

*The Indonesian Economy since 1966: Southeast Asia's Emerging Giant* by Hal Hill, Cambridge, Cambridge University Press, 1996, xvi + 328 pp.

This book is perhaps the latest research done by this devout and keen Indonesian economic observer. Professor Hill's observations on the Indonesian economy can be found in not only the *Bulletin of Indonesian Economic Studies*, he helps edit, but also many other good economics and business journals related to developing countries. He has written or edited previous books about Indonesia, including *Foreign Investment and Industrialization in Indonesia* (1988), *Unity and Diversity: Regional Economic Development in Indonesia since 1970* (1989), and *Indonesia's New Order: The Dynamics of Socio-Economic Transformation* (1994), and also authored some of the annual assessments on Indonesian economics and politics published by the Australian National University. He is therefore an indisputable candidate for the title of the most productive analyst of the Indonesian economy.

The present book covers almost every facet of the Indonesian economy. After the Introduction and Overview of Economic Development since 1966, he describes in the following nine chapters, in a great detail, the major aspects of the economy. The first two chapters deal with macroeconomic policy and performance aspects, alluding mainly to money and finance, and fiscal policy. The next two chapters are thorough discussions of international dimensions and the state's role on the economy. These are followed by sectoral analyses concerning agriculture, industrial transformation, the service sector, and their respective subsectors. The last two chapters concern social and regional development. What's missing? Almost nothing. In Chapter 12, the last chapter, he looks at the future of the Indonesian economy and follows his predictions with an agenda for action.

His time dimension is in most case from 1966 up to around 1992 or 1993, although in other places he goes beyond this time span. For the period between 1992 and 1996, when the book first hit the bookstores, readers will have to make their own judgments. In fact, if he did update this book at the last possible time before printing, he surely must have changed some parts of his analysis as well as his conclusions and recommendations. His pattern of writing is a standard one: describing, analyzing, criticizing, and giving suggestions, even though he does not maintain this pattern very strictly. In many respects, he gives emphasis more to description than analysis. For example, after discussing the difference between the Indonesian balanced budget fiscal policy and the more orthodox balanced budget policy adopted by the IMF among others, he merely concludes that in reality the budget has always been in deficit, and gives no suggestion for a better strategy. He even acknowledges that the balanced budget principle à la Indonesia has been an effective mechanism for expenditure restraint. On other fiscal policies, he takes up conventional measures, such as progressive taxation, improvement of tax administration, and reducing dependency on foreign aid.

In general, he observes that Indonesia has been able to maintain high economic growth with rapid structural and technological change and improved social development. Such performance rates Indonesia to be included in a group of high performing developing countries, as described by the World Bank's *East Asian Miracle*. He, however, indicates that such development record is not without its critics and discusses four major criticisms: (i) that it was made possible by favorable terms of trade, (ii) that it was accompanied by envi-

ronmental degradation, and (iii) high indebtedness, and (iv) that there are problems with the distributional aspect of the fruits of development. He does state that none of these criticisms invalidates the proposition that Indonesia's economic performance since 1966 has been very good (p. 27). He points out, however, that loans have been significant in financing development (pp. 28–29). Such high economic growth, according to Hill, can be attributed to the consistently implemented sound macroeconomic management: i.e., an open capital account since 1970, a fixed then managed exchange rate, the balanced budget principle, the control of inflation, more liberalized trade, and financial and investment policies since the mid-1980s. All these factors have, of course, been discussed by other analysts both active in Indonesia and outside the country. However, Hill's analysis is broader in scope and more detailed and structured in method. He, for instance, notices that in order to tackle inflation, the number one enemy of economic growth (as seems to be perceived by some areas of the government), only in later years did the government use non-direct controls in line with accumulated knowledge and capabilities, thus avoiding unnecessary victims of such controls by whatever means deemed feasible, as was done in previous periods.

The strand of policies in the area of international economy is discussed comprehensively, covering especially external debt, exchange rate management, foreign aid, trade reform, and foreign direct investment. Here, Hill seems to be lacking ammunition for firing critical comments as he did regarding government policies. For example, he describes the changing pattern of government attitudes toward FDI and its roller-coaster trends since the much celebrated FDI Law was first promulgated in 1967. He, however, keeps silent about its impact on technology transfer, export, employment, etc. He analyzes in detail various economic ties between Indonesia and its neighbors and trading partners, but says nothing on similar relations with Australia and China: the former is due to its geography, the latter its relation to the East Asian "Sino-connection."

In such a broad and historical-economic analysis which has been offered here, difficulties lie in the time dimension context. Time constrained readers might be confused in following his analysis, since Hill does not always mention the time of occurrence. Thus, a portrayal of a 1985 specific topic, for example, may easily cause the reader to conclude that it is a picture of the whole period under discussion. Hill, like several other analysts, sometimes presents a snapshot of a process to prove something he wants to say, while ignoring other snapshots unresponsive of his predetermined conclusion. For example, in his discussion on trends in foreign aid, he exaggerates its increasing trend during the mid-1980s, but fails to comment on the decreasing trend in aid relative to development expenditure since 1988 (see Figure 4.4, p. 48). He sometimes criticizes government programs in an unbalanced way, commenting that the foster parent scheme has failed to address the problems faced by small-scale industries, related training program was neither well targeted nor implemented correctly, procedures have handicapped access to facilities and programs designed to increase their productivity, and most subsidies were failures. Moreover, he offers no alternative solutions for such basic policy. In addition, he does not put enough emphasis on other sensitive issues from the point of view of the people at large: e.g., the seemingly widening gap between the *pribumi* (indigenous people) and the non-*pribumi* Chinese. Just because statistics and analyses say little about this issue, he should not have concluded that the problem is negligible. He may easily have grasped the importance of this issue through

direct survey and observation in Jakarta or other big cities.

On the industrial policy debate, he argues that there is no support for the notions that selective industrial promotion policies account for Indonesia's industrial success and that state enterprises have played a major developmental role (p. 247). He is concerned with the creation of a ministry of industry and international trade and the appointment of some technologists in the 1993 Cabinet without any scholarly reason. What is wrong with an engineer chairing a planning agency? For Hill, government intervention has been a big failure, and all the positive outcomes of economic development should be attributed to the pro-market, liberal attitude of some parts within the government. However, he does not place himself rigidly within the neoliberal group of observers, since in some parts in his book he calls upon the government to take bolder steps to intervene in the market: for example, in the areas of regional development, infrastructure provision, and productivity enhancement.

His portrayal of regional development aspects—importance, patterns, and policy agenda (Chapter 11)—would have been a horizon-widening analysis if it was presented about a decade ago. The already functioning, although not defect-free, annual consultative meeting between the Bappeda (the Regional Planning Board) and sectoral departments under the coordination of the Bappenas (the National Planning Board), in an effort to bridge the gap between sectoral and regional plans, is one of the examples of the government's attempts to deal seriously with regional issues. It is not true that there is no coherent strategy to develop less developed regions, mainly in east. The problem lies in the complicated nature of interregional linkages. Unless overall national efficiency is sacrificed, a balanced regional development will not be achieved in one or two Pelitas (five yearly period of development).

The above comments certainly do not reduce the real value of Hill's much awaited (by many not only outside of but also within Indonesia) book. His extraordinarily sharp observations on certain issues should be envied by other Indonesian watchers. For example, his solution package for enhancing regional financial autonomy and economic development under the umbrella of national unity is a more sensitive national policy dealing with regional conditions. Such a conclusion can only be derived if one has a deep and detailed understanding of various aspects, both nationally and regionally, over the long run. Hill's book covers many aspects of development perhaps as comprehensive as the Repelita (five yearly development plan). All are discussed in detail, supported by theory when applicable, put in historical context, and linked to the prevailing international situation. He proves himself to be an excellent economist cum planner and futurologist for picking up the big issues Indonesia will no doubt face in the near future: that is, maintaining reform momentum, high-tech industries, external debt, etc. His book, in sum, is a complete, but compact, comprehensive dictionary of Indonesian economics since 1966; but more than that, it is also a kind of scheduler, which one may refer to when a certain direction has to be taken.

(Herry Darwanto)