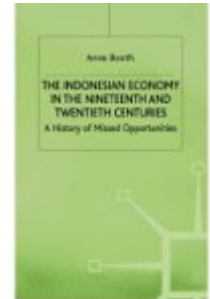


Anne Booth. *The Indonesian Economy in the Nineteenth and Twentieth Centuries: A History of Missed Opportunities.* Basingstoke: St. Martin's Press, 1998. xvi + 377 pp. \$79.95, cloth, ISBN 978-0-312-17749-2.



Reviewed by Jeroen Touwen

Published on EH.Net (October, 1998)

Part I: Which Lessons Can Indonesia Learn from its Past?

This is a volume in a new and ambitious series named *A Modern Economic History of Southeast Asia*, edited by Anthony Reid, Anne Booth, Malcom Falkus and Graeme Snooks, initiated by the Australian National University in Canberra, and published by Macmillan. Of the eighteen volumes planned (dealing either with themes or with countries), three have been published so far, of which this is one.

Professor Anne Booth of the School of Oriental and Asian Studies (SOAS) in London has a long experience in the scholarship of the Indonesian economy. She is known for her monograph *Agricultural Development in Indonesia* (Sydney: Allen and Unwin, 1988) and for two influential edited volumes: A. Booth, W.J. O'Malley and A. Weidemann (eds), *Indonesian Economic History in the Dutch Colonial Era*, (New Haven: Yale Center for International Area Studies, 1990), which is generally regarded as the first survey of modern economic history of Indonesia), and A. Booth (ed.) *The Oil Boom and After; Indonesian Economic*

Policy and Performance in the Suharto Era (Singapore: Oxford University Press, 1992). In addition, she has published a long list of contributions in journals and edited volumes. In her work, she has consistently applied systematic quantitative macroeconomic analysis in combination with a more qualitative evaluation of government policy and growth theory. But what is also quite significant in her work (including the present book under review) is her attention for a combination of the colonial and the independent eras of Indonesian history. Booth is one of the few historians who easily jumps back and forth between these two periods, drawing parallels and making comparisons. Thus, she is able to conceive a long-term view on economic development, an approach which has often been ignored by economists and historians.

At first sight, the reader of *The Indonesian Economy in the Nineteenth and Twentieth Centuries* is confronted with a provocative subtitle: *A History of Missed Opportunities*. To this subtitle a streak of irony is added by the picture on the cover of the book: a photograph of the Indonesian

government aeroplane factory in Bandung. The Indonesian airplane industry IPTN (Industri Pesawat Terbang Nasional), in which present-day president Habibie played a leading role, has often been viewed as a symbol of irresponsibly large expenditure on prestigious high-tech projects, significant for the 1980s and 1990s Suharto-era. Does Booth criticize such projects and imply that the Indonesian economy would have been better off with investments in different sectors, or a different (more balanced) economic policy? And which other opportunities have been missed by Indonesia? Indonesia is one of the poorest countries of Southeast Asia and has been lagging behind several of its neighbors for many decades. Only during the recent period of export-oriented growth (ca. 1980-1997) did it began receiving international praise for its economic performance—praise that has melted away since the monetary crisis (and subsequent political unrest) brought the Indonesian economy to a virtual stand-still and scared off most foreign investors.

The book's extensive introduction (Chapter One) describes the formation of an 'Indonesian' economy, highlights the current debates in the historiography, and states the aims of the book, which consists of six chapters (excluding the introduction and conclusion) dealing with thematic aspects of the Indonesian economy. Chapter Two, 'Output Growth and Structural Change between 1820-1990,' places the important political events in a chronological survey of economic performance. This chapter has an essential function in providing a chronological framework and evaluating the different indicators and measurements of long-term economic development. Within each sub-period, the trends in output growth are linked to changes in domestic economic policies (reflecting changes in political priorities) and to world market trends (p. 16). Particularly the phases of growth (p. 15, 85-87) should be mentioned here. In combining political events and economic situation, Booth identifies the following 10 phases:

- 1) 1830-1870 rapid export growth, slowing down after 1840
- 2) 1870-1900 policy reforms but sluggish growth
- 3) 1900-1930 ethical policy and export expansion
- 4) 1930-1942 world depression leading to contraction of export volume
- 5) 1942-1950 Japanese occupation and independence struggle (harming economic performance)
- 6) 1950-1958 rehabilitation of the economy, output growth
- 7) 1958-1966 declining per capita GDP, structural retrogression
- 8) 1966-1973 economic recovery
- 9) 1973-1981 the oil boom period
- 10) 1981-1990 non-oil exports production leading to output growth

Chapter Three is called 'Living Standards and Distribution of Income' and sets out to investigate why the relative rapid growth of GDP, almost certainly faster than population for much of the last two centuries, did not result in broadly based improvement in living standards. Booth argues that, in fact, we should examine the growth of the part of GDP that is devoted to household consumption, after subtracting government expenditures and expenditures on capital formation, of which the returns are not shared by all classes of society. Of course, also foreign remittances should be disregarded in this context. The chapter argues that 'the growing expenditure on both government consumption and capital formation, together with the high level of remittances abroad, meant that, for much of the colonial era, private consumption expenditures grew less rapidly on average than GDP'. Booth continues: 'But, in addition, there is evidence that such growth as occurred in average consumption expenditures did not benefit all classes of society equally. There were gainers and losers, and the gainers were often concentrated in particular ethnic groups and regional locations' (p. 89). This development is typical for both the colonial and the independent period, and also forms an essential element of today's problems in Indonesia. To quote Booth again: 'As in other colonial societies, economic stratification along ethnic lines was pronounced in Indonesia in the early twentieth century, and in spite of the egalitarian

rhetoric of the independence struggle, this stratification persisted in the post-1950 period. The growth which has occurred since the 1950s has in turn produced new patterns of differentiation by ethnic group, social class and region' (p. 89).

In Chapter Four, 'Government and the Economy in Indonesia in the Nineteenth and Twentieth Centuries', the economic role of the government in Indonesia is studied. Conforming to the central argument of the book (which can be rephrased as: to develop a long-term view on economic development and economic policy in Indonesia), it is argued that for a deeper understanding of Indonesian economic performance, we must also develop a better understanding of the domestic factors which promoted or inhibited economic growth. The actions of the successive governments, in both the colonial and the post-colonial periods, are crucial in such an understanding (p. 135).

Strangely, a different set of phases is applied in this chapter (p. 137), distinguishing six phases in the role of government which almost, but not completely, cover (combinations of) the ten phases of growth distinguished in Chapter Two (p. 85-87). Although the six phases make sense and clearly order the main policy tendencies, some more explicit comment could have been made on their coinciding or not coinciding with phases of economic growth (linking the effects of government intervention to the world economic situation). I must add that in the further elaboration on the individual phases, the context of economic performance is of course often included, since government policy is usually designed in reaction to economic conditions.

It is emphasized that 'colonial Indonesia, at least in the twentieth century, was far more than just a night watchman state, concerned purely with law and order and the collection of taxes' (p. 155). There was a lot of reform and general enthusiasm for modernization, as characterized by the Ethical Policy but also by the large number of projects that were constructed in the physical in-

frastructure. This is reflected in the large share of government in GDP. It is remarkable that in the early independent period, from 1950 to 1965, real growth in public expenditure was much lower than in the first three decades of the twentieth century. Increase of the share of public expenditure relative to GDP occurred not earlier than the latter part of the 1970s (p. 201).

Chapter Five, 'The Impact of International Trade,' deals with the (important) role of trade in the Indonesian economy, the terms of trade, the changes in the trade regime ("Rise and decline of free trade liberalism in the colonial era"), the regulated trade regime since 1950, and the post-colonial experience in trade. On the whole, Booth's view on the "colonial drain" seems to be pessimistic. This is obvious from her evaluation of the oil boom period (1973-1981), where Booth writes: 'Certainly, there is plenty of evidence that government investment over the oil boom years was far from optimal. But at least the rents were retained in the domestic economy. Had budgetary policy been used for investment in human and physical capital at earlier periods in Indonesia's economic history, per capita output and living standards could have grown faster than in fact was the case' (p. 243).

Further elaborating on the record of investment in the colonial economy, Chapter Six treats 'Investment and Technological Change', while Chapter Seven focuses on 'Markets and Entrepreneurs'. The latter chapter deals with the indigenous sector of the colonial economy, the development of the labor market, and the economic role of the Chinese, but also evaluates the role of socialism and government planning in the period 1950-1965, and the role of the state and the market during the New Order. This chapter particularly should attract the attention of economists who will plan the economic course of Indonesia after 2000. These themes clearly connect with the problems of present-day Indonesia, concerning the powerful conglomerates and the ethnic divi-

sion of affluence. Booth explicitly states that the rise of powerful conglomerates who were able to exploit political connections preceded the deregulation and liberalization of the economy over the 1980s. The rise of these conglomerates was a symptom of the limitations of the deregulation process and not, as is sometimes argued, a consequence of this process (p. 322).

Part II: A text book for advanced learners and a challenging monograph

As a textbook, this study has an interpretative character. In each chapter, individual data and events are treated in the context of the theme of the chapter. For example, if I want to know something about the Sugar Law of 1870, the index refers to pages 30 and 253. On page 30, the Sugar Law is mentioned in the context of structural change in the economy. Together with the so-called Agrarian Law, the Sugar Law signalled the demise of the Cultivation System in Java, but some scholars have argued that this legislation did *not* produce a dramatic change in Java's economy (it did not form a watershed), even though it had an impact on export growth over the longer term. On page 253 the Sugar Law is mentioned in the context of investment and technological change, since it allowed for private investment in the sugar sector, permitting free contracts between sugar refineries and peasant cultivators, which allowed the government to withdraw from the sugar cultivation (because the high failure rate of sugar companies had caused the government substantial losses). The Agrarian Law, closely connected with the Sugar Law, is also mentioned on page 298 in the context of land shortage in Java. There is no introductory explanation in a chronological context of what the Sugar Law and the Agrarian Law actually stated or implied.

This example shows that the book is not so much a beginners' textbook, but rather an interpretative study based on an exhaustive survey of the recent literature and extensive analysis of quantitative data. In an elegant and compact

style, Booth manages to inform the reader continuously of the debates on issues mentioned, on the various views held in the historiography, or the need for further exploration on some themes. Of course, as a macro-economist, she relies heavily on the (rich) Dutch colonial source data for the colonial period (since there are no other quantitative data for the colonial period). But by studying the long-term development of a first colonized, then independent country, she avoids placing too much emphasis on the colonizer's presence and manages to analyze the economy as such, integrating the domestic or indigenous economy and the internationally oriented 'predatory' economy, and developing a fairly 'autonomous' (non-euro-centric) view.

One criticism that could be made is that the thematic, non-chronological structure of the contents of this book may not be very helpful in a survey that covers two centuries. The various chapters, in their dealing with structural change, distribution of income, government policy, the role of international trade, investment, and entrepreneurship, each attempt to cover the entire period 1800-1990. An introductory scholar will continuously feel the need to browse back and forth, in order to piece together a complete picture of each historical sub-period. On the other hand, one may argue, this organisational structure allows for reading one chapter at a time and puts an explicit emphasis on the long-term continuity within each aspect of Indonesian history. This is indeed one of the aims of the book. For example, Booth states that she wants to 'highlight the underlying continuities in policy-making and the implications of these continuities for Indonesian economic development in the longer term' (p. 12). She also argues that 'there were, and continue to be, more similarities in the economic goals of the Dutch colonialists and the Indonesian nationalists than has yet been acknowledged. These similarities are due to the persistence of many underlying problems' (p. 12). Thus, a thematic organization of the contents of the book

forces the reader to observe chronological continuities within each theme. This is indeed one of the strong arguments of the book.

Applying a long-term perspective, Booth distinguishes clearly between the periods of expansion and stagnation. It is very instructive that these are placed in the context of government economic policy and the world economic situation. In an accessible style, she provides a balanced picture of growth and decline, giving thoughtfully phrased judgments in matters which have raised a lot of discussion. On the whole she meticulously reviews and quotes the recent historiography, including many Indonesian scholars.

Summary: Missed chances?

Now, which are the missed opportunities referred to in the title? Such counter-factual meditation is, of course, a hazardous exercise, but it may be able to throw light on the long-term lessons that can be drawn from the past two centuries. As Booth says, it is 'useful to ask if a different type of colonialism could have produced better economic results' (p. 329-30).

First, one can think of the effects of the Cultivation System, which thwarted the development of market institutions in rural Java (p. 334), and on the whole was merely oriented towards remitting a large annual sum to the Dutch budget (p. 327).

Secondly, the late colonial Dutch regime was busy 'developing' the colony in the material sense, but it largely ignored the need for higher education or developing a skilled Indonesian work force. The colonizers constructed a lot of infrastructure and social overhead capital. But the economic gains from these efforts were largely lost after independence, mainly because the educational system had failed to train a higher or middle class of officials who could take over the economy after independence. Booth even states that the 'failure to accelerate access to education was

probably the greatest of sins of omission of Dutch colonialism' (p. 328).

To perceive this as a missed chance for the Indonesian economy is feasible from the point of view of the Indonesian society itself, which was hindered by this imbalance. But it makes little sense when analyzing colonial policy: the Dutch simply did not plan to leave very soon, and therefore did not integrate the formation of an indigenous elite into their official policies. Of course, the colonizer can always be blamed for colonizing the country, but should it also be blamed for consistency within its own system? I think it is more important that there was a system of ethnic inequality or racial prejudice at the core of this Dutch colonial consistency. It is this legacy of colonial rule which certainly can be viewed as a "missed chance," because it shows us, amongst others, the roots of the strong economic position of Chinese entrepreneurs, and the relatively weak indigenous entrepreneurial class. It also, in part, explains the discontinuity in economic development after independence. Booth draws attention to these matters and points at the crucial fact that the Indonesian nationalist leaders were essentially isolated from the economy or from specific economic ideas of how to rule the country: 'the weakness of the indigenous business class in the late colonial era, together with the very small numbers of indigenous Indonesians in the upper echelons of the administrative service, or in the professions, meant that these groups had far less influence on the leaders of the independence struggle than in, for example, British India.' (p. 330).

These reflections show that the historiography has progressed from making simple-minded or emotional accusations to the colonial regime, and now attempts to adopt a more objective perspective which allows for lessons to be drawn. There have been many crossroads at which another direction could have been taken, leading to different outcomes of economic development. Needless to say that there were also favourable ef-

fects of certain important events of Indonesia's past.

Do the parallels drawn between Suharto's new order and the late colonial government policies also imply the suggestion that other roads could and should have been taken by post-independence governments, or in other words opportunities were missed? In Chapter 4, we find a positive evaluation of the progress made by the Suharto government during 1983-1990, making the non-oil sectors (agriculture, manufacturing, tourism) more internationally competitive and the economy less reliant on the exports of oil and gas (p. 199). At the same time, it is stressed that the role of the government in the economy was not in any way significantly reduced in the 1980s, and that very little attempt was made to privatise the state-owned enterprises, which had a very low rate of return. 'Regulatory control over parts of the state-owned enterprise sector remains weak: the so-called "strategic enterprises," controlled by the influential Minister of Research, Dr. Habibie, enjoy access to extra-budgetary sources of finance which are outside the control of the Ministry of Finance, or any other government regulatory agency This recurrence of the "Pertamina syndrome" indicates that the problem of controlling the state enterprise sector is far from resolved in New Order Indonesia' (pp. 200-201). Recalling the airplane factory on the cover, probably Booth *does* view the Suharto/Habibie emphasis on prestigious, high-tech state enterprises such as an airplane industry as a missed chance. . .

As already mentioned, Booth is fairly positive about the investments of the government using the oil boom rents, at the same time warning that the economic reforms of the 1980s did not recreate the type of open trading regime that prevailed in the colonial economy from the 1870s to the early 1930s (p. 242). She also states that investment in education and human capital has, as it was in colonial times, in fact been neglected by the Indonesian government since 1950.

In the last pages of Chapter Eight, 'Conclusions', Booth describes the role and the shape of the type of "market capitalism" that is encountered in Indonesia (p. 334-336). Without referring to slogan type phrases such as 'Asian values,' she explains why free market capitalism is looked at with ambivalence in Indonesia. This deep ambivalence about liberal market capitalism persists in contemporary Indonesia at many different levels of society and this ambivalence has not exactly strengthened Indonesia's economic performance. In part, the hesitation to accept free market capitalism is rooted in nationalist, anti-imperialist views of the pernicious colonial past. (This might have been different had the Dutch not been in Indonesia, but without the colonial state formation process there probably would not have been an Indonesian state as we know it today at all.) Senior policy-makers, including Suharto himself, saw free market capitalism as a good opportunity to favor their immediate families and close business associates. But more broadly, economic growth was viewed as necessary because the neighbouring countries around Indonesia realized rapid economic growth. Should Indonesia fall behind, then this would make it vulnerable to external threats and internal insurrections.

Recent events in the spring and summer of 1998, after this book had been published, confirm these suspicions. But Anne Booth goes one step further and compares the authoritarian growth-oriented state with other authoritarian developmental states such as Meiji Japan, Franco's Spain, and South Korea under Park Chung Hee. The history of these three countries 'would suggest that the forces of economic growth, once unleashed, will inevitably lead to demands for a stronger legal and constitutional framework which guarantees a broad range of civil liberties, including a stronger regime of property rights. In Indonesia, too, it is inevitable that economic growth will create such demands, which the political system will then have to accommodate.' ... How the government responds to these challenges will determine

not just Indonesia's economic future in the new millennium, but its very survival as a nation' (p. 336).

These ominous words aptly describe a process that has been underway, gaining speed after the KRISMON (monetary crisis in its Indonesian acronym) and Suharto's stepping down, and which will draw the world's attention to Indonesia for the next few years. It seems that a new 'decolonization' has just begun, and anyone who wants to put it in perspective is recommended to read this book.

Copyright (c) 1998 by EH.NET and H-Net. All rights reserved. This work may be copied for non-profit educational uses if proper credit is given to the author and the list. For other permission, please contact the EH.NET Administrator. (administrator@eh.net, Telephone: 513-529-2850; Fax: 513-529-6992)

If there is additional discussion of this review, you may access it through the network, at <http://eh.net/>

Citation: Jeroen Touwen. Review of Booth, Anne. *The Indonesian Economy in the Nineteenth and Twentieth Centuries: A History of Missed Opportunities*. EH.Net, H-Net Reviews. October, 1998.

URL: <https://www.h-net.org/reviews/showrev.php?id=2401>



This work is licensed under a Creative Commons Attribution-Noncommercial-No Derivative Works 3.0 United States License.