's 'Gajah Tunggal' group. But other sources maintained that IRMC had been absorbed by the Salim Group (#42) or by Star Motors (Swasembada, 10:3, Jan 1988: 18). The current status of Ning's Fiat agency, PT Daha, is not known.
to rationalise the industry according to engine manufacture. With engine production now left to the large internationalised firms, the ownership structure coalesced around those business groups involved in engine assembly. Each of the eight groups consequently became associated with one national businessman able to draw an auto-TNC into local assembly. Group II, for example, had originally consisted of only Eman's Holden agency, PT Udatimex, and Probosutedjo's Chevrolet agency, PT Garmak (ICN 174, May 1981). Although neither of their principals were willing to invest in engine manufacture, Probosutedjo was reportedly able to convince Isuzu to invest (Interview, #7). When the eight groups were finalised, the Isuzu licensee, PT Pantja Motors, was also included in Group II (Figure 10.1).

The chief beneficiaries of the policy of rationalisation via engine localisation were, not surprisingly, the internationalised firms. In the policy environment created by pursuit of the localisation objective, the ownership structure has coalesced around the capitalists with international support. Ramelan predicted that competition between national capitalists would soon cause the number of groups active in the industry to dwindle from eight to five: Astra would unite groups VI and VIII (Toyota, Daihatsu), group III would disappear because Nissan wouldn't return after its clash with Indokaya, while Group I, "the mish mash," consisting mostly of Ning's companies, is destined to carved up by the economically strong (Interview, 10 Oct 1984).

10.2.4 - Concluding Comments: Some Policy Implications

The corollary to this more concentrated ownership structure is that the groups which have survived have provided important support to the localisation programme. Delivering a guest lecture to the National Defence Institute, Lemhanas, a high-powered institute for the inculcation of socio-economic policy for senior bureaucrats, the President of Krama Yudha, Sjarnubi Said, defended the original deletion schedule. He recalled that business opponents had not been prepared to shoulder their nationalist responsibilities. "They all declared SK307 to be impractical, or unrealistic and so on, just as their foreign masters dictated" (Said, 1984: 5). Policy prescriptions placing further conditions on auto-TNCs were only feasible if supported by the firms that dominated the industry, and the national partners of engine manufacturing joint ventures were consulted constantly during the formulation of SK371. With engine localisation now linked to rationalisation, the partners of these manufacturing ventures have become important
advocates of the rationalisation-by-localisation strategy originally promoted by Suhartoyo.

If the deletion programme is implemented consistently and thoroughly, then others will naturally fall victim. So, rationally, we'll be able to count on one hand those makes that survive. (Said, 1984: 8)

Far from signalling state autonomy from business influence, the persistence of the localisation programme indicates closer alliances with major national capitalists.

The mechanism ensuring continued business allegiance to state policy is rivalry between different business interests. If one company becomes involved in a manufacturing venture, others will attempt to do likewise. When interviewed in 1984, all foreign representatives and most of national partners felt that the policy was irrational. But they also knew that the political momentum behind automotive industrialisation was such that they had to demonstrate they could adhere to the programme in order to win state contracts.

Sjarnubi knows that it's killing the market. But he has to beat the others to present himself as the pioneer of manufacturing. So he's politically tied to supporting the deletion scheme. Then he'll look for ways to get out. (Interview, Sugianto, 25 Jul 1984)

As this statement suggests, business competition to champion state policy has as much to do with image-making as investment decisions. But charges of 'unfair competition' have the effect of forcing conformity to industrialisation policy. Probosutedjo, for example, is the most vocal critic of the programme within the industry. Yet he too has found it necessary to move into manufacturing, establishing a steel press for body components, PT Sagitarius Sari (Appendix 5).

The fact that the major capitalists involved in the industry have become a major force behind industrialisation policy does not, imply that they have 'captured' state power as the pribumi firms did in the mid-1970s. Rather, different capitalist groups have drawn closer to particular segments of the apparatus. While this conclusion is necessarily somewhat impressionistic, the

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32 Much of this opposition seems to stem from the fact that his arch-rival, Liem Sioe Liong, has most benefited from the localisation programme. For example, Liem was recently granted monopoly rights to import sheet metal for the industry, a privilege publicly protested by Probosutedjo (Kompas, 29 Mar 1984).
evidence derived from the interviews indicates that the localisation drive has
deepened these mutual dependencies, as political centres seek private
investment and as business seeks state approval. Thus, Astra relies on its
personnel ties to the Directorate and the BKPM for valuable information on
likely policy developments, while the group becomes a model for the
localisation programme; Joesoef relies on Habibie to secure Benz's position
against the Japanese firms, while the BPPT uses Star Motors to promote its
version of technological progress; Probosutedjo relies on his close ties to the
Palace to safeguard the GM-Isuzu link, while he is a symbol of state support for
prabumi business interests. Liem's huge financial resources, on the other
hand, mean that the Salim Group is not dependent on political protection. I
was unable to establish the political connections of Krama Yudha-Mitsubishi;
perhaps it alone relied simply on its manufacturing efforts to win state backing.

To return to the issue raised at the beginning of this chapter, of whether
state or capital was behind the continuation of the industrialisation drive in
the 1980s, the answer, then, must be both. The state 'interest' in automobile
manufacture as an element of economic nationalism was established in the
early 1960s, and has been a leitmotif of industry policy ever since. But it has
been the 'economically strong' groups with firm international linkages that
have been better able to implement this policy. Consequently, the realisation
of this politically-determined development goal has entailed deeper
integration into international production networks in the 1980s, with the
limits to state autonomy in this industry increasingly marked by international
economic structures. As in Model 3 of the Internationalising state, nationalist
economic policy expresses the interdependence between the state and the
internationalised sector of the industry.
Chapter Eleven:
Conclusion

THE LIMITS TO STATE AUTONOMY

This thesis began on a theoretical note, expressing the intention of exploring the relationship between state and bourgeoisie in the early stages of capitalist industrialisation. The introductory chapters developed a heuristic framework for examining changes in that relationship, and the following chapters gave some indication as to how the empirical data might be interpreted. It is therefore appropriate to round off this study with some general conclusions about changes in the policy-making process and to reflect on what this tells us about the Indonesian state.

It is also appropriate to preface this discussion with some cautionary observations. We have seen that different models of the state-business relationship are applicable to different countries. The transmutations of the industry within Indonesia indicate that different models apply at different times. It is possible that the state-class relationship behind policy in other industries has been in a similar state of flux, and that sectors where the private sector plays a less important role might lead to different conclusions. Thus, further empirical investigation is necessary to ascertain the extent to which the increased political influence of the internationalised bourgeoisie is a general phenomenon. The purpose of these preliminary comments is to stress once more the importance of a degree of theoretical agnosticism in development studies, a preparedness to isolate underlying assumptions and reevaluate their applicability in the light of historical evidence.

These caveats aside, developments in the automotive industry have implications extending beyond the specific case, throwing a special light on the political economy of the Indonesian state. Automobile production and marketing absorbs a major portion of industrial investment and employs a significant share
of the industrial labour force, and for this reason alone warrants particular attention. More significantly, major national capitalists have long been involved in the industry, constantly striving to win political support and to bring overt and behind-the-scenes pressure to bear on policy-makers. The study therefore provides a measure of how relations between state and capital have changed more generally.

The thesis has indicated the way in which major capitalists in Indonesia have come to establish secure and significant capital bases, and shows that they are increasingly drawing their wealth from investment in productive enterprise. Their consolidation as a class makes political control and the withdrawal of state facilities correspondingly less and less likely. The evidence that national capital has become a major force sustaining nationalist automotive industrialisation policies also suggests that the growing power of capital has limited policy options, lending support to the argument that a capitalist class is increasingly subjecting state authority to its own purpose.

Paradoxically, automotive development policy also indicates that state leverage over the industry as a whole increased during the 15 years between 1969 and 1984. State proponents of automotive industrialisation were initially unable to evoke business interest. However, the restructuring of ownership in the early years of the New Order weakened the political influence of automobile importers, and state facilities were provided to capitalists who supported official industrial objectives. As centrally-allocated revenues increased in the following years and as firms competed for access to these funds, state authority over national capital grew correspondingly. Gaakindo, the representative organ of national automotive firms, did wield considerable political influence in the mid-1970s and was apparently successful in lobbying for policy changes. But its authority was largely derivative, flowing from the efforts of indigenous capitalists to implement nationalist policies already determined within the apparatus. By the early 1980s, the future of the industry
seemed to hinge on negotiations between state agencies and auto-TNCs over the relocation of production. Seen in isolation from the business class, official economic nationalism expresses the state’s success in bringing the ideological objective of full manufacture closer to realisation.

This official version of the industry’s recent history -- reminiscent of a view of politics as panglima and state authority as determinative in state-business relations -- can only be sustained by ignoring the very real changes that have taken place in the industry’s ownership structure. A perspective which exaggerates the dominance of either state or capital does not capture the complexities of the situation, neither the close association of state figures and government departments with individual capitalist groups, nor the expansion of the industry in its international context. Neither ‘state’ nor ‘capital’ are single entities. This is true generally, but especially so in Indonesia, where the state is segmented into a number of semi-autonomous empires and the business class is divided ethnically and by varied access to capital, technology and managerial skills -- as well as to political backing.

In disaggregating these somewhat monolithic conceptual tools, this study has found that the continued primacy of the industrialisation objective in state policy has not been due to the sole activity of either state or business, but, rather, to the interaction between the two. The apparent contradiction between increased state authority over the industry in general and increased state dependence on particular capitalist groups can be resolved with a more focused perspective. The state ‘interest’ in automotive industrialisation has a life of its own, indicating the hold of ideological concerns within the state apparatus. But its persistence in formulated policy has been the outcome of specific state-business alliances.

The renewed state interest in local assembly in the early years of the New Order originated in rivalry between different departments, and the dominance of the state over national capital at this time resulted in the diffusion of the industrial objective amongst automobile importers. The rivalry between
Pribumi capitalists for state support subsequently led to a number of important manufacturing initiatives and promulgation of the first deletion schedule in 1976. Competition between business groups and within the state apparatus was responsible for the initial policy shift from indigenism to industrialism; state-business alliances consolidated the shift.

The government's recent success in 'disciplining' the private sector, in making the industry conform to policies requiring local production of major components, is similarly built on de facto alliances with the firms that now dominate the industry. The state commitment to the industrial objective had been thrown into doubt in the late 1970s, when competing political forces presented alternative definitions of economic nationalism. This period of uncertainty came to an end when the state-business relationship was resolved in favour of companies with firm international backing, clarifying the nature of the new alliances behind policy. The major firms owned by both pribumi and Chinese capitalists had benefitted from the programme, domestically, as increasingly arduous investment requirements forced smaller firms to merge with the 'economically strong' capitalist groups. These conglomerates also benefitted, externally, as the density of state regulations meant that to secure their place, auto-TNCs wishing to maintain their position in the market had to invest in and manage manufacturing facilities. Far from being passive implementors of state policy, by the end of the period covered here these national capitalists had become crucial supporters of industrialisation policy. The 1983 legislation gave expression to the mutual dependence between these capitalist groups and those sectors of the state advancing an integrationist automotive development strategy.

The state's more recent dependence on investments by the internationalised firms for the realisation of policy objectives gives rise to a number of more general issues mentioned in the introductory chapter and which we are now in a better position to address. Firstly, to what extent does the increased influence of these capitalist groups indicate the weakening of
the patrimonial state? Has greater bourgeois influence in policy-making led to the regularisation of state activity?

Secondly, what does the study tell us about the changing relationship between political and economic power structures? In other words, to what extent have state activities been determined by international capitalist structures, and how much have political decisions themselves shaped the economic environment?

Finally, to what extent has the integration of the national industry into international production networks circum-scribed the options available to state planners, marking the limits to state autonomy? What does the study tell us about future state activity in the context of a growing capitalist class?

Concerning the first issue, that of patrimonialism, the deeper mutual dependence between state and capital provides little comfort to those observers looking for signs that the expansion of capitalist social relations will be accompanied by the regularisation of state activities. The major capitalist groups have become independent of political support and are very likely to survive the fall of state patrons, even at the highest level. But the conglomerates' independence of political support has only eaten away at patrimonialism; it does not seem to have touched its core. Rather, the konokai established in the early years of the New Order have been institutionalised in policy alliances.

Moreover, state agencies remain porous to business influence at a personalised level. As state authority has increased, ties of patronage have become more concentrated in the upper reaches of the state apparatus, with processes for allocating state largesse less accessible to enquiry and more the subject of speculation and innuendo. As a manager of an automobile firm recently absorbed by the Salim group complained, the domination of the industry by these conglomerates has increased rather than reduced the importance of political connections.
Liem, Astra and Krama Yuddha all compete fiercely for government contracts. But it's not a system of free competition. They are all doing very well from their political contacts. Why on earth would they want a system of open tenders?

(Interview, #28, 19 Sep 1984).

With regard to the second issue, that involving structural determinants, the study has found that national bureaucratic and political forces were the driving force behind the automotive industrialisation programme in its critical early stages. The localisation scheme was drawn up when local business had little political influence and even less economic strength, and financial backing was provided to firms that supported state policy objectives. During the 1970s other schemes which would have had very different outcomes were considered: assembly by state-owned companies; use of the new oil wealth for state engine production; a strategy based on protection for small-scale indigenous producers; and even after the integrationist development strategy had been pursued for more than a decade, important parts of the apparatus urged a strategy of state production of major components in conjunction with tighter limits on auto-TNCs seeking to remain in the market. In all these cases, however, the balance of political forces favoured the integrationist development strategy, of gradually increasing pressure on international firms to localise production. None of these policy alternatives was pursued.

The state interest in promoting automotive industrialisation had persisted from the final years of the Old Order, and the response of national firms and their foreign partners indicates a considerable capacity to adapt investment patterns to conform to the policy environment created by this political pressure. By the early 1980s, however, new forces were sustaining the scheme. We have seen that the policies enunciated at the outset of automotive industrialisation schemes in other Third World countries stimulated a business response which, in turn set in train a state-class dialectic that served to counter structuralist tendencies towards homogeneity. By the end of the period covered here, the momentum for Indonesia's own policy was
essentially cybernetic: the deletion programme had come to be driven by the national firms that had benefitted from it. Like the creation of Frankenstein's monster, the single-minded pursuit of the localisation objective and the political desire to build a strong national industry had brought into existence a class of capitalists that had come to dominate the policy-making process.

Finally, if the dynamic for changes in state forms was chiefly provided by domestic factors and specific state policies influenced the investment decisions of auto-TNCs, how then, has the deepening of production structures in an internationalised industry affected state autonomy? One theme of this study has been that competition between business groups and their political patrons has meant that indigenism and industrialism have continually competed for the mantle of official economic nationalism. Competition within the industry remains intense while the state retains a significant degree of autonomy in policy formulation, so it is likely that appeals for state support will cause the dualism in policy to persist. The primacy of the internationalised conglomerates in policy considerations is thus not assured, and appeals to indigenism will remain a constant undercurrent in policy debates.

It is, however, likely to remain an undercurrent. The investments of the internationalised firms will win them continued state protection, drawing the national industry deeper into international production networks. It will be increasingly difficult to predict the future direction of automotive policy simply by attempting to isolate the 'dominant' capitalist fractions in the industry. Policy implementation will be more heavily influenced by the investment decisions of international firms, the health of the industry will become more subject to the logic of capitalist accumulation, and the limits to state autonomy increasingly marked by structural rather than instrumental constraints.
Appendix 1

INTERVIEWS WITH BUSINESS FIGURES, ASSOCIATION REPRESENTATIVES, ACADEMICS, AND GOVERNMENT OFFICIALS
(conducted in 1984, unless indicated otherwise)

Slamet Bratanata  
\( . \) business consultant, spokesman for Petition of 50 dissident group 
\( . \) first Minister for Mines under New Order, 1966-1967 
\( . \) official, Department of Basic Industry and Mining, early 1960s 
\( . \) former director, PT ISC 
21 July, 5 October

K. Damm  
\( . \) foreign adviser to PT IRMC (Ford sole agent), 1981-1983 
2 May 1985

P. Duncan  
\( . \) Director, Southeast Asia, Stanford Research Institute International, a consultancy firm commissioned in 1979 to study the industry's potential 
22 May

Drs F.H. Eman  
\( . \) President-Director, PT Udatin (Holden assembler) 
4 October

P.W. (Hans) Eman  
\( . \) Commercial Director, PT Indauda (Holden sole agent) 
6 June, 18 June

T. Enzo  
\( . \) Director, Jakarta Office, JETRO (Japan Overseas Enterprises Association) 
23 June

P. Falkenberg  
\( . \) foreign adviser, PT Garuda Mataram Motor Company (VW agent) 
1 May, 11 May, 29 August, 20 September

S. Grahame  
\( . \) foreign representative of Transport Enterprise Service, Hong Kong (subsidiary of Inchcape), to PT National Assemblers (producers of Mazda, Hino and Suzuki) 
11 April, 11 June, 19 September

Ir Ridwan Gunawan  
\( . \) Operations Director, PT Federal Motor (Honda motorcycle agent) 
\( . \) Chairman, IATO (Society of Automotive Engineers) 
\( . \) with the Astra group since the early 1970s 
12 June, 30 August, 3 September

A.S. Hassan  
\( . \) Chairman, GIAMM (automotive component producers association) 
10 November

Drs Hendra Hartono  
\( . \) Chief Supervisor, PT Pantja Motor (Isuzu agent and assembler) 
8 Oct

Fahmi Idris  
\( . \) Director, PT Krama Yudha, 1972-1984 
\( . \) General Manager, PT Krama Yudha Welding, 1973-1978 
\( . \) Former Secretary-General HIPMI (Himpunan Pengusaha
Gerry Kasih
Director, Toyota Engine Manufacturing, 1982-1984
Corporate Manager, PT Astra International Inc. (Daihatsu agent), 1980-1984
Director, PT Toyota Mobilindo (component manufacturer), 1980-1984
15 May

H Koerwet Kartaadiredja
Chairman of Board, PT United Imer Motors, 1982-1984
President-Director, PT Imermotors (general assembler), 1958-1982
30 March, 11 July

J.R. Koesman
Board of Directors, PT National Motor Co. (Hino and Mazda agent)
12 June

Dr Dorodjatun Kuntjoro-Jakti
Senior Lecturer, Faculty of Economics, University of Indonesia
23 May, 5 October

P. Lubis
Marketing Director, PT National Motors
6 June

Moedahar
Director, PT Toyota-Astra Motor (Toyota sole agent)
11 August

Mulyono S.H.
Legal consultant
former legal adviser, PT National Motors
official in Department of Industry, early 1960s-early 70s
11 July, 12 July, 12 October

Ali Nurluddin
Pres-Dir., PT Menawas (engineering company), 1983-84
Secretary-General, KADIN, 1978-1982
director, PT Masayu, 1954-1974
24 July, 23 August, 15 September, 6 October, 25 October

Prof Y. Panglaykim
Board of Directors, CSIS
Lecturer, Faculty of Economics, University of Indonesia
Chairman of Board, Panin Bank
15 May

Ir T.P. Rachmat
Vice-Director, PT Astra International Inc., 1973-1984
(Oey Giok Eng)
30 April

Drs Zakaria Raib
Chairman of Board, PT Imindo-Uneswa, 1964-1965
Chief, Industrialisation Bureau, Department of Basic Industry and Mining, until 1965
15 June

Ir R. Ramelan
Director, Industrial Research, BPPT
Chairman of Interdepartmental Committee for Automotive Industry Policy, 1978-1984
10 October
Ir A. Safiun
.Vice-Chairman, Technical and Industrial Division, GIAMM
.Adviser to PT Pendawa Sempurna (component manufacturer)
12 July, 18 July, 2 October

Ir Achmad Sajoeti
.Director, PT Gaya Motor, 1980-84
.member of Interdepartmental Committee for Automotive Industry Policy, 1978-80
.Chief, automotive division, Directorate-General for Basic Industries, until 1980
10 September

Drs H Sarosa Ratam
.Managing Director, PT IRMC (Ford sole agent)
17 September

Drs A.S. Siagian
.Chief Public Relations Officer, Department of Industry
10 March

Ir H Sidabutar
.Director, technical operations, PT Krama Yudha, 1973-84
.with PT Permorin (Mercedes agent), 1966-1970
7 June

Sjafruddin Prawiranegara
.President, Bank Indonesia
.leader of 1958 PRRI rebellion
.Minister for Finance, 1949-1951
30 July

Drs Soebianto
.Secretary-General GAAKINDO, 1983-1984
21 March

Drs Soegianto Sastroatomo
.Manager, PT Tjahya Sakti (BMW sole agent)
.Chairman, GAAKINDO, 1977-1979
.Vice-Chairman, GAAKINDO, 1975-1977
.Vice-Chairman, GAM, 1971-1975
.former director of operations, PT ISC
7 June, 19 July, 25 July

Ir Suhartoyo
.Chairman, BKPM, 1981-1984
.Director-General for Basic Industries, 1969-1981
10 October

John Sutter
.representative of Asia Foundation, Jakarta, 1982-84
.author of a detailed study of economic nationalism in the early 1950s (see Sutter, 1959)
26 April

Drs Suryo Sediono
.level 2 official, Department of Basic Industry and Mining, early 1960s
13 March, 20 June, 15 October

Ir R. Tablat
.Personal Ministerial Adviser, Basic Industries, Department of Industry, 1978-1984
23 June

Ir Tadjuddin Hasbullah
.Chief, automotive division, Directorate-General for Basic Metal and Engineering Industries, Department of Industry, 1982-1984
26 August
Thee Kian Wie .researcher, LIPI (Indonesian Academy for the Sciences) 8 November

Hadi S. Topobroto .Secretary-General, PAABI (heavy machinery producers association), 1982-1984 .Secretary-General, GAAKINDO, 1969-1979 9 May, 10 May, 18 May

Mrs E.T.O Walanda .personal secretary to chairman, Indauda-Udatimex group 4 October

C. Wibisono .Director, PDBI (Indonesian Business Data Centre), recently published a study of the Indonesian auto industry (PDBI, 1987) 5 May

Robin Wimbush .foreign adviser, PT Java Motors (Landrover sole agent) 14 April, 20 October

Wimar Witoelar .Director, Nusantara International Development Corporation .graduate of ITB, conducted extensive research on the Indonesian automotive industry in the late 1970s (Witoelar, 1983) 5 June, 15 June

Rachmat Witular .Member of Commission VI (Industry), DPR 10 June, 13 September


Drs Amran Zamzami .Executive Vice-President, PT Krama Yudha, 1973-1984 .formerly Managing Director, PT Krama Yudha Tiga Berlian Motors (Mitsubishi sole agent) .Director, PT Berdikari, 1966-1971 12 September, 22 September

# 7 staff member (name withheld) .GAAKINDO, 25 July, 10 October

#16 staff member (name withheld) .3rd echelon official, BPPT 13 March, 16 April, 29 April

# 20 staff member (name withheld) .2nd echelon official, BKPM 22 June

# 21 staff member (name withheld) .2nd echelon official, BKPM 10 October

# 22 staff member (name withheld) .2nd echelon official, BKPM 28 July

# 29 foreign representative (name withheld) .non-Japanese auto-TNC 20 September

# 50 staff member (name withheld) .2nd echelon official, Department of Industry 23 June
# 52 former staff member

Astra group

13 April, 15 August
Appendix 2

DECREES RELATING TO THE AUTOMOTIVE INDUSTRY, 1969-1984
(more important decrees are highlighted; chief intent is summarised if not apparent)

16 Jan 1969 Ministers of Trade and Industry
'Assembling Plants and Automobile Importation'
[auto-TNCs must deal with only one national importer; assembly will be conducted at one of seven firms, yet to be designated]

31 Jan 1969 Ministers of Trade and Industry
'Distribution of Registered Automobile Assemblers'
[three to be in Jakarta, two in Surabaya, one each in Medan and Makassar]

31 Jan 1969 Ministers of Trade and Industry
'CKD [Completely Knocked Down] Provisions (Trucks and Buses)'

15 Feb 1969 Minister of Trade
'Licensing of Automobile Sole Agencies'
[agents must be national companies registered with the Department of Trade; assemblers to be separated from agencies]

12 Mar 1969 Ministers of Communication and Industry
'Organisation of Automobile Assemblers'
[Department of Industry has responsibility for organising assembly]

1 Apr 1969 Minister of Trade
'Provisions for Importing Commercial Vehicles into Java'
[all imports must be in CKD condition]

1 Apr 1969 Minister of Industry
' design of Recognised Automobile (General) Assemblers'
[four assemblers approved: Udatin, Gaya Motor, Imermotor, ISC]

5 Jun 1969 Minister of Trade
'Provisions for Importing Commercial Vehicles into Sumatera'

28 Mar 1970 Minister of Trade
'Transporting Automobiles Between Islands'
[restricting shipment of CBU vehicles from Outer Islands to Java]

8 Apr 1970 Ministers of Trade and Industry
'Redefinition of CKD (Sedans and Delivery Vans)'
23 Jun 1970  Ministers of Finance, Industry, Communication and Chairman of Bappenas
'Standardisation of Automobile Purchases'
   [government auto purchases for Java and Sumatera to be locally assembled]

20 Aug 1970  Minister of Trade
'Banning of Tyre Imports'

5 Jan 1972  Ministers of Trade and Industry
'Formation of Team to Coordinate Auto Agencies and Assemblers'
   [administrative team established to advise the ministers]

22 May 1972  Ministers of Trade and Industry
'New Procedures for Importing and Assembling Automobiles'

26 Jun 1972  Keppres 45, 1972 (Presidential Decree No. 45)
[Dep't of Industry has full formal authority for the industry]

3 Jul 1972  Minister of Industry, No. 544/M/SK/VII/72
'Investment Guidelines for Automobiles and Heavy Machinery'
   [agents and assemblers will have to be majority nationally-owned within a period to be determined]

3 Jul 1972  Minister of Industry, No. 545/M/SK/VII/72
'Policy for Promoting the Automotive Industry'
   [assemblers and agents must merge]

22 Nov 1972  Director-General of Basic Industries
'Instructions for Implementing Minister of Industry Decree 545'
   [companies should merge within three years]

22 Jan 1974  Minister of Trade
'Provisions for Importing Sedans & Station Wagons to Indonesia'
   [banning CBU sedan and station-wagon imports]

31 Jan 1974  Minister of Trade
'Instructions for Implementing Minister of Trade Decree 25'

31 Jan 1974  Director-General of Basic Industries,
'Provisions for Importing CKD Sedans and Station Wagons into Indonesia'

26 Feb 1974  Minister of Trade
'Revision of Minister of Trade Decree No. 25/1974 on Importation of Sedans and Station Wagons into Indonesia'

28 Feb 1974  Director-General of Basic Industries
'Provisions for Importing Commercial Vehicles other than Sedans and Station Wagons into Indonesia'

1 Mar 1974  Director-General of Basic Industries
'Mergers of Assemblers and Agents'
   [14 mergers approved]
27 Mar 1974  Director-General of Basic Industries
'Acceptable Level of CKD for Commercial Vehicles'

27 Mar 1974  Director-General of Basic Industries
'Acceptable Level of CKD for Sedans and Station Wagons'

15-21 Jun 1974  Director-General of Basic Industries,
[four decrees, relating to mergers of assemblers and sole agencies]

13 Jan 1975  Director-General of Basic Industries
'Importation of CKD Automobiles'

20 Mar 1975  Dir-Gen. of Metal and Engineering Industries
'Provisions for Automobile CKD Albums'
[each part to be photographed and approved by the Director General]

28 Jun 1976  Dir-Gen. of Metal and Engineering Industries
'Batteries removed from CKD import kits'

21 Jul 1976  Minister of Finance, No. KEP-912/MK/III/7/1976
'Application of Import Taxes to Certain Types of Automobiles'
[import taxes on CVs removed, but doubled for sedans and station wagons]

22 Jul 1976  Minister of Finance
'Alterations to Sales Taxes for Assembled Vehicles'

2 Aug 1976  Minister of Industry, SK307/M/8/1976
'Compulsory Use of Locally-Made Components in Assembling Commercial Vehicles'

2 May 1977  Dir Gen. of Metal and Engineering Industries
'Obligatory Registration of Firms Supplying Automobile Components'

July 1977  Dir Gen. of Metal and Engineering Industries
'Registration of Automobile Body Companies'

18 Nov 1978  Minister of Industry, SK216/M/11/1978
'Formation of Interdepartmental Team on Automobile Policy'

29 Nov 1978  Minister of Industry, SK231/M/11/1978
'Suspension in Implementation of Decree 307/1976'

6 Sep 1979  Minister of Industry, SK167/M/9/1979
'Formation of a Permanent Interdepartmental Committee on the Automotive Industry'

6 Sep 1979  Minister of Industry, SK168/M/9/1979
'Reapplication of Decree No. 307/1976'

1 Apr 1980  Minister of Industry, decree not available
'First Stage in Rationalisation of Automobile Makes and Types'
[makes reduced from 57 to 30, types from 140 to 72]

19 Aug 1980  Minister of Industry, SK349/M/SK8/1980
'Altering Locally Manufactured/Assembled Automobile Types'
[changes will only be approved if they increase value-added and aid the transfer of technology]

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<th>Description</th>
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<td>Minister of Industry, No. 295/M/SK/7/1982</td>
<td>'Provisions for disassembly of CV engines'</td>
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<td>system, steering system</td>
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4 Apr 1984  Director-General of Basic Metal Industries,
'Instructions for Making Albums for CKD Rear Axles and Drive Shafts'

28 Aug 1984  Minister of Industry, SK307/M/8/1984
'Formation of a Permanent Interdepartmental Team for the Automotive Industry'
Appendix 3

RELEVANT INDUSTRY FEDERATIONS AND CONSULTATIVE BODIES

GAANKINDO - Gabungan Assembler dan Agen Tunggal Kendaraan Bermotor Indonesia, 'Association of Indonesian Automobile Assemblers and Sole Agents'. The automobile sole agents association, GAANKINDO, was established in August 1969 under the chairmanship of the Chevrolet agent, Mulyono Buntaran, with H. Topobroto its secretary-general and Thaib Affan its treasurer. The automobile assemblers association, GENAS (later GAM), was established two months later, under the direction of Ibnuadji, a director and part-owner of PT Imermotor. Both associations expanded rapidly, with member companies growing from eight and five in 1969 to 22 and 16, respectively, in 1973. After the industry had been brought under the jurisdiction of the Department of Industry, the associations began to merge in 1973, a process formally completed in January 1975. Frits Eman was appointed chairman of the new association, Gaakindo, with 49 member companies.

With the exception of the Secretary-General, who is not associated with any member company, a new board of directors is elected every two years by a plenary session of member companies. Since the directorship is rotational, the association is generally representative of its member companies, and the choice of the association's chairman tends to reflect the prevailing mood in the industry. Thus, whereas the first chairman, Eman, was a noted pioneer of local manufacture, in 1983-84 the chairman was Drs. Laupase, a director of PT Garmak owned by Probosutedjo, a man less enthusiastic about the industrialisation effort.

Gaakindo's charter states that its objectives are, firstly, to coordinate the relationship between assemblers and agents, and, secondly, to present the industry's views to the government. While the association has been generally successful in achieving the first of these goals, it has found it increasingly difficult to establish a common industry position. Whereas a general business consensus existed on policy preferences in its early years, as the industry grew more complex, state-business relations tended to be conducted in direct negotiations. Gaakindo's influence as a source of policy proposals consequently faded.

GIAMM - Gabungan Industri Alat-Alat Mobil dan Motor, 'Association of Automotive Component Manufacturers'. Established in February 1973 as AAPCOMI, the Association of Automotive Parts and Component Manufacturers of Indonesia, in 1974 the association changed its name to GIAM, 'Association of Car Component Manufacturers,' before adopting its current title in 1979. The driving force behind the association from the outset was A.S. Hassan, who has remained chairman ever since. In 1984 the association had 55 member companies, most of them independent producers not exclusively linked to terminal assemblers. Like Gaakindo, the directors of GIAM are elected on a rotating, biannual basis. Unlike Gaakindo, however, the member companies have a stronger interest in local manufacture. The association consequently tends to use nationalist rhetoric to criticise Gaakindo.

IATOM - Ikatan Ahli Teknik Otomotif Indonesia, 'Society of Automotive Engineers of Indonesia'. After several years of discussions, IATOM was established in January 1978, with the objective of disseminating technical information on component production. As quality control became an important issue in negotiations with auto-TNCs in the early 1980s, the influence of IATOM increased, although its focus remained predominantly on technical matters.
BKS-ILM - Badan Kerjasama Asosiasi-Asosiasi Bidang Industri Logam dan Mesin, 'Cooperative Forum for Metal and Engineering Industry Associations.' Established in November 1974, reportedly on the initiative of Ir Suharto, the BKS-ILM originally functioned as a forum from which the Directorate-General drew policy suggestions from a dozen associations, prominent amongst which was Gaakindo and Giam. The forum lost influence after the new Minister of Industry, Ir Suhud, intervened more directly in policy formation from 1978.
Appendix 4

OWNERSHIP STRUCTURE OF THE AUTOMOTIVE INDUSTRY, 1950-1984
(automobile import licensees, by make)

The principal source for information on the changing pattern of ownership in the industry that appears in the following pages was the Supplement to the State Gazette, TBN (Tambahan Berita Negara), attached to the official registry of companies published regularly by the Department of Justice and State Secretariat, BNPT (Berita Negara Perseroan Terbatas). Another source used less often was the state gazette itself, LN (Lembaran Negara).

Use of this data in attempting to map the industry's ownership pattern presents a number of difficulties. Shareholders are often not listed, with only managers and directors mentioned. There has also been a trend in recent years for shares to be held by other companies, with the result that it is often not apparent to what business group a firm belongs. Finally, the published data is inevitably several years out of date.

For a longitudinal study such as this, the TBN nevertheless provides the most accurate indication of changing ownership patterns. The notes at the bottom of each page list the ownership and management of the agencies recorded above, noting significant changes to the internal company structure. It is often the case that shares are held in the name of solicitors, in which case I have attempted to ascertain what business group they represent. I have also attempted to bring the list up to date from information gathered during interviews. Where the numbers of relevant TBN are known, but I was not able to obtain that listing, these are also listed.

**LEGEND**
K, Komisaris..........................member of the board of directors
PK, President Komisaris
.or Ku,Komisaris Utama)............chairperson of the board of directors
D, Director.............................director
PD, Presiden Director
.or Pu,Presiden Utama)..............President Director

[] for explanatory information about a company or an individual
[] for TBN listing and other sources
'n.a.' ...................................indicates that a particular TBN was not available
'inactive'................................indicates that no vehicles were sold that year
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(1) NV Indonesia Service Company [TBN 1209/52, 1241/56]
1950: 51% NV Putera (BNI subsidiary), 49% Zoro Corporation; Tan Goan Po (PK)
1952: 75% BIN, 25% NV Putera; Ning (PD), Mr. Sukasmo (PK), Tan Goan Po (K)

(2) PT Djakarta Motor Co. [TBN 853/52, 249/57, 455/59, 295/73]
1952: Ning (PD), Toto Bachrie (K), Muthalib (K), Raden H. Said (K), Agus I. Ning (son) (K)
1972: 40% Ibnu Sutowo, 39% Hasanim Ning, 19% Bachrie

(3) NV Java Motors Import Corporation [TBN 108/49, 665/59, 8/70]
1949: subsidiary of Gutwirth Trading Co.
1955: 100% Lubis family; T. K. Lubis (PD), Yusuf Malik (D), A. Husani (D)
1970: 50% Yusuf Malik (PD), 50% Mrs Maimunah (K)

(4) PT Indonesia Republic Motor Company (IRMC) [TBN 276/56, 420/80]
1954: Ning (PD), ownership not known
1976: 10% Mrs Ali Murtopo (for Yayasan Harapan Kita), 10% Saso Sugiarso (for Pakarti Yoga
1980: 52% PT Ningz and Ass., 10% Pakarti Yoga, 10% Yayasan Harapan Kita,
2.6% J.R. Koesman (K); G.S. Hoepoedjo (K), Sarosa Ratam (PD)
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(5) PT Harapan Mobil Nusantara
33% Ning, 33% PT Amalgam (Halim Group), 33% PT Gajah Tunggal (Nursalim - TBN 960/73)

(6) NV Automobiel Maatschappij Fiat Java [TBN 1113/52, 63/61, 728/75]
1936: 100% Fiat Societa Per Axioni
1958: 30% H. Ning (K), 30% Agus Dasaad (K), 30% PT Ningz and Associates, 10% Italy
1961: name changed to 'PT Daha'
1974: shareholders include Toto Bachrie (K) but not Dasaad

(7) PT Tjahja Sakti [TBN 437/77, 1130/84, 1406/85; numbers 275/62 and 393/63 n.a.]
before 1970: 50% Yasrin Yasin, 20% H. Ning (PK), 20% Toto Bachrie (K), Soegianto S. (D)
1977: 50% Yasin family
1984: 50% PT MultiFrance [see note 32], 21% PT Ningz and Ass., 5% Soegianto S., 2% Yasin

(8) NV National Motor Co. [TBN 765/53, 665/59]
1952: 50% E. Tobing (K), 25% Bachtiar Lubis (D), 25% Achmadun (VD)
1959: Agus Ismail Ning [son] (PK, PD), Abdul Latief (K)
1984: 60% Salim Group, but with effective control from 1982 (interviews)
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(9) PT Udatin [TBN 759/52, 333/53, 132/69]
1951: 100% Eman family
1969: agency sister company established, 'PT Udatimex', later 'PT Indauda'
(10) PT Gaya Motor [TBN 601/55, LN No. 147/1961]
1955: 100% Bank Industri Negara
1961: status changed to PN, under jurisdiction of Dep't of Basic Industry and Mines
(11) PT Garuda Diesel [TNB 841/1958]
1958: 40% Raden Mulyono Buntaran, 60% Buntaran family
ownership prior to 1979 unknown
1979: 72% Probosutedjo, 12% Mrs Ratmani, 12% Miss Diniarti
(13) Central Trading Organisation [TBN 276/72, 835/74]
1958: 100% government of Indonesia
1964: name changed to PN Pantja Niaga
1971: PT Pantja Motor, 99% PN Pantja Niaga, 1% Rustam Darwis (D); Djukardi Odang (KU)
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(14) PT Indokaya (Indonesia Kaya Raya); 1953: 100% Affan family
(15) PT Wahana Wirawan [TBN 777/82, 983/84, FEER, 3 Mar 1983: 69]
  1981: 56% Sukardi {for Pepabri, army officers ass'n} (PK), 11% Soegiarso, 33% Mrs Affan
  1984: 28% Sukardi, 28% Zahid Hussein, 11% Saso Sugiarso, 5% Mrs Affan
(16) PT Imer UD [TBN 625/79]
  1978: 70% PT Imermotor, 10% Ambio, 10% Soerwenda Kartadisastra (KU)
  {PT Imermotor: 42% Koewret (PK), 25% Ibu Tadji, 25% Ambio - TBN 182/61}
(17) PT United Imer Motor [TBN 1256/85]
  1982: 80% PT Pandu Dian Pertawi (Astra Group), 20% PT Imer Motor
(18) PT Pemorin [TBN 136/59]
  1959: Ama Suwarme (PK), ownership not known
(19) PT Star Motors Indonesia [TBN 275/71, 778]
  1970: 51% Germany, 49% PT Gading Mas (Sutowo and Joesoef - TBN 190/67), Pawitra (D)
  1977: Pawitia promoted to President Director [TBN 7/1978]
  1981: 49% Germany, 51% PT Lima Satya Nirwana {100% Joesoef family - TBN 551/79}
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Hartanto (Tan Kiem Seng)  
PT Alun (27)

Yasrin  
PT Daswa Motors (22)

Suwarma  
PT Marwa Motors (24)

Sutowo, Sjarnubi & Suwarma  
Gov't/Astra  
New Marwa Motors (25)

Sutowo & Sjarnubi  
PT Toyota Astra Motor (23)

Sjarnubi  
PT Krama Yuddha (26)

Budiman  
(Ang Kang Ho)  
Imora Motor (28)

PT Prospect Motor (28)

(20) PT Piola [TBN 29/1950, 352/72]; 1950: 100% Panggabean family, J.K. Panggabean (D)
(21) PT Garuda Mataram [TBN 591/71; corporate data]
1971: 26% Brig-Gen Sofjar (DU), 25% Gen. Cikropanololo (KU), 25% H. Setyadi (K), 24% Margetan (Mantrust Group) (K), Tenggala (D), Sofyan Wanandi (K)
1977: Sofyan Wanandi, President-Director
1984: 76% PT Dharma Kencana Sakti (Kostrad), 22% Soetyanto (Mantrust), 1% A. Malik
(22) PT Daswa Motors, 1961: 25% Yasrin Yasin (K), 25% Kusnandar, 50% R. F. Ma'riful (D)
(23) PT Toyota Astra Motor [TBN 601/71]
1971: 48% Japan (DU), 36% PT Astra International (KU) (see note 33), 15% PT Gaya Motor see Appendix 5), Ir Suhartoyo (KU), Tja Kian Tie (K), Moedahar (for Directorate)
(24) PT Marwa Motors, 1956: Ama Suwarman (K) 80%, Ir R. Bratakumah 20% [TBN 197/57]
(25) PT New Marwa Motors 1970 [TBN 524/70], 1970: 40% PT Marwa Motors, 30% Ms Paramita Tamzil, 30% T. Hidayat (solicitors for Sutowo and Sjarnubi), Ir. Sidabutar (D)
(26) PT Krama Yuddha Tiga Berlian [TBN 408/73, 524/73, 262/83]
1972: 50% Ibnu Sutowo (PK), 50% Sjarnubi Said (K)
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(27) PT Alun [TBN 590/54]
1953: 60% Mrs Listy Sutiana (PK), 40% Hartanto Prasetia (K)
(28) PT Imora (Istana Mobil Raya) [TBN 524/75, 465/76]
1970: 10% Hadi Budiman (PD), 10% Budi Agus (PK), 10% Hindrianto Halim (K), 30% Abu Kamal, 10% K. Arwan, 10% Darmadi Budiman
1973: agency transferred to Prospect Motor Co (99% PT Imora Motor, 1% Hadi Budiman)
(29) PT Indonesia Motor Company [TBN 417/71]
1971: 100% state-owned, M. Pasaribu (DU), Ir Sayuti (D)
(30) PT Indomobil Utama [TNB 660/76]
1973: Atang Latief (PK), Soebrointo Laras (PD), Sudwikatmono (K), Mochtar Riady (K), Ciputra (K), Bambang Trihatmodjo (K)
1982: absorbed into Liem Sioe Liong (Salim) group [interviews]
(31) PT Central Sole Agency [TBN 814/71]
1971: 15% Sudono Salim (PK), 15% Sudarmo Salim, 15% Albert Halim, 15% Ibrahim Thahir, 15% Wanita Wini, 15% Liem Suhanda (PD)
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<tr>
<th>RENAULT</th>
<th>INTERNATIONAL HARVESTER</th>
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<td><strong>Before 1950:</strong></td>
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<td></td>
<td>100% Holland</td>
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<td>NV Mascott</td>
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<td>1950</td>
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<td>PT National Motor Co (8)</td>
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<td>PT Multifrance (33)</td>
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<td>(Interview, Nurluddin)</td>
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<td>1977</td>
<td>Eman and Baramuli</td>
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<td>1978</td>
<td>PT Melintas-Utama (34)</td>
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<td>inactive</td>
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(32) PT Astra International Inc. [TBN 117/57, 180/74, 230/80], 100% Soeryadjaya family

(33) PT Multi France [TBN 591/73, 385/76, 845/76]
1972: 70% PT ,Multivest (60% Soeryadjaya family - TBN 458/71),
      25% Probosutedjo (PK), 5% Ms Siti Pujani
1974 and 1976: Probosutedjo still a major shareholder
1977: Probosutedjo withdrew [interviews]

(34) PT Melintas-Utama [TBN 338/75]
1975: 25% Baramuli (DU), 25% F. Eman (KU), 25% Mrs Femmy Lesar (K),
      25% Mrs Albertina Kaunang S.H. (K)
Appendix 5

LOCAL PARTNERS IN PRODUCTION VENTURES, 1969-1984
(See Appendix 5 for ownership of local agencies/holding companies in these ventures)

1969

Astra/Government: PT Gaya Motor
Astra renovates Gaya Motor assembly plant, assembles Toyota;
60% Astra Int'l, 40% PN Gaya Motor; Suhartoyo (KU); Tjia Kian Tie (DU)
[TBN 54/70, 560/73]

1970

Ibnu Sutowo/Moh. Joesoef: PT German Motor Manufacturing
To assemble Mercedes and VW; 1980s assembling Mercedes only by early
66% Germany, 33% PT Indophing, Sutowo (KU), Joesoef (K)
[TBN 274/71]

1971

Ibnu Sutowo/Sjarnubj Said: PT Krama Yudha Surabaya Majapahit
To assemble Mitsubishi, operating 1972

Bachtar Lubis: PT National Assemblers
To assemble Hino and Mazda
60% Inchcape Transport Enterprises [Hong Kong], 40% National Motor
[Appendix 5, note 8] Lubis (PD)
[TBN 436/72]

1972

Eman: PT Incools
To produce automobile air conditioning units

Ning/Buntaran:
PT Superior Coach, for body pressing
75% PT Superior [37% Jakarta Motor, 37% Garuda Diesel, 25% Ir. Sugiyono - TBN 189/71], 25% USA

Astra: PT GS Battery Inc
Opened 1974
51% PT Multivest, 49% Japan; T. Rachmat (K), Soeradjaya (PD) [TBN 397/73]

1973

Ibnu Sutowo/Sjarnubj Said: PT Krama Yudha Ratu Motor
To assemble Mitsubishi
85% PT Krama Yudha [Appendix 5, note 25]
[TBN 649/77]

Ibnu Sutowo/Sjarnubj Said: PT Mitsubishi Krama Yudha Motors and Manufacturing
Body press and components, operating 1975
50% Japan; 50% PT Krama Yudha, Sutowo (PK)
[TBN 410/77]

Astra: PT Multi Astra
To assemble Toyota, operating 1975
97% Astra International; William Suryajaya (PD)
[TBN 754/73]

Government of Jakarta/ Liem Sioe Liong: PT Ismac
To assemble Volvo, operating 1975
30% PT Pembangunan Jaya, 48% Salim family; Sudono Salim (KU), Ciputra (VD)
PT Pembangunan Jaya's share was 20% in 1977
[TBN 516/74, 673/77]

Hadi Budiman: PT Prospect Motor Company
To assemble Honda
99% Imora Motor [Appendix 5, note 27]
[TBN 524/75]

Eman
PT Intryda, for full manufacture of automobile batteries, assembling 1974, producing
OEM in 1976
1974

**Atang Latief.**
PT Suzuki Indonesia Manufacturing, for body components, operating 1977
65% Japan, 12% PT Indokarmo Utama, Subronto Laras (D) [TBN 324/75]

**Eman.**
PT Inkoasku, for wheel rims, producing commercially 1981

**Eman.**
PT Ionuda, to produce shock absorbers and exhaust systems
64% Eman family [TBN 156/80]

**Affan.**
PT Indokaya-Nissan Motors (Innismo), to assemble Datsun
90% Affan family, 10% Saso Sugiarso [TBN 204/75]

**Affan.**
PT Zastam, for body manufacture, eventually constructed in 1979 as PT Indopres

**Indonesian Government.**
PT Pantja Motor, to assemble Isuzu
99% PN Pantja Niaga, 1% Rustam Darwis (D); Djukardi Odang (KU) [TBN 835/74]

1975

**Hartanto.**
PT Alun Indah, to assemble Honda
60% Hartanto (D), 35% Tony Trisila Susanto, Nyoo Han Siang (K) [TBN 656/78]

**Astra.**
PT Nipponenso, for spark plugs, producing 1977
55% Japan, 45% Astra [TBN 172/76]

1976

**Astra.**
PT Toyota Mobilindo, for body parts and stampings, operating 1977
60% Japan, 40% Astra International [TBN 642/77, 244/78]

**Astra.**
PT Kayaba Indonesia, for shock absorbers, operating in 1977 [TBN 801/76]

**Badri Budiman.**
PT Imora Honda, for CV components
60% Japan, 40% Imora [see Appendix 5, note 28] [TBN 592/77]

**Sofyan Wanandu.**
PT Yuasa Batteries, operating in 1977
60% Japan, 25% Pakarti Yoga

1977

**Proboesutedjo.**
PT Sagitarius Sari, for body components, producing 1983

**Joosoea.**
PT NGK Busi Indonesia, for spark plugs
60% Japan, 40% Pendawa Sempurna [TBN 560/79]
1978
Affan
PT Indopres and Manufacturing, stamping press for body components, constructed 1979
A PMDN company, machinery imported from Thyssen Rheinstahl Technik

Astra
PT Daihatsu Indonesia, for body components, producing commercially 1979
70% PT Astra International, 30% Japan

[TBN 687/79]

Astra
PT Showa Indonesia Manufacturing, for shock absorbers,
55% Japan, 45% PT Unitras Pertama [Astra group]

[TBN 322/79]

1979
Astra
PT KGD Indonesia, for spark plugs and electrica parts

1980
Probosutedjo
PT Yudistira Utama, for CV body components, takes over PT Indopres
40% PT Garmak (Appendix 5, note 12), 30% Affan family, 10% Eman, 10% Ning,
10% Djukardi Odang

[Tempo 2 May 1981: 72-73]

Astra/Wanandi
PT Gemala Kempa Daya, for body components, producing 1983
40% PT Uni Rimba (Astra group); 30% PT Anugerah Daya Laksana, 15% Mudaya
Corporation; Ning was originally PK, but later withdrew

[TBN 987/82]

Eman/Astra
PT Palingda, for wheelrims, producing commercially 1983
45% PT Udatinex, 30% PT Uni Rimba (Astra group)

1981
Probosutedjo/Eman/Government
PT Peugeot Indonesia, for transmissions, had collapsed by 1983
30% PT Garmak, 30% PT Udatin, 30% PT Pantja Motor, 5% Nurluddin
1982

**Astra**
PT Toyota Engine Indonesia, assembling engines in early 1985

**Krama Yudha**
PT Colt Engine Manufacturing, assembling engines in early 1985
80% Japan, 20% PT Krama Yudha

**Probolodipo/Government/Eman**
PT Mesin Isuzu Indonesia, assembling engines in mid-1985 [ICN 270, May 1985: 33]
41% Japan, 10% GM, 20% PT Garmak, 20% PT Pantja Motor, 9% PT Udatin

**Joesof**
PT Star Engine Indonesia, commenced construction in 1984

**Astra**
PT Daihatsu Indonesia Manufacturing, commenced construction in 1984

**Astra/Wanandi**
PT Wahana Eka Paramitra, for transmissions, under license from Toyota
42% PT Uni Rimba (Astra group), 30% Sapta Panji Manggala (Wanandi group),
20% Edward Wanandi
[PDII, 1987: A160]

**Astra/Wanandi**
PT Inti Ganda Perdana, for axles, under license from Mitsubishi, operating 1984
42% PT Uni Rimba, 30% PT Sapta Panji Manggala, 10% Edward Wanandi,
7.5% T. Rachmat

1983

**Salim Group**
PT Hino Indonesia Manufacturing, plans for engine manufacture drawn up in 1984

**Salim Group**
PT Indo Suzuki Manufacturing, plans for engine manufacture drawn up in 1984
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